



## Causes For the Need of Rural Banks

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### ABSTRACT

*The opening of RRBs in rural areas is a new and philosophical experiment; with the object to mobilise productive activities in rural India. In order to make this experiment successful, they are being operated by persons with rural aptitude*

### KEYWORDS : Causes for the Need of Rural Banks

#### Causes for the Need of Rural Banks

The Regional Rural Banks are cooperatively new agency set up to supplement the efforts of cooperative and commercial banks. The following are the reason for setting up of the RRBs :

To free the rural poors, small and marginal farmers from the clutches of exploiting moneylenders.

To provide credit to the small and marginal farmers most of those do not fulfil the criterion of credit worthiness as per banking principles.

To provide banking services to the rural community at a relatively lower cost by adapting a different staffing pattern, wage-structure and banking policies.

#### Establishment of Regional Rural Banks

In June 1975, the Prime Minister of India, consequent on the declaration of the emergency in the country, announced the economic programme which among many other things, aimed at, "devising alternative agencies to provide institutional credit to landless labourers, rural artisans and small and marginal farmers, in the context of steps being initiated also under the programme, to liquidate rural indebtedness of those classes of people." A working Group by the Government of India, under the Chairmanship of M. Narashimham examined the question in detail and the Regional Rural Bank Ordinance came into force with immediate effect from 26th September, 1975 and the Banks has started working from 2 October, 1975. Later on, the Regional Rural Bank Act was passed in 1976 giving legal form to the emergency ordinance. Thus, the Regional Rural Banks came to be established under the Regional Rural Banks Act, of 1976.

Initially, 5 RRBs were set up at Moradabad, Gorakhpur (U.P.), Bhiwani (Haryana), Jaipur (Rajasthan) and Malda (W. Bengal). As on 31 March, 2010 there are 82 Regional Rural Banks with their 15,475 branches. They are operating in 619 districts of the country. Now, NABARD is looking after the working of Regional Rural Banks, which initially run under Reserve Bank of India.

#### Objectives of RRBs

Following are the main objectives of RRBs :

- To provide credit and other facilities, especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas.
- To provide banking facilities to the backward and tribal areas of the country where banking facilities have not reached so far.
- In order to develop rural economy, provide development finance to the agriculture, small and cottage industries, small traders, artisans and for other productive purposes.

#### Characteristics of RRBs

The main characteristics of Regional Rural Bank are as follows :-

**Area of Operation :** The area of operation of a Regional Rural Bank is broadly confined to a district. Thus, each RRB will operate within the local limits to be specified in the notification. If necessary, RRB might also establish branches, at any place within specified locality notified by the Government.

**Interest Rate :** Generally, RRBs pay 0.5% higher interest on their deposits than the rate paid by cooperative banks and commercial banks. The main aim of it is to attract local small savings. In the same way, they grant loans and advances at a cheaper rate than commercial or cooperative banks.

**Employees :** The RRBs appoint local and regional persons as their employees due to their regional nature. The local employees understand local languages, culture and custom of their clients and fulfil their needs and expectations.

**Working :** Their working is very simple and free from unnecessary formalities. Generally, accounts are prepared in local language. All the formalities related to loans and opening of accounts are completed with the help of the bank staff. Bank staff cooperate the customer in each and every way.

**Pay Scale :** The pay scales of the RRBs staff employees directly corresponds to the pay scales of the concerned State Government employees in the comparative cadres.

**Low Cost :** The RRBs are operated on regional basis with the help of local staff, resulting in low operating cost.

**Beneficiary :** The RRBs are providing financial aid only to marginal farmers, agricultural labourers, rural artisans, small traders, cottage industries and other small self employed persons of the rural areas. Thus, these banks are operated on the concept of "small banks for small people" or "regional banks for regional people."

**Objectives :** The RRBs are neither operated for the profit motive as the commercial banks nor as the substitute of commercial banks. The main objective of these banks is to provide financial assistance to the rural poor and weaker section of the rural community to make then self reliance and free from poverty. In order to achieve this objective RRBs are providing financial assistance under various rural development and poverty eradication programmes operated by the Govt.

#### Functions of Regional Rural Banks

The Regional Rural Banks are entrusted with the following functions to perform:

**To Accept and Mobilise Deposits :** The RRBs are required to mo-

bilise deposits from the small men living in remote areas. They are providing 0.5% more interest on their deposits as compared to commercial and cooperative banks. Their aim is to promote saving and investment habits of the rural people. They open their branches in tribal, back-ward and remote areas lacking banking facilities.

**To Provide Credit :** The main function of RRBs is to provide credit facilities with the help of their branches to the economically weaker sections of the societies of remote and tribal areas. They open branches in areas where there were no bank branch. They provide credit to poor farmers, artisans, landless farmers, and self-employed persons.

**Banking Facilities :** The RRBs provide other banking facilities like remittance of funds, safe keeping of deposits and valuables etc. to the rural people of that area.

**Branch Expansion :** The RRBs are mainly required to open branches in the rural areas. The main aim of the RRBs is to provide banking facilities to the areas lacking banking facilities. While opening of new branches, they are expected to spread their branches in remote, tribal and backward rural areas, so that they can provide banking facilities to the people of these areas.