

# Regional Rural Banks (RRBs)

## 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:***

(1) Granting of loans and advances to small and marginal farmers and agricultural labourers, whether individually or in groups, and to co-operative societies, agricultural processing societies, co-operative farming societies, primarily for agricultural purposes or for agricultural operations and other related purposes;

(2) Granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce and industry or other productive activities within its area of co-operation; and

(3) Accepting deposits.

### ***Difference Between RRB and Commercial Bank***

<b>Basis</b>	<b>Regional Rural Bank</b>	<b>Commercial Bank</b>
<b>Purpose</b>	the main reason behind the existence of RRB is the development of rural and backward areas, and also providing banking facility to rural population	the main reason behind the existence of commercial banks is to make profits out of their operations.

<b>Scope</b>	Scope of RRB is limited to agriculture finance, small sector loans, handicrafts and other small sector loans	scope of commercial banks is wide and it not only provides agriculture finance but also housing loan, car finance, letter of credit, credit to big companies and for many activities.
<b>Area of Operation</b>	RRB is present in rural and semi urban areas only	commercial banks do operations in all over the country that is rural, semi urban and urban areas.
<b>Focus</b>	While the focus of RRB is more on accepting deposits and granting of loans to the people	the focus of commercial banks apart from lending and borrowing is on many other services like stock broking, asset management, insurance, merchant banking, venture capital financing, foreign exchange related business etc...
<b>Stakeholding</b>	RRB include government of India, state government and commercial banks	stakeholders of commercial banks are public, central government etc...

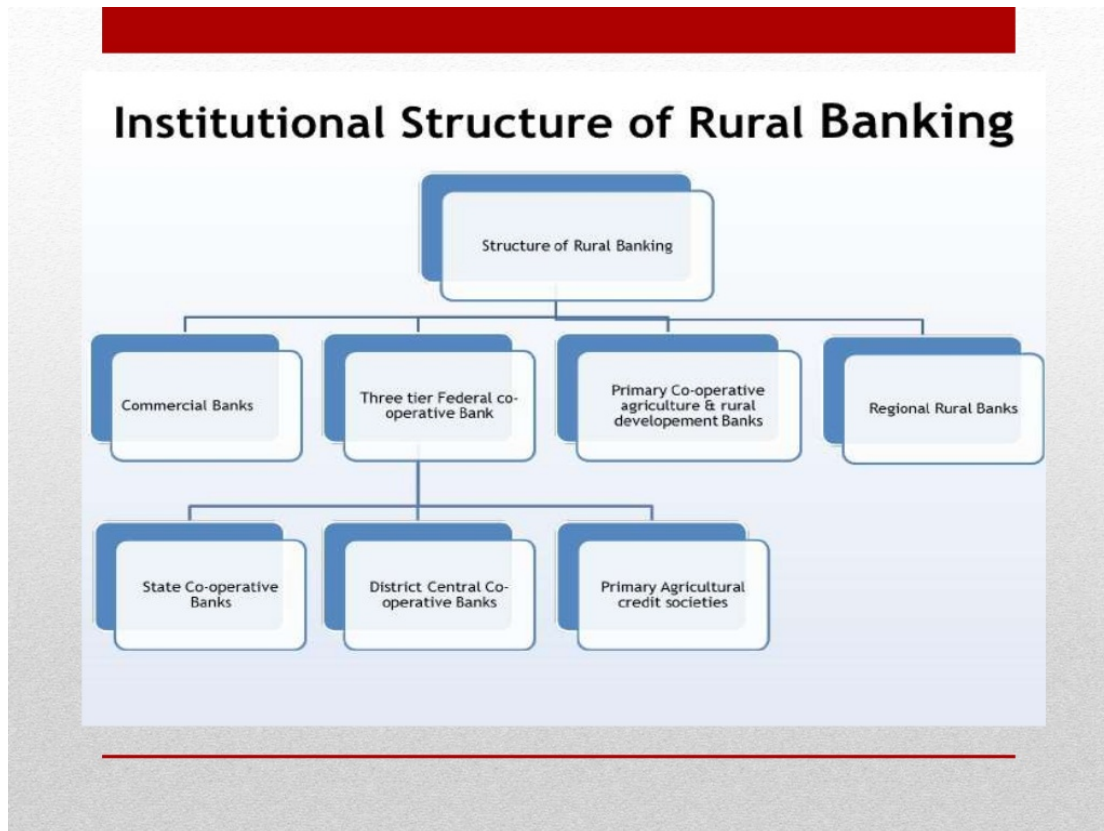
### Role of Regional Rural Banking for Rural Development:

Regional Rural Banks were established with the following responsibilities in mind:

- 1) Taking the banking services to the doorstep of rural masses, particularly in hitherto unbanked rural areas.
- 2) Identify the financial need especially in rural areas.

- 3) Making available institutional credit to the weaker section of the society who had by far little or no access to cheaper loans and had perforce been depending on the private money lenders.
- 4) To enhance banking & financing facilities in backward or unbanked areas.
- 5) Mobilize rural savings and channelize them for supporting productive activities in rural areas.
- 6) To provide finance to the weaker sections of society like small farmers, rural artisans, small producer, rural labourers' etc.
- 7) To create a supplementary channel for the flow the central money market to the rural areas through refinances.
- 8) To provide finance to co-operative societies, Primary Credit societies, Agricultural marketing societies.
- 9) Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas.
- 10) Enhance & improve banking facilities to semi urban, rural & other untapped market. With these objectives in mind, knowledge of the local language by the staff is an important qualification

## ORGANISATIONAL STRUCTURE OF RRB



### PROBLEMS & CHALLENGES OF RRB

1. RRB's are facing the problem of inadequate finance. They are dependent on NABARD to collect finance for their further operation. Poor rural people are unable to save anything due to poverty and low per capita income. The low level of saving of these customer create obstacle for RRB's to collect sufficient deposits.
2. High overdues and poor recovery of loan is one of the biggest concern affecting the functioning of RRB's. Reasons being poor access of granting loan, insufficient and untrained staff, unproductive or less productive use of credit, inadequate production, poor marketing facilities and improper channel of recovery system.

3. There is also a problem of regional imbalance in banking facilities provided by RRB's. They are creating this problem by concentrating their branches in some specific states and districts & loose other prospective group of customers.
4. Many RRB's are suffering from the problem of heavy loans because of low repaying capacity of their customer, untrained staff, low level of deposits and heavy sanction of loan without checking the creditworthiness of their customers.
5. These banks have still not played a significant role in poverty alleviation of the country. Although various efforts have been made in this regard but lack of economic infrastructure, poor marketing strategies, poor knowledge of customers, low production, low awareness about savings have created many hurdles for RRB's.
6. Lack of proper co-ordination between RRB's and other financial institution like commercial banks, NABARD and other co-operative bank has badly affected the performance of these banks.