



A study of Role of commercial banks in the Rural development in India

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Abstract

Indian economy is characterized by a number of features such as high urban growth, low rural growth, exodus of rural masses to urban centres, low infrastructural and employment opportunities at rural areas. The answer lies in ensuring all round development of rural areas. This requires development of necessary financial facilities at rural sector itself. Banks play a very important role in accumulating and dispersal of funds from various sources to different sectors. The paper attempts to study the development of banking facilities at rural areas and mobilisation of credit facilities. The study period is 2006-2016. The study is based on published data of reserve bank of India, various earlier literature works. The paper attempts to analyze development in terms of offices and braches opened by various types of banks over the year, growth in terms of accounts opened and deposits received and funds distributed. It attempts to make suggestions based on the data available in these.

Keywords: 2006-16, Commercial Banks, deposits, Credit dispersal, Rural development.

INTRODUCTION

India is a developing country and the problem of economic development is at the core of all its economic policy. Issue of Economic development is a multi faceted issue, requiring simultaneous focus on a number of different variables. One of the major issues involved is ensuring and balancing the economic growth of both urban and rural sectors simultaneously. In India it has been observed that the urban sector has grown at a much faster rate than the rural area. As a result of this there has been movement of population from rural areas to urban causing stress to the economy of both areas. The problems faced by Indian rural sector are :

1. Low level of Income
2. low level of saving
3. Low level of Capital formation
4. Low level of infrastructural development
5. Low educational level
6. Low level of economic equality among different sections of populace especially for the marginalized sections such as SC,ST and women.

7. Excessive reliance on agricultural production and low level of industrial development.

8. Low level of existence of financial institutional structure.

9. High rate of unemployment and under employment.

To this effect Indian policy makers since Independence have launched a number of schemes to arrest and stop the mass exodus of rural populace. Their chief instrument in this process is development of adequate banking and financing facilities in rural areas and implementation of various supportive schemes through them

OBJECTIVES OF THE PAPER

1. To understand the functions of commercial banks with respect to rural development.

2. To obtain information about the growth of Commercial banks in rural area with respect to increase in the number and percentage to total number of branches during the study period.

3. To obtain information about the growth in deposit in rural area for the study period with respect to number of deposit accounts opened and the amount deposited in the accounts.

4. To obtain information about the growth in credit extended in rural area for the study period with respect to number of credit accounts opened and the amount of credit taken by these accounts.

5. To obtain information about the growth in credit extended to various occupation in rural area for the study period with respect their percentage to national economy in comparison to other areas(semi-urban,urban and metropolitan).

6. To make suitable suggestions based on the information gathered to enhance the role of commercial banks in attaining their socio economic objectives.

RESEARCH METHODOLOGY

The paper covers a time period of March 2006-March 2016 and is solely based on the use of secondary data. The data has been collected from various books, articles, journals and most importantly the data banks of Reserve Bank of India. It is basically an analytical study of pre-published data reclassified as per the objectives of the paper. Paper as such possesses all the merits and limitations of the source of the data.

The data has been collected and classified for the study period 2006-2016 to show

1. The trends of growth in terms of number of offices opened and their percentage to total national bank branches.

2. The trends in growth of number of deposit accounts and in amounts of deposit accounts.

3. The trends in growth of number of credit accounts and in amounts of credit accounts.

4. The trends in growth of credit extended to various occupation in rural areas.

BANKS AND RURAL DEVELOPMENT

Indian commercial banks are expected to act as a instrument in fostering growth at rural areas by promoting following activities:

1. Development of entrepreneurship: Banks have undertaken specific activities and launched special schemes to develop entrepreneurship at rural levels. The purpose is to encourage small scale entrepreneurship to set up business at rural areas and thereby generate income and increase employment levels of rural community in general.

2. Credit Creation: This function is the core

function of all types of banking systems. Under this feature banks act as a medium for mobilising savings of large number of populace but who have only small amounts to make deposits. The amount so mobilised is high in turnover which in turn is given as form of credit to various industries whether small medium or large in order to increase industrial activity in the economy and thus raise the overall prosperity level of the society. This in turn leads to higher saving and still further economic growth. Thus a cycle is formed leading to overall development of the economy in general.

3. Capital formation: As stated the rural sector is characterized by a very low level of capital formation. The banks have introduced various schemes to encourage and attract savings among rural populace. The schemes have been launched not only to increase saving mobilisation but also to provide capital to various identified industries and sectors. This help to bring about a balanced economic development of all the sectors of economy

4. Financial Assistance: Banks provide much needed financial assistance to the various essential but fund starved industries. They identify industries which are of essential nature but lack proper funds and raise funds from sectors which

have surplus funds to direct the funds to these industries. Banks have devised schemes with low interest and zero interest loan facility for various marginal communities, self help groups and less developed rural industrial sectors. Banks have also acted as facilitator of smooth flow of goods and services from the producer to consumer.

5. Infrastructural Facilities: Banks help in developing comprehensive infrastructural facilities in the country. This further, includes the social, educational, fiscal and other aspects of development that are essential for the economic progress of a nation.

6. Sectoral Priorities: The mobilized resources by the banks can be used for the development of backward and remote areas or a particular sector. This is only possible with the efficient banking system. Small-scale industries, handicraft industries, artisans and farmers can be encouraged by timely flow of credit under priority sector schemes. This further enhances overall development of the economy.

7. Catalyst in social change: Banks are regarded as catalysts in bringing of the desired social change in the society. Through its sectoral priorities and other social development programmes, the desired change can be achieved. This includes loans to weaker sections, agricultural purposes, and small traders.

8. Agriculture and small scale industries: The development of a country also depends upon the growth of agriculture and small scale and cottage industries. Agriculture contributes a sizable portion to the GDP of our country. Similarly, small

scale industries provide large employment opportunities and goods manufactured by this sectors are also exported out to other countries. The banks have to fulfill financial requirements of these sectors which lead to the economic progress of the country.

ANALYSIS AND INTERPRETATION

The analysis of commercial banks' performance from 2006 to 2016 reveals significant trends. The total number of bank branches increased from 30,610 in 2006 to 50,102 in 2016, marking a growth of 19,492 branches, equivalent to a 163.68% rise. However, the proportion of rural branches declined from 43.2% to 37.2%, indicating a notable shift in focus away from rural areas. Deposit accounts grew significantly, from 1.39 billion in 2006 to 5.76 billion in 2016, a growth rate of 446.31%. Despite this, the share of rural deposit accounts in total deposits marginally decreased from 10.8% to 10.5%, showing a slower growth in rural deposits compared to other regions.

In terms of deposit mobilization, the total amount grew from ₹2,260,611.8 million in 2006 to ₹10,089,413.2 million in 2016, reflecting a growth rate of 412.82%. Interestingly, while rural branches decreased, rural deposit

mobilization rose from 28.8% to 35%, highlighting improved efficiency in rural deposit collection. Credit accounts also showed substantial growth, increasing from 28.58 million in 2006 to 54.16 million in 2016, a rise of 189.53%. However, the rural share of credit accounts remained stable at 33.4%. Credit disbursement experienced a more significant increase, from ₹1,260,783.4 million in 2006 to ₹6,746,701.5 million in 2016, a growth of 535.12%. This indicates that the average credit per account grew faster than deposits, with rural credit outstanding slightly rising from 8.3% to 9% during the period.

Despite these growth figures, the rural sector's share of total bank credit across regions declined sharply from 13.2% in 2006 to 9.8% in 2016, signaling reduced priority to rural development. Within agriculture, credit increased by 112.4%, driven primarily by indirect finance, which grew by 179.12%, while direct agricultural finance declined by 92.71%. Credit to the industrial sector plummeted to just 20.21% of its 2006 level, with significant declines in subsectors such as mining, electricity, construction, and manufacturing. Transport, professional services, and personal loans also witnessed steep declines in their credit shares.

Personal loans showed mixed performance, with household loans rising by 377% while other categories fell, leading to an overall decrease in the segment's share from 11.6% in 2006 to 8.9% in 2016. The trade sector followed a similar pattern, with wholesale trade experiencing growth but retail trade declining, causing the overall trade share to drop. Other sectors, including finance, transport, and services, showed declining trends, with only minor exceptions.

Overall, the analysis reveals that while commercial banks achieved significant growth in deposits and credit, their focus on rural areas diminished, particularly in sectors like industry, transport, and personal loans. Agriculture saw growth mainly through indirect finance, but other critical areas like infrastructure and trade experienced neglect. This highlights a need for a more balanced approach to promote holistic rural development.

CONCLUSION & SUGGESTION

Helping with the objective of rural development. we have seen that percentage of branches has actually registered a decline over the years though the no. of accounts in deposits and credit have increased along with the amounts

raised or issued against them. The growth in amount is much more than growth in the no. of accounts for both the deposits and credits. This may seem encouraging with respect to role of commercial banks to foster rural development.

However this is not the true picture as is clear from the details of table 2. The table clearly points out that the commercial banks in totality have not really served the function of enhancing transport, industry, finance, personal loan, trade, professional services and others etc. for the study period. In fact there has been decline for the in all these cases and only agricultural section has shown any growth over the years for rural areas when compared to percentage with respect to other areas such as semi-urban, urban and metropolitan. However in this case too the growth has occurred only due to growth in indirect finance mode only.

Therefore we suggest that the commercial banks re-strategize their policy and direct their efforts towards the opening of more branches, creation of more credit accounts

and focussed dispersal to areas with low priority funding in the study period. Only by redesigning their strategies in this manner would they achieve their socio economic objectives of helping with the growth of agriculture, industry, trade,

finance, professional and other services sectors etc in rural areas. Presently the data do not support the efficient performance by banks in this regard.

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