

## ROLE OF RRBs IN DEVELOPMENT OF RURAL AREAS

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### ABSTRACT

*RRBs were set up in 1975, to create an alternative channel to the cooperative credit structure and ensure sufficient institutional credit for the rural and agricultural sector particularly to small and marginal farmers, agricultural laborers', artisans and small entrepreneurs, and for matters connected therewith and incidental thereto. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. In order to provide access to low-cost banking facilities to the poor, the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which "combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have". In addition, the potential and the need for diversification of economic activities in the rural areas had begun to be recognized, and this was a sector where the RRBs could play a meaningful role. In this paper we are going to discuss on the role of regional rural banks in development of rural areas.*

**KEYWORDS:** *Regional Rural Banks, Rural Development, Rural Economy, Agricultural Strategy.*

### Introduction

Rural development has to play a remarkable role in the overall socio-economic development of a country like BHARAT, where the majority of the population lives in rural areas. For the purpose of classification of bank branches, the Reserve Bank of India defines a rural area as a place with a population of less than 10,000 people. The RRBs are jointly owned by the Government of India, the concerned State governments, and sponsor banks the rural sector affects directly or indirectly almost all the economic activities in the country and provides employment to the maximum number of people. A large part of the revenue of the government is also generated from the rural area.. The necessity of rural finance was felt to provide protection & reliance to rural people like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their product at low price to them. Rural people also face the risk of unpredictable production of crops due to high dependency on monsoon. Including problem of finance they also suffer from lack of seeds, fertilizers, water supply and other facilities which lead to rural in debtness'. The Regional Rural banks were established on 2<sup>nd</sup> October, 1975. The main objectives of these banks are to provide credit and other facilities particularly to small and marginal farmers, agricultural laborers', rural artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in rural areas. The aim of rural banks is to bridge the credit gaps existing in the rural areas and they are supposed to be effective instruments of economic development in rural India. They will extend productive credit to the rural community and they will have purely rural orientation in their activity and in the manner of extending their activity. The history of regional rural banks in India dates back to the year, 1975. Several committees have emphasized the need to improve the performance of these banks, which play an important role in the rural credit market in India.

### Review of Literature

A number of studies have been conducted to see the functioning and performance of RRBs in the country specifically in rural areas. The literature available in the field under reference is very limited in nature and scope .Some of the relevant studies is given here under:

**Ramachandran and Swaminathan (2002)** examined the effect of financial sector reform on rural banking and rural credit transactions in India. They reviewed the trends in selected indicators of rural banking at the national

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