



A Study of History, Objectives & Area of Functioning of Regional Rural Banks

Dr. Vijay Kumar Jha (Assistant Professor)

R.S.S.College, Chochaha, Department of Commerce,

B.R.A. Bihar University, Muzaffarpur Bihar

Abstract : Banking, which is an intermediary of financial system, functions and facilitates the flow of funds from the surplus of income people to the needy of credit. That is why, the banking system has an essential role in the capital formation. Towards this, the banking services are essentially required for both savings and advances in order to bring the socio-economic development.

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Rural development is largely depends on the effective banking system, which is pro-active to the ever-changing circumstances. In other words, the banking should have a sound organization and a prudent management fitting in the environment of rural areas.

Key words : Regional Rural Banks (RRBs), Banking

History of Regional Rural Banks (RRBs):

The Regional Rural Banks were established on the recommendations of Narsimha Committee on Rural Credit. The committee was of the view that RRBs would be much better suited than the commercial banks or Co-Operative Banks in meeting the needs of rural areas. 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 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.

The Regional Rural Banks Act 1976 provide for incorporation, regulation and winding up Regional Rural Banks with a view to developing the rural economy by providing for the purpose of development of Agriculture, Trade, Commerce, Industry and other productive activities in the



rural areas, credit and other facilities, particularly to the small and marginal farmers, Agricultural Labourers, Artisans and small entrepreneurs and for matters connected therewith and individuals thereto.

The Objectives of Regional Rural Banks:

In view of the above preamble of the Act the objects and activities of RRBs can be briefed as under:

- 1) Bridging the credit gaps in rural areas.
- 2) To develop such measures which could restrict the outflow of rural deposits to urban areas.
- 3) To reduce regional imbalances and increase rural employment generation activities.

For achieving its objectives the RRBs provide financial assistance to different segments of rural population engaged in rural activities.

Area of Functioning of Regional Rural Banks:

The Regional Rural Banks are required to function within a limited area for which they are established. Usually the functional area of Each RRB is confined to a few districts of the state in which they are set up. The area of functioning of RRBs is decided by central government in consultation with NABARD and the Sponsor Banks by way of a notification issued in this regard.

It is therefore necessary for RRBs to establish their Head Office in central place of their notified area of functioning because they are also authorized to open their branches or appoint agency within their specified areas.

Sponsorship of Regional Rural Banks:

Each Regional Rural Bank is sponsored by a Public Sector Bank. A sponsor bank in relation to a Regional Rural Bank is a Bank by which such a RRB is sponsored. It is duty of a sponsor bank to aid and assist the RRB sponsored by it.



A sponsor bank helps RRB by:

- a) Subscribing to the share capital.
- b) Training personnel of Regional Rural Bank.
- c) Providing managerial and financial assistance to RRB.

A sponsor bank provides such managerial (staff) and financial assistance during the first 5 years of its functioning. The central government may, either on its own motion or on the recommendations of NABARD extend such period of 5 years for such further period(not exceeding 5 years at a time) as may be deemed fit.

The authorized capital of Regional Rural Banks is Rs. 5 crores which is contributed by Central Government, State Government and the Sponsor Bank in ration of 50:15:35.

Functions of Regional Rural Banks:

All the Regional Rural Banks are authorized to carry on to transact the business of a banking as defined in the Banking Regulation Act 1949. RRBs grant loans to small and marginal farmers, Agricultural labourers, Co-operative societies and to individuals including artisans, small entrepreneurs and persons of small means.

In brief RRBs do all such functions as are done by domestic banks like accepting deposits from public, providing credit, remittance services etc. They can also invest in Government securities and deposit schemes of Banks and Financial Institutions.

Regional Rural Banks may also seek refinance facilities provided by NABARD for the loans sanctioned and disbursed by them.

All the RRBs are covered under DICGC scheme and they are also required to observe the RBI stipulations for Cash Reserve Ratio and Statutory Liquidity Ratio.



The Reserve bank of India has brought all the RRBs under the ambit of Priority Sector lending w.e.f April 1997. Like all other commercial banks RRB are bound to provide 40% of their Net Bank Credit to Priority Sector. Out of which 25% of PS advances or 10 % of Net Bank Credit is to be given to weaker sectors.

Conclusion :

The preamble of Regional rural banks Act is focused on the regional rural banks in developing the rural economy with provision of credit and other facilities for the development of agriculture, trade, commerce, industry and furthering other productive activities in the rural areas, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

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