

# Function, Recapitalization and Importance of Regional Rural Bank

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## I. Introduction :

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%. The sponsor bank helps the growth of an RRB by providing trainings to the staff of an RRB, providing management consultations to the bank for a minimum period of 5 years.

## Functions of Regional Rural Banks

The RRB Act 1976 states the functions of RRBs to provide financial assistance to farmers, Medium and Small Enterprises (MSMEs), local craftsmen and artisans, for agriculture, industries, trade, commerce, and their economic development. 25 RRBs were established within a year from the passing of this Act. Since a Regional Rural Bank is a Scheduled Commercial Bank, its primary functions are to accept deposits and to disburse loans. The important functions of Regional Rural Banks are discussed below.

### Accept Deposits

- RRBs accept deposits from their members who hold an account in the bank.
- Deposits can be made in current or savings accounts.
- Depositors can also be made in fixed or recurring forms.

### Loan Extension

- The RRB Act of 1975 states that the RRB can extend loans and credit services to the Priority Sector (PS). The loans to this sector are classified under PSL .
- The priority sector comprises of small and marginal farmers, craftsmen and artisans, local traders, medium and small scale businesses, education, housing, renewable energy, etc. which needs development and financial investment.
- 75% of the total Bank Credit has to be provided to the Priority Lending Sector. Out of this total credit, 10% has to be given to the economically weaker sections.

### Wage disbursement

- The Regional Rural Banks in India perform the important function of *distribution of wages* under the MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), the Pradhan Mantri Gram Sadak Yojana (PMGSY).
- The *pensions* provided under the poverty alleviation schemes and pension schemes of India are also distributed through these banks.

### Secondary functions of RRBs

- Similar to commercial banks, the secondary functions of the Regional Rural Banks in India are providing agency services and general utility services to their customers.

□ Agency services like foreign exchange, bill payments, money wire transfer, etc. are performed by RRBs.

**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 CRAR, Capital to Risk Weighted. A committee was therefore constituted in September, 2009 under the Chairmanship of K C Chakrabarty, Deputy Governor, RBI to analyze the financials of the RRBs and to suggest measures including re-capitalization 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 installments 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.

**Importance of Regional Rural Banks :**

1. Reduce rural and urban gap by mobilizing financial resources and services to rural regions.
2. Regional Rural Banks pave the way for inclusion of the marginal population like small farmers, Below Poverty Line (BPL) farmers and workers, small entrepreneurs, artisans, women, etc.
3. Regional Rural Banks assist rural businesses by providing them short-term loans, insurance facilities, etc., and help to improve the role of entrepreneurship in rural areas.
4. Providing assistance like loans, advances, insurance to agriculturists for farming inputs, equipment, processing, marketing activities, and cooperative societies helps in the growth of agriculture and the advancement of farmers.
5. Many public and private sector banks do not deal with farmers and rural section due to their small financial needs, fewer incomes, etc. In such a case, there is a need for a separate banking system to protect the interests of these sectors.
6. The RRBs look forward to covering underserved rural areas in terms of financial services and extending credit assistance.
7. Help in the growth of cooperative societies, agricultural societies, etc.
8. RRBs reduce farmers' and the weaker sections' dependence on traditional sources like moneylenders who exploited them with a high rate of interests on loans.

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