



Role of Small Finance Banks in Rural Development

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Abstract

Government takes many initiatives for rural development as it is considered as a significant factor while measuring the economic growth and one of these initiatives is establishment of Small Finance Banks. With a primary objective of further financial inclusion SFBs were setup on the recommendation of financial sector reforms committee headed by Dr. Raghu ram Rajan. This study focuses on SFBs, its functions and its impact on rural development.

Keywords- Small Finance Banks, Rural Development, Credit, Government Schemes, Micro financing, financial literacy.

Introduction to Small Finance Banks

In 2014, RBI issued guidelines for setting up Small Finance Banks and gave approval to 10 institutions to setup as SFBs in 2015. Capital Small Finance Bank was the first to be established in 2016.

The main purpose behind establishment of SFBs was financial inclusion. SFBs were established to provide financial services to unbanked and under banked areas for this RBI made it mandatory for these banks to open 25% of their branches in such areas. They are also required to allocate 75% of their ANBC to priority sectors. Small Finance Banks provide basic banking services to individuals, farmers, small businesses and micro and small industries, etc.

Significance of Rural Development

Rural development is significant for economic growth as the major portion of India's population resides in rural areas. Rural development initiatives includes improving agricultural practices, infrastructural development such as roads, electricity, water supply, communication and networks then it also includes investments in education, healthcare, providing vocational training, encouraging entrepreneurship and development of SMEs.

Rural development initiatives include access to financial services which is essential for economic and social welfare of communities thus contributing to the overall economic progress of the nation. Financial services include opening of bank accounts, providing loans to individuals and entrepreneurs and microfinance for agriculture, education, then enjoying the benefit of insurance and various government schemes, etc.

Objectives

1. To understand the reason behind establishment of SFBs.
2. To know the role of SFBs in promoting financial literacy.
3. To look into Agriculture financing and Micro financing provided by SFBs.
4. To bring out the impact of SFBs on Rural Development.

Literature Review

(**T Ravikumar – 2019**) concluded that SFBs significantly promote Financial Inclusion in India by establishing almost 95% of branches in rural and semi-urban areas of the country and by serving to all kind of people including poor and low income people of those areas.

(**K Dhevan, S Kangayan – 2020**) SFBs are progressive and this study also shows that there is no association between cost of funds and net interest margin. SFBs have competency and potential.

(**M Ray, R Shantnu -2021**) Financial analysis of SFBs through CAMEL model concluded earning positions of all SFBs were similar and there is no difference in the financial performance of SFBs.

(**P Chaturvedi – 2022**) SFBs play an essential role in improving the economic and social standing of rural people.

(**G Anitha 2024**) Financial performance of Equitas and Ujjivan bank analysed using CAMEL model concluded that Equitas bank has performed well in all aspects when compared to Ujjivan during the year 2020 and 2021.

Limitations

This study is totally based on secondary data and it might not perfectly align with the research objectives.

Research Methodology

Descriptive type of research, The study is based on secondary data from journals, publications and websites to understand the role of SFBs in development of rural areas.

Role of Small Finance Banks in Rural Development

In India there is a disparity between urban and rural areas. Rural people have less or no access to financial services so to include these people in the financial system of the country government takes many initiatives and one of them is establishment of Small Finance banks. Small Finance Banks came into existence for financial inclusion to serve unbanked and underbanked areas.

Small finance banks promotes financial literacy by conducting financial literacy programs so to educate customers about savings, managing credit, availing government schemes and using digital financial services.

AU small finance bank conducted more than 3400 financial literacy programs and **Ujjivan small financial bank** conducted camp at 132 URC branches across 11 states and trained more than 11602 beneficiaries September 2022. And other small finance banks such as Jana small finance bank, **Utkarsh small finance bank** celebrates financial literacy week.

Small Finance Banks support many government schemes such as Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Suraksha Bima Yojana, Atal Pension Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Mudra Loans, Pradhan Mantri Kaushal Vikas Yojana, etc. Also through SFBs subsidies and welfare payments are transferred to bank accounts of people. Small Finance Banks helps government to reach to the weaker sections of the society. Small Finance Banks offers customized loan products. Microfinance and Microloans are offered to low income individual, groups and small businesses.

For instance Utkarsh bank provide Joint Liability Group loan viz Utkarsh Pragati for starting a business, Utkarsh Kiran for additional capital requirement and Utkarsh Asha for working capital requirement.

Agriculture loans such as Crop loans, Farm Equipment and Machinery loan, Dairy, Poultry and Fisheries loans, Kisan Credit cards are offered by SFBs. Ujjivan bank offers Kisan Pragati Card a loan product specially designed for small and marginal farmers under which products like KPC-Poultry, KPC-Pisciculture, KPC-Crop loan are offered.

SFBs also promotes digital banking channels like internet banking, mobile banking and UPI, these SFBs have their own apps which has made financial services more accessible and convenient to rural population. ESAF SFB offers USSD service so that people from remote areas can check their balance, can transfer funds, etc.

Also these SFBs use Business Correspondent Model to reach wider range of population.

For instance Utkarsh bank currently has 6 BCs operating in different states. Jana bank has 4 BCs operating in different states.

Conclusion

With the establishment of SFBs rural population's access to financial services has been increased, almost every person has a bank account, has access to credit, can enjoy benefits of government schemes and welfare payments, can have insurance and investment options which has led to enhancement in agriculture productivity, employment generation, infrastructure development, increase in entrepreneurial activities that, to some extent contributed to the overall economic growth of the country.

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