

Role of Rural Banking in Rural Development

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ABSTRACT

Banks working in rural areas. Our banking sector consists of three kinds of banks-State Owned Commercial Banks (SOBs), Private Commercial Banks, and Foreign Private Commercial Banks. Among them, Nationalized Commercial Banks and some other private banks and more particularly some specialized banks are operative in rural areas. Rural Banks have emerged as Key contribution to rural development in India. Through financial inclusion, credit accessibility, agricultural financing and empowerment of rural entrepreneurs. Rural banks are driving economic growth, reducing disparities and fostering a more inclusive society. These banks have successfully brought banking services to remote areas, provided credit facilities to underserved populations and supported the agricultural sector. By continuing to prioritize rural development.

Keywords: Banks, rural areas, banking sector, banks-State Owned Commercial Banks (SOBs), Private Commercial Banks, Foreign Private Commercial Banks

Importance of rural banking was felt right after independence and from there NABARD came into operation. It started giving credit to the farmers and other rural people at lower interest rates. That there is a difference between the monetary activities of the rural people and the urban people gave rise to the conception of the National Bank for Agricultural and Rural Development or NABARD. As days passed, various self-help groups also started performing and brought forth microcredit generation. Post green revolution, agriculture improved and so did the income of the farmers. Thus, the role of rural banks also went through a change.

After independence, rural people, poor people in need of money, were exploited a lot. Traders and local moneylenders took their advantage and granted them loans at interest rates incredibly high. Thus, debt was unavoidable. NABARD came to the rescue of these people and offered loans and credits at an easy interest rate. Presently, India has 45 regional rural banks all across the country. Haryana Kshetriya Gramin Bank Bhiwani, Gorakhpur Kshetriya Gramin Bank etc are a few examples of a rural bank.

ROLE OF BANKS IN RURAL DEVELOPMENT:

Banks working in rural areas. Our banking sector consists of three kinds of banks-State Owned Commercial Banks (SOBs), Private Commercial Banks, and Foreign Private

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Commercial Banks. Among them, Nationalized Commercial Banks and some other private banks and more particularly some specialized banks are operative in rural areas. Foreign private banks are not interested to open their branches in rural areas. The role of the bank in rural development is manifold. Banks are functional in the processes of savings, capital formation, investment, production in the rural economy.

- Banks motivate the people for savings through various programs and collect the dispersed savings of the people. Further, the bank invests it in the rural economy.
- Banks provide the rural small businessmen with loans from deposited money which plays a crucial role in rural development. Especially, the micro-credit programs of different banks made the rural landless people bankable and provided them with the required capital for business and other economic activities.
- Banks play a crucial role in rural capital formation. Banks collect the dispersed savings of rural people through different deposit schemes. Then distribute loans to them for starting a productive as well as any other self-sufficient economic activity.
- Commercial and specialized banks, especially State-Owned Commercial Banks (NCBs) distribute agricultural loans to rural people which makes them able to invest in their firms or lands. As most of our farmers are poor, they cannot invest enough to increase the production. 80, bank loans help them to increase their production through proper irrigation, fertilization, and so on.
- Banks play a crucial role in sustaining and developing our small and cottage industries. Because most of our small and cottage industries are being closed due to lack of enough capital.
- Banks can provide our unemployed youths with training and loan to start a business or to invest in a farm. Such training and income-generating projects can make our youths self-reliant, lessen the intricate problem of unemployment, and improve the standard of living in our rural areas.
- Banks play a crucial role in mentioning the disadvantaged groups in the community under some special programs. Even, through making the disadvantaged people economically self-sufficient, banks play an important role to empower them and lessen social inequality thereby.
- Raising farm and non-farm output by providing services and credit facilities to farmers.
- Generating credit for self-employment schemes in rural areas.
- Achieving food security which is clear from the abundant buffer stocks of grains
- However, the expansion and promotion of rural banking sector have taken a back seat after reforms, and it suffers from the following limitations
- Small and marginal farmers receive only a very small portion of the institutional credit.
- Rural banking is suffering from the problems of a large number of over dues and default rate • The source of institutional finance is inadequate to meet the requirements
- There exist regional inequalities in the distribution of institutional credit.

To improve the situation, the banks should build relationship with farmers. Also, the farmers should be made to understand the importance of thrift and of efficient utilisation of the loaned amount. In spite of such prospects as discussed above, banks in our country are not effective enough in rural development.

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A number of causes are responsible for such failure among whom some notable causes are as under

1. There are some problems in bank management that disrupt the very process of loan distribution as well as the collection. Hence, loans, especially government loans are not being distributed through proper channel and manner.
2. Our people are not oriented to savings and investment. They lack motivation for savings and investment.
3. The people cannot utilize the distributed money/ loan properly. Even banks also are not undertaking training programs to make them able to utilize the loans properly.
4. People have to face serious complexities to get loans. Besides, people who get loans do not return on time.

In spite of some limitations, the role of the bank in rural development in our country is praiseworthy. 'speedway' the microcredit program, primarily introduced by Grameen Bank, has become widespread and played 'crucial role in the well-being of rural poor. However, our government, private bank authorities should mandrake more comprehensive programs for rural development. Role of Commercial Banks in Rural Development.

CO - OPERATIVE CREDIT SOCIETIES:

Co-operative Credit Societies are financial entities established on a cooperative basis and, do banking functions with their members only. Customers of a cooperative Societies are also its owners. These societies provide a wide range of regular banking and financial services to their members only.

1 TYPES OF COOPERATIVE SOCIETY:

1. Produce Cooperative: It protects the interest of small producers which include farmers, landowners' owners of the fishing operations etc. To increase the production efficiency, marketing possibilities. It helps in lower costs and strains in each area with mutual benefit to the producers.

2. Consumer Cooperative: They governed by consumers of particular area for their mutual benefit. They try to provide necessary commodities at reasonable price rather than making their own profit.

3. Credit Unions: Their main agenda is to help people for which they provide credit and financial services to the members at the competitive prices. Everyone has the right to be the member of the group.

4. Marketing Cooperative Society: Their aim is to help the small producers in selling their products. The producers who wish to obtain reasonable prices for their output are the members of this group. It collects the output of the individual members. Various market functions are performed by the society to sell the products with the reasonable price.

5. Housing Cooperative Society: They helps the people who want to construct the house with the limited income. Their aim is to solve the housing problems of the members. They construct the houses and give the option to pay the instalment to purchase the house.

2 CO-OPERATIVE CREDIT SOCIETIES VS CO OPERATIVE BANKS

1. Co-operative Banks are legal entities with proper regulatory and administrative mechanism, while Co-operative credit societies do not have any well-established procedures. They simply registered under Registrar General.
2. Both are registered under either Co-operatives society act of respective states or Multi-State Co-operative Societies Act, 2002.

3 COOPERATIVE SOCIETIES AND THEIR CONTRIBUTION TO THE RURAL ECONOMY:

The role of cooperatives in rural development can be very significant and beneficial for the rural economy. We will discuss their role in the below paragraphs:

- **Provide credit facilities** – Cooperative societies can help their members – individuals or small businesses – in rural areas with financial assistance. Credit Cooperative societies are involved in disbursing loans at low rates of interest and flexible repayment terms. The role of cooperatives in rural development is crucial as they protect their members from private moneylenders who give loans at very high-interest rates. Credit cooperatives rarely raise large amounts of capital due to the limited financial resources of their members. However, they play a vital role in sustaining the viability of both agrarian and non-agrarian occupations in a rural economy
- **Housing facilities for lower-income groups** – Housing cooperative societies in rural areas assist their members in getting a place to live. They are primarily involved in helping people from lower-income groups get housing facilities at affordable rates.
- **Help consumers get affordable products** – Several Consumer Cooperative Societies help rural households get products at relatively cheaper rates. They purchase products directly from the manufacturer and sell them to their members below market price, thus removing the involvement of intermediaries. Anyone who wants to buy a product at these rates becomes a member of Consumer Cooperative Societies.
- **Assist small businesses to stay profitable** – Cooperative Societies help small scale entrepreneurs procure raw materials at cheaper rates to reduce their cost of production. They also provide producers with a platform to sell their products directly to consumers. Removing intermediaries helps to cut down the selling price and ensure higher sales and profits for producers.
- **Share Profits among members** – Cooperatives were established to serve the economically weaker sections of rural communities. They distribute profits from the operations among their members as a dividend. These earnings are vital for the sustenance of rural households.

REGIONAL RURAL BANKS (RRBS):

The Regional Rural Banks (RRBs) were established in 1975 under the provisions of the Ordinance promulgated on 26th September 1975 and Regional Rural Banks Act, 1976. RRBs are financial institutions which ensure adequate credit for agriculture and other rural sectors. The RRBs combine the characteristics of a cooperative in terms of the familiarity of the rural problems and a commercial bank in terms of its professionalism and ability to mobilise financial resources. After the reforms in the 1990s, the government in 2005-06 initiated a consolidation program that resulted in the number of RRBs declining from 196 in 2005 to 43 in FY21, and 30 of the 43 RRBs reported net profits. different Regional Rural Banks (RRBs) are government owned scheduled commercial banks of India that operate at regional level in

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states of India. These banks are under the ownership of Ministry of Finance, Government of India. They were created to serve rural areas with basic banking and financial services. However, RRBs also have urban branches. The area of operation is limited to the area notified by the government of India covering, and it covers one or more districts in the State. RRBs perform various functions such as providing banking facilities to rural and semi-urban areas, carrying out government operations like disbursement of wages of MGNREGA workers and distribution of pensions, providing para-banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking, and UPI services

1 PROGRESS OF REGIONAL RURAL BANKS IN INDIA:

In the meantime, the regional rural banks have extended their network throughout the country to a considerable extent. Initially, there were 196 regional rural banks operating in 28 states with nearly 14,700 branches. Till June 1996, these RRBs have been lending annually nearly Rs 1500 crore to the rural people and more than 90 per cent of the loan has been advanced to weaker sections.

As on September, 1990, the RRBs had advanced jointly to the tune of Rs 3,560 crore in the form of short-term crop loans, term loans for agricultural activities, for rural artisans, cottage and village industries, retail trade, self-employment projects and consumption loans etc. Among all the states, Uttar Pradesh is the state where larger number of RRB branches has already been opened. Recently, after amalgamation, the number of RRBs has been reduced to 92. During the last 30 years, RRBs have been participating actively in various programmes designed for providing credit assistance to identified beneficiaries included under the new 20 Point Programme, IRDP and other programmes designed for scheduled castes and tribes.

RRBs are also advancing loans to weaker sections and physically handicapped persons under differential rate of industrial (DIR) schemes. At the end of June 2014, there were 92 amalgamated RRBs, covering 518 districts of the country with a network of 18,291 branches. Out of all these branches of RRBs, 4,042 are the rural branches as on June 30, 2014 which constitute about 21.4 per cent of the total branches of RRBs. The loans and advances stood at Rs 7,852.7 crore as at the end of September 1996. Again, Rs 15,423 crore were mobilised as deposits by RRBs at the end of September 1996. Consequent upon the permission of the Reserve Bank of India to determine their own lending rate with effect from 26 August 1996, most of the RRBs have been charging interest rates on their loans varying between 13.5 to 19.5 per cent per annum.

In recent years, under the softer interest regime, interest rates on loans advanced by RRBs have also declined considerably. Again, total amount of credit advanced to the agriculture by the RRBs increased considerably from Rs 6,069.79 crore in 2002-03 to Rs 43,968 crore in 2010-11. As on March 31, 2002 total outstanding deposits of RRBs stood at Rs 44,327.81 crore and total outstanding advances stood at Rs 18,586.97 crore. Out of the 196 RRBs, 170 RRBs are making profit in recent years after introducing measures under banking reforms. Chalapathi Rao Committee on Regional Rural Banks has also recommended privatisation of profit making RRBs in a phased manner. In order to make Financial Inclusion Plan of the government effective and to expand the penetration of banking network in unbanked and under-banked rural areas, regional rural banks (RRBs) also worked out its branch expansion plan for 2011-12 and 2012-13 with 10 per cent increase over the previous year. Accordingly, RRBs could open 913 branches in 2011-12 against its target of opening 1247 branches. This figure compares favourably with that of opening of 521 branches in 2010-11 and 299 branches in 2009-10. For 2012-13, a target of opening 1845 new branches has also been set.

THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

INTRODUCTION: National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982 with the paid-up capital of Rs. 100 cr. by 50: 50 contributions of government of India and Reserve bank of India. It is the apex banking institution to provide finance for Agriculture and rural development. National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982 with the paid-up capital of Rs. 100 cr. by 50: 50 contributions of government of India and Reserve bank of India. It is an apex institution in rural credit structure for providing credit for promotion of agriculture, small scale industries, cottage and village industries, handicrafts etc.

OBJECTIVES OF NABARD:

The main objectives of NABARD are:

- Rendering capital investment support in agriculture, fishery, poultry, horticulture, etc. activities
- Creating credit flow in the activities incorporated by NABARD and the government.
- Identification and fulfilment of self -help groups (SHGs) and joint -liability groups (JLGs) credit requirements
- Promotion of non-agriculture employment opportunities by encouraging the semi-rural and rural people to explore and opt for alternate professions and job options
- Extending support and assistance for mitigation and climate adaptation projects
- Refinancing the credit linked with subsidy on capital investments by the Indian government under the authority of the NABARD subsidy.

FUNCTIONS OF NABARD:

NABARD was established as a development bank to perform the following functions: a) To serve as an apex financing agency for the institutions providing investment and production credit for promoting various developmental activities in rural areas;

b) To take measures towards institution building for improving absorptive capacity of the credit delivery system, including 110 monitoring schemes, formulation of rehabilitation restructuring of credit institutions and training of personnel;

c) To coordinate the rural financing activities of all institutions engaged in developmental work at the field level and liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation.

CONCLUSION:

Rural Banks have emerged as Key contribution to rural development in India. Through financial inclusion, credit accessibility, agricultural financing and empowerment of rural entrepreneurs. Rural banks are driving economic growth, reducing disparities and fostering a more inclusive society. These banks have successfully brought banking services to remote areas, provided credit facilities to underserved populations and supported the agricultural sector. By continuing to prioritize rural development.

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Conflict of Interest

The author(s) declared no conflict of interest.

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