

GOVT PUSH FOR SUSTAINABILITY

# Digitisation and lending to MSMEs to step up in RRBs

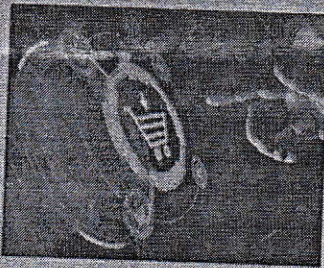
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AS PART OF reforms to make Regional Rural Banks (RRBs) financially sustainable, the government has asked them to move towards digitisation, including offering internet banking services to its customers, and expand their credit base further through increased lending to the Micro, Small and Medium Enterprises (MSME) sector.

"The cost of operations of RRBs were much lower as compared to scheduled commercial banks but that has increased now and the government wants them to work towards increasing their earnings," said an official source in the know adding that these are as part of the government's plan to reform RRBs.

This was discussed in a meeting that was convened by finance minister Nirmala Sitharaman in July and attended by heads of sponsor banks and RRBs.

One of the key reasons for RRBs incurring losses is the fact that many of these



## COVID & AFTER

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branches do not have enough business as they focus mainly on offering government's schemes like direct benefit transfer in the rural areas of the country.

The source added that almost all these rural banks are under Core Banking Solutions (CBS) meaning their branches are connected with each other. "Offering internet services to customers is the next step for these banks," he said.

According to a government

release post the meeting last month, the finance minister urged the sponsor banks 'to formulate a clear roadmap in a time-bound manner to further strengthen the RRBs and support the post pandemic economic recovery and also suggested to conduct a workshop of RRBs and share the best practices with each other.'

This would not be the first time that the government is working to reform RRBs. After a set of reforms in the 90s, the government had, in 2005-06, initiated a consolidation programme that resulted in the number of RRBs declining from 196 in 2005 to 43 in FY21. The aim was to improve their operational viability and to take advantage of economies of scale. After two consecutive years of losses during the COVID period, RRBs reported a consolidated net profit of ₹1,682 crore in FY21 and 30 out of 43 RRBs reported net profits.

The source, quoted above, added that the plan also included merging branches of these RRBs with sponsor banks once these branches reach a certain level of business.