

Course Name:-B.A.LLB-IVth Sem

Subject:-Economics-IV

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Topic: - Regional Rural Banks

Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too.

The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs also perform a variety of different functions. RRBs perform various functions in following heads:

- Providing banking facilities to rural and semi-urban areas.
- Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
- Providing Para-Banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking, UPI etc.

- Small financial banks.

History

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. As a result, Five Regional Rural Banks were set up on 2 October 1975, Gandhi Jayanti. These were set up on the recommendations of The Narasimham Committee Working Group during the tenure of Indira Gandhi's Government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2 October 1975, Gandhi Jayanti with the forming of the five RRBs. First RRB, the Prathama Bank, Head Office at Moradabad (U.P.) with authorised capital of Rs 5 crore at its starting. Prathama bank was sponsored by Syndicate Bank. As on 2 October, 1975 Out of the remaining four RRBs in the country one was Set up at Malda in West Bengal under the name of Gaur Gramin Bank, (Sponsored Bank: UCO Bank) which was the first RRB in the Eastern Region of India. Other three RRBs are Gorakhpur Kshetriya Gramin Bank, Gorakhpur, U.P. (Sponsored Bank: SBI), Haryana Kshetriya Gramin Bank Bhiwani, Haryana (Sponsored Bank: PNB), Jaipur-Nagpur Anchalik Gramin Bank Jaipur, Rajasthan (Sponsored Bank: UCO Bank).

The Regional Rural Banks were owned by the Central Government, the State Government and the Sponsor Bank (Any commercial bank can sponsor the regional rural banks) who held shares in the ratios as follows Central Government – 50%, State Government – 15% and Sponsor Banks – 35%.

Recapitalization

Subsequent to review of the financial status of RRBs by the Union Finance Minister in August, 2009, it was felt that a large number of RRBs had a low Capital to Risk weighted Assets Ratio (CRAR). A committee was therefore constituted in September, 2009 under the Chairmanship of K C Chakrabarty, Deputy Governor, RBI to analyse the financials of the RRBs and to suggest measures including re-capitalisation to bring the CRAR of RRBs to at least 9% in a sustainable manner by 2012. The Committee submitted its report in May, 2010. The following points were recommended by the committee:

- RRBs to have CRAR of at least 7% as of 31 March 2011 and at least 9% from 31 March 2012 onwards. Recapitalisation requirement of Rs 2,200.00 crore for 40 of the 82 RRBs. This amount is to be released in two instalments in 2010–11 and 2011–12.
- The remaining 42 RRBs will not require any capital and will be able to maintain CRAR of at least 9% as of 31 March 2012 and thereafter on their own.
- A fund of ₹100 crore to be set up for training and capacity building of the RRB staff.

The Government of India recently approved the recapitalization of Regional Rural Banks (RRBs) to improve their Capital to Risk Weighted Assets Ratio (CRAR) in the following manner:

- Share of Central Government i.e. Rs.1, 100 crore will be released as per provisions made by the Department of Expenditure in 2010-11 and 2011–12. However, release of the Government of India share will be contingent on proportionate release of State Government and Sponsor Bank share.
- A capacity building fund with a corpus of Rs.100 crore to be set up by Central Government with NABARD for training and capacity building of the RRB staff in the institution of NABARD and other reputed institutions. The functioning of the Fund will be periodically reviewed by the Central Government. An Action Plan will be prepared by NABARD in this regard and sent to Government for approval.
- Additional amount of ₹700 crore as contingency fund to meet the requirement of the weak RRBs, particularly those in the North Eastern and Eastern Region, the necessary provision will be made in the Budget as and when the need arises.

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 nine departments.

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

- Board of Directors
- Chairman & Managing Director
- General Manager
- Assistant General Manager
- Regional Manager/Chief Manager
- Senior Manager
- Manager
- Officer
- Office Assistant
- Office Attendant

Amalgamation

Currently, RRB's are going through a process of amalgamation and consolidation. 25 RRBs have been amalgamated in January 2013 into 10 RRBs. This counts 67 RRBs till the first week of June 2013. This counts 56 as of March 2015. On 31 March 2016, there were 56 RRBs (post-merger) covering 525 districts with a network of 14,494 branches. All RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro poor focus. However, within a very short time, most banks were making losses. The original assumptions as to the low cost nature of these institutions were belied.

This may be again amalgamated in near future. With the third phase of amalgamation of RRB bringing down the number of such entities to 38 from 56. As of 1st April 2020, there are 43 RRBs in India.

Legal existence and protection

RRB are recognized by the law and they have legal significance. The Regional Rural Banks Act, 1976 Act No. 21 Of 1976 [9 February 1976.] reads

"For the incorporation, regulation and winding up of 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 laborers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto".