



Regional Rural Banks (Rrbs): The Backbone Of Rural Economy

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ABSTRACT

Banking is an industry which handles credit, cash and important financial services for individual consumers and businesses of urban & rural areas both. Banking sector provides the liquidity needed for all citizens and entrepreneurs to establish their own business with future investment also. In the chain of banking sector the Regional Rural Banks (RRBs) are one of the key drivers of the rural economy. RRBs are Indian Scheduled Commercial Banks operating at regional level in various states of our country. They have been created with a special view to provide basic banking and financial services primarily in the rural areas of India. Basically, the Regional Rural Banks are commercial scheduled banks for Indians. These banks have been empowered to conduct financial transactions to promote growth and development in rural areas. Regional Rural Banks were established under the term of the 26th September 1975 ordinance and the RRB Act of 1976.

RRBs came in force to ensure sufficient flow of credit for farmers and other agricultural sectors of rural areas. These were established as government sponsored regional based rural lending institutions. The Primary object of Regional Rural Banks are to consider the credit needs of small and marginal farmers, fishermen, agricultural labourers as well as of cooperatives and merchants with other socio-economically weaker persons also. Regional Rural Banks perform different type of functions such as providing financial facilities to rural and semi-urban areas and carrying out government operations like disbursement of wages among the workers and easily distribution of pensions to deserving senior citizens as well as providing Para-banking facilities like locker facilities, debit and credit cards, mobile/internet banking facilities also. RRBs are the main strong pillars of Rural Development.

Keywords: Regional Rural Bank, Commercial Bank, Financial Service, Credit Institution, Semi-urban Area, Rural Development.

INTRODUCTION

The Banking sector of a country is basically the financial infrastructure of its economy rather than a mere agglomeration of profit seeking private business institutions. It is traditionally considered to be the backbone of national economy. The presence of a well-developed banking system in a country is essential for its rapid economic development

and for maintaining a high level of economic activity. Hence, a balanced development of the banking system of a country, as between its rural and urban areas and as among its different regions, is necessary in order to bring about rural urban and inter-regional balance in the level of its economic development. The need for such a balanced development for the Indian banking system is all the more imperative since real India lives not in the metropolitan cities but in her millions of villages scattered all over. The modern banking system in India had an urban bias with commercial banking offices found largely in the urban and industrial centers of the country and the banking needs of the rural sector of the Indian economy being ignored by them. Since 1969, however, there has been a significant change in our banking expansion policy and considerable progress has been made in taking banks adaptation in the country with the commercial banks, regional rural banks and the co-operative banks forming its three components.

The objective of profit maximization and adherence to the real bills doctrine by the Indian commercial banks for a long time till 1969 were, therefore, largely responsible for the type of imbalances found in the Indian commercial banking system till then. Commercial banks were providing credit only to those purposes which offered adequate security and return on their investment in the form of credit and concentrated their activities in those regions and localities and in those fields which offered them scope for safe and profitable business. Banks often tended to follow economic and business development and flocked to industrial and business activity in region and localities where such development was yet to take place to an extent commensurate with their relative resource endowment positions. While such leading and business practices of commercial banks were justifiable when viewed in the light of the orthodox real bills doctrine and from the point of view of maximizing profit, they had adverse consequences for the economy as a whole. Since capital in the form of credit is a complementary factor in the process of production, non-availability of sufficient banking facilities and bank credit can be pointed out as one of the factors responsible for perpetuating the under developed nature of the backward regions, localities and activities in the country. A balanced distribution of banking facilities and bank credit among the different regions and localities of the country and among the different sectors of its economy is therefore, necessary in order to bring about a balanced development. Such a balanced development, in its turn, is necessary in order to accelerate the rate of economic development of the country as a whole.

Prathama Bank, with head office in Moradabad, Uttar Pradesh, the first RRB was formed on 02 October 1975. Since the rural areas of the country are new spheres of activity for the commercial banks, the expansion of commercial banking into the rural areas of the country on a large scale in recent years has given rise to problems of adaptation and modification, of principal and practices on the part of the commercial banks. The nationalization of the 14 major commercial banks on 19th July 1969 and of another 6 major banks on 15th April 1980, marks the end an era of profit motivated and security oriented banking and the beginning of a new era of purpose oriented banking motivated by social productivity. This required a basic change in the structure and

lending practices of the commercial banks and such a basic change can be brought about only through public ownership of banks, since privately owned banks could not afford to place national and social goals ahead of their own private profit. This provided, evidently, one economic could enable them to introduce the required changes in their branch expansion and leading activities required for bringing about needed balance.

CONCEPT OF RURAL BANKING

Geographical Approach

The geographical approach to the concept of rural banking is to define a rural bank as a bank or branch of a bank situated in a rural area and rural banking as banking transactions undertaken by such a bank and confined to a specific rural area. The Reserve Bank of India adopts this approach when it classifies commercial bank branches in the country into urban, semi-urban and rural branches.

Functional Approach

The second approach to the concept of rural banking in the functional approach according to which rural banking can be defined as financing and provision of other banking services to agriculture and other rural activities like cottage and small scale industries, rural artisans, retail trade and other self-employment programmes in the rural areas. It may be noted in this connection that regional rural banks functioning in the country at present are developed on this functional basis in order to provide financial assistance to certain well defined target groups in the rural area. It should be noted that a rural bank in the functional sense need not be a rural bank in the geographical sense since it is quite possible, as is always the case, that a bank office situated in a semi-urban or an urban center may extend financial assistance to productive undertakings in the rural areas and may accept deposits from people living in the rural areas and deriving their income mainly from agriculture and defined as the provision of banking facilities and services to rural economic activities whether the institutions providing such facilities and services are located in a rural, semi-urban or even in an urban center.

It should be noted that the term 'Rural Banking' refers to the function of providing banking facilities and services to rural economic activities and does not limit itself to any one institution like a commercial bank, or a co-operative credit society or a regional rural bank. The term includes banking facilities and services provided by a variety of banking and credit institutions like the commercial banks, the co-operative credit institutions, the regional rural banks, rural credit associations and even the traditional money lenders and indigenous bankers operating in the rural areas of the country. However, from the point of view of integrating the rural credit and banking system of the country with its larger and modern banking system, under the control and regulation of the Reserve Bank of India, it is desirable to confine the phrase rural banking to the modern banking institutions like the commercial banks, co-operative credit institutions and the regional rural banks and to the transactions undertaken by them. For

this reason, this project confines itself to analysis certain aspects of functioning of Regional Rural Banks in the sphere of rural banking in the country.

NEED OF RURAL BANKING

A case for a rapid expansion of rural banking in the country can be made out on the following grounds:

Removal of Regional

One obvious method of correcting the local and sectoral imbalances in Indian banking system is that of developing and expanding the rural banking network in the country by directing the commercial banks to open more and more branches in the rural areas and in hitherto unbanked rural centers. The branch licensing policy of the Reserve Bank of India in recent years has been such as to bring about an expansion of rural banking in the country. The Reserve Bank of India Report on Trend and Progress of Banking in India 1995-96 categorically states that the main objective of the policy would be to achieve a coverage of 17000 population (1981 census) per bank office in rural and semi-urban areas of each block and provide banking facilities in those pockets of rural areas where there are wide spatial gaps. Expansion would be allowed considering the need, spatial gaps and financial viability of the proposed branches. Hilly tracts, sparsely populated regions and tribal areas will be given special consideration and expansion in such areas will be allowed on a comparatively liberal basis taking into account existing gaps in the availability of banking facilities. It is also envisaged that a rural branch is normally available within 10 Kms. Expansion in urban and metropolitan port town areas will continue to restrictive and banks will be allowed to open offices in these areas on a highly selective basis. Rural banking in the country is, therefore, needed in order to set right the local and sectoral imbalances in the distribution of banking facilities and of bank credit in the country.

Provide Institutional Credit to Rural Areas

Secondly, the need to expand the rural banking in the country arises on account of credit. Traditionally, the rural sector of the Indian banking and credit system used to be dominated by the money lenders. According to the All India Rural Credit Survey (1951-52) Report, agriculturist money-lender and professional money-lenders supplied as much as 69.7% of the total agricultural credit in the country in 1951-52 (the share of commercial banks being only 0.9% of the total). Besides its high ability to finance agriculture to the required extent with the economic development of the country and agriculture becoming increasingly commercialized, the need for credit of the agricultural sector has increased since modern scientific farming is more capital intensive in nature than traditional subsistence farming. This increasing need for credit of the agricultural sector of the country's economy can be met only if the rural credit system is adequate and elastic. The banks alone, among financial institutions can meet this requirement.

Mobilization of Rural Savings

Rural banking is also necessary in order to generate and mobilize the savings of the agricultural and other rural sectors of the economy for productive investment in the non-agricultural sectors. One of the recognized roles of agriculture in a developing economy is to generate saving required for capital formation in the industrial and non-agricultural sectors. The saving generated in the agricultural sector can be mobilized for productive investment in the non-agricultural sectors only when the rural and urban sectors are linked together by a well-developed banking system. Besides, as the economic development of the country takes place and as an increasing fraction of its population moves from the agricultural sector to the industrial and non-agricultural sectors and agriculture becomes increasingly commercialized and market oriented the surplus generated in the rural sector of the economy will steadily increase. The mobilization of such surpluses from the agricultural sector for investment in the non-agricultural sectors required a well-developed banking system with a network of branches especially in rural areas.

Greater Integration of Money Market

A characteristic feature of the Indian money market has been its traditional dichotomy, with the modern sector and the indigenous sector as its two parts. While the modern sector of the Indian money market consists of the commercial banks, the co-operative banks and other modern financial institutions whose credit activities are closely controlled by the Reserve Bank of India, the indigenous sector consists of the indigenous bankers and the money lenders whose credit activities are not directly under the control of the RBI. With the money lenders playing the dominant role in providing rural credit in the country, the rural segment of the Indian banking system has been. Till recently, outside the direct control of the RBI so that changes in its credit policies of India had very little impact over the volume of credit and level of economic activity in the rural areas of the country. Expansion of commercial banking in the rural areas is intended to bring about an integration of rural segment of the Indian money market and the rural sector of the banking system of the country with the modern sector of the money market and with the major parts of the Indian banking system and thereby enable the monetary authority of the country to transmit the effects of changes in monetary policy to the rural sector of the Indian economy. Rural banking in the country is, therefore, needed in order to bring about an integrated development of the Indian banking system so essential for the effective use of monetary policy as an instrument of economic change and development in the country.

Rapid Economic Development

It is erroneous to believe that the urban-industrial sector and the rural agricultural sector of an economy are competing sectors. On the contrary, they are complementary to each other. The development of one sector encourages as well as sustains the development of the other through supplying each other's input requirements and by providing market

for each other's products. It is possible to bring about a rapid development of an economy only when a strong link between the two sectors in a market oriented economy, the role of the banking system in developing and strengthening such a link is equally important. Rapid expansion of rural banking in the country will strengthen the link between the urban-industrial and rural agricultural sectors of the Indian economy and will thereby accelerate the rate of economic development of the country as a whole.

Promotional Role

Lastly, the promotional role which the banks can play as financial and investment advisers to their customers are equally important in bringing about rapid economic development of the rural areas in the country. Agriculturists and other rural entrepreneurs can take advantage of the advisory service which the banks with their expert staff undertake and manage their undertaking on sound lines. This is one aspect of the non-financial promotional role which the banks should play in promoting rural development. The presence of banks and their increasing and constant contact with their rural clients will induce a sense of financial discipline among them and will promote the practice of cost-profit calculation among the agriculturists and other village entrepreneurs and businessmen and these changes in the attitudes of the rural people will be conducive to the economical use of their scarce resource for productive purposes.

CONCLUSION

Regional Rural Banks play a leading role in rural capital formation. Banks collect the dispersed savings of rural persons through different attractive deposit schemes and distribute loans to needy people for starting a productive as well as other self-sufficient economic activity. RRBs apply the strategies to increase deposits by increasing deposit rates, offering custom retail products and capitalizing strong relationships with clients. Being a financial institution, rural banks provide the credit facilities to those women of rural or semi-urban areas who want to run their own cottage or small units from home. These financial services or loan facility play a very positive role in rural development and to make their life survival easier. Especially, the banking sector efforts for giving a precious opportunity to poor and landless people to become self-employed. The micro-credit programmes of RRBs make the people bankable who are not economically strong enough and provide them required capital for economic activities. Really, rural economy is the pillar of nation's development and the chain of efforts by RRBs create a positive environment for rural development in India.

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