



## Study of functions and Governance Structure of Regional Rural Banks

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**Abstract :** Rural Banking plays a significant role in rural economy by catering to the growing needs of rural sector. Rural banking is required to meet the credit needs of rural economy for financing agriculture and allied activities, rural infrastructure and poverty alleviation programme meant for the weaker sections of the rural population. In country like India where large part of population still living in rural sector, development of rural economy is very important and rural banking plays a major role. Rural Banking System in India is comprised of Cooperatives banks, the rural branches of Commercial Banks, and Regional Rural Banks.



**Key Words :** Banking, RRB

### Governance Structure of RRBs

#### Role of Reserve Bank of India (RBI)

Reserve Bank of India is the Central Bank of the country. It performs a wide range of promotional functions to support national economic policy objectives. It is the Regulator and Supervisor of the financial system. It prescribes broad parameters for banking operations within which the country's banking and financial system functions, so as to ensure stability. As per the provisions of the RRB Act, 1976, RBI represents the GOI on the boards of RRBs. It has the authority to prescribe guidelines on prudential standards and to impose punitive measures in case of violation of statutory provision/prudential regulations that include inter alia, the powers for issuing directions, levy of penalties, prohibition of deposits, delicensing/descheduling etc. though in the context of RRBs the measures of delicensing/descheduling have never been used.

#### Role of NABARD



NABARD assists the Central Government in relation to all its functions pertaining to RRBs, It provides policy inputs and has representation on the Board of Directors on behalf of GOI. NABARD provides concessional refinance support to augment the resource base of RRBs for lending to the desired sectors as also to enhance liquidity. NABARD has been playing a significant role in human resource development of the RRBs by imparting training to RRB officers, conducting organization development initiatives (ODIs) and exposure visits within the country and abroad. NABARD extends help to the RRBs in all matters related to its operational problems, business development, micro-finance, policy thrust, etc. NABARD has also been entrusted with the statutory supervision of the RRBs by way of conduct of offsite surveillance and onsite inspections. Thus NABARD has been vested with the role of supervisor so as to assess the financial soundness of RRBs in conformity with prudential regulations as also to recommend various regulatory measures to RBI, based on such inspection.

### **Role of Government of India (GOI)**

The Regional Rural Banks Act has vested wide powers with the Government of India (GOI) in relation to RRBs, which include the following:

- GOI holds 50 per cent of the paid up share capital of an RRB.
- GOI nominates two directors (non-official directors) on the Board of an RRB.
- The establishment of any RRB, location of its Head office, etc. are decided by the GOI in consultation with the sponsor bank and the State Government concerned.
- GOI, after consultation with the RBI and the sponsor bank and by notification in the Official Gazette is empowered to make rules for carrying out the provisions of the RRBs Act as also to give directions to RRBs in regard to matter of policy involving public interest, etc.

### **Rural Banking**

Rural Banking familiarized the financial institutions in rural parts of India for economic improvement of rural population. There are three dominions of such kind of institutions- The cooperative banks which were setup with the inception of 20<sup>th</sup> century, the commercial banks which were coupled in rural banking from late sixties onwards.

### **Regional Rural Banks**



Regional Rural Banks, were instituted on October 2, 1975. The RRB's have exclusive place in the multiagency approach to provide agricultural and rural credit in India.

The RRBs were established under the Regional Rural Banks Act of 1976 with the objective of developing the rural economy by- Providing funds for the growth of agriculture, commerce industry and other fecund activities.

Financing small and marginal farmers, agricultural labourers, craftsperson and small entrepreneurs in the pastoral areas.

Regional rural Banks are under the guidance and regulation of NABARD and the sponsor commercial banks. RRBs were ranged in rural areas and are attending various districts of the nation. Regional Rural Banks have been in existence for around thirty six years in the Indian financial passage. The Regional Rural Banks (RRBs) were set up to meet the need of institutional credit in the rural areas, chiefly among the economically and socially marginalized sections.

### **Objectives of Regional Rural Banks**

RRBs were introduced with the target of development of the economically scrawnier rural society through advanced financing for the rural population RRBs were aimed at providing rural credit and other financial facilities to revolutionize the rural economy relating to agriculture and connected undertakings. These were instituted as auxillaries to the existing institutional credit system to mitigate participation of the rural population in informal credit practices and also to protect from being bamboozled by the unprincipled money financiers. The Regional rural Banks have become vital part of the rural credit delivery system considering noteworthy steps in mobilizing the rural savings of the weaker units in the villages and supporting production activities through refinancing.

### **Functions of RRB:**

Every RRB is certified to carry on business transactions of banking as defined in the Banking Regulation Act and may also engage in other commercial dealings specified in Section 6 (1) of the Banking Regulation Act. In particular, a RRB is requisite to undertake the business of:



- 1) Loan grants to small and marginal agricultural labourers, in groups or alone, and to cooperative societies, counting agricultural marketing and processing societies, primary farmers' service societies, agricultural operations or other associated purposes.
- 2) Loans grants and advances to craftsmen, small-scale entrepreneurs and people engaged in small trade, commerce, industry or other industrious activities.
- 3) Accepting deposits. The Reserve Bank of India has taken RRB's under the priority sector lending on equivalence with the commercial banks. It is mandate for the RRBs to provide 40% of their profits to the priority sector. Within this 40%, 10% should go to the weaker section.

### **Conclusion :**

The institutional structure of rural banking as it obtains today in India, consists of four sets of institutions, viz. the commercial banks (CBs) both nationalized and others, a three-tier federal cooperative banking system with the state cooperative banks (SCBs) at the state level, district cooperative central banks (DCCBs) at the district level and the primary agricultural credit societies (PACs) at the village level (in some of the smaller states, the structure is two-tier with the SCBs at the state level and the PACs at the village level), the state cooperative agriculture and rural development banks (SCARDBs) with primary cooperative agriculture and rural development banks (PCARDBs) affiliated to them or supported by a network of branches at the block level and finally the regional rural banks (RRBs). This multi agency approach was introduced after the nationalization of the banks and has come to stay.

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