

## **Regional Rural Banks**

The Regional Rural Banks were established on the recommendations of Narsimha Committee on Rural Credit. Considering the recommendations of the committee the Government of India passed Regional Rural Banks Act 1976. After passing the Act within a year at least 25 RRBs were established in different parts of India. The establishment of regional rural banks in India marks another important landmark in the banking history of the country. These banks were established under the provision of the Regional Rural Banks Ordinance, 1975, enacted by the government on September 27, 1975. The main objective of establishing the regional rural banks is to provide credit and other facilities especially to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs in the rural areas. Each RRB operates within the local limits specified by a notification. Each RRB is sponsored by a public sector bank which provides assistance by subscribing to its share capital, providing such managerial and financial assistance as may be mutually agreed upon and helping in the recruitment and training personnel during the initial period of its functioning. The first RRB in the country was Prathima Gramin Bank situated in the state of Uttar Pradesh.

Rural banking institutions are playing a very important role for all-round development of rural areas of the country. In order to support the rural banking sector in recent years, Regional Rural Banks have been set up all over the country with the objective of meeting the credit needs of the most under privileged sections of the society.

The Regional Rural Banks were established with a view to develop such type of banking institutions which could function as a commercial organization in rural areas. These Regional Rural Banks (RRBs) have been receiving a high degree of importance and attention in the rural credit system.

### **Meaning**

Regional Rural Banks (RRBs) were set up as government-sponsored, regional based rural lending institutions under the Regional Rural Banks Act, 1976. RRBs were configured as hybrid micro banking institutions, combining the local orientation and small scale lending culture of the cooperatives and the business culture of commercial banks. Their mission was to fulfill the credit needs of the relatively unserved sections in the rural areas - small and marginal farmers, agricultural laborers and socio-economically weaker sections.

### **Definition**

“Regional Rural Banks are local level banking organizations operating in different states of India. They have been created with a view to serve primarily the rural areas of India with basic banking and financial services.”

## **Features of RRBs**

- 1) The regional rural banks are the newest form of banks that have been set up in the country on the sponsorship of individual nationalised commercial banks.
- 2) These banks have been set up with the express objective of developing the rural economy by providing credit and other facilities for agriculture and other productive activities of all kinds in rural areas.
- 3) They also grant loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce, industry or other production activities within its area of operations.
- 4) The management of RRB is vested in a nine member board of directors. It is headed by a chairman who is appointed by RBI.
- 5) The lending rates of these banks cannot be higher than the prevailing lending rates of co-operative credit societies in any particular state.
- 6) The salary structure of the employees of these banks has been fixed in consonance with the salary structure of the employees of the state government and local authorities of comparable level and status in the bank's area of operation.
- 7) The paid-up capital of each rural bank is Rs. 25 lakhs, 50 per cent of which has been contributed by the Central Government, 15 per cent by the state government concerned and 35 per cent by the sponsoring public- sector commercial banks, which are also responsible for the actual setting up of RRBs.
- 8) RRBs are authorized to carry on the business of banking as defined in the Banking Regulation Act, 1949.
- 9) The RRB is a step in the right direction a step towards the proper implementation of multi-agency approach to credit in rural areas.

## **Functions of RRBs**

### **1) Accepting Deposits**

The most important function of the Regional Rural Banks is to mobilize savings of the public by attracting them in the form of deposits. For this purpose, the Regional Rural Banks, like other banks, maintain various accounts, such as fixed deposit account, current account and savings bank account. The savings mobilised through all these accounts may partake the character of time deposits and/or demand deposits.

## 2) **Granting of Loans and Advances**

By their very nature, Regional Rural Banks have become a major partner in the Rural Credit market. These institutions also make loans and advances to small and marginal farmers, artisans, consumers and agricultural laborers, etc. against securities. It may, however, be pointed out that Regional Rural Banks do not usually lend hard cash. Instead, the customers are extended loans and advances in the form of rights to draw cheques.

As mentioned earlier, these banks are supposed to lend only to weaker sections in rural areas and that too in such a way as to ensure better resource utilization and rapid economic development. Such loans and advances are expected to render the following services in rural areas:

- Bridging the credit gaps
- Provision of productive credit for rural community
- Assisting implementation of agricultural development projects
- To help create climate for repayment of loans.
- Offer incentives for mobilizing local resources
- Speeding the overall economic uplift of the weaker sections
- Financing the requirements of small and marginal farmers, agricultural laborers, cottage industries, petty traders and Adivasis.

## **Organizational Structure**

The Organizational Structure for RRB's varies from branch to branch and depends upon the nature and size of business done by the branch. The Head Office of an RRB normally had three to seven departments.

The following is the decision making hierarchy of officials in a Regional Rural Bank.

- Board of Directors
  - Chairman & Managing Director
  - General Manager
  - Chief Manager/Regional Managers
  - Senior Manager
  - Manager
  - Officer / Assist

## **Importance of RRBs**

- Promote Savings
- Mobilize Savings
- Allocate Savings among alternative uses and users
- Promotion of trade & production
- Financial and economic growth
- Trade development
- Agricultural development
- Industrial development
- Capital formation
- Transportation
- Safekeeping of valuables
- Better saving rates
- Construction
- Government Loans
- High Employment rates