

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 branches 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.

I. 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 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 marginalised 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

II. 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.

III. 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

IV. 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 saving s 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 sector 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.

V. ANALYSIS AND INTERPRETATION

From the table 1 in annexure we are able to arrive at following conclusions:

1. We find that the number of offices of commercial banks have increase from 30610(2006) to 50102(2016). Thus there was an absolute increase of 19492 branches over the years. Thus there was a growth rate of 163.68 percent over the study period. However the percentage of rural banks to total banks over the years has shown a significant decline of

almost 6% as its percentage has declined from 43.2%(2006) to 37.2%(2016).

2. In terms of no. Of accounts for deposits we find that the actual number has grown from 13, 95, 70,235 (2006) to 576170952(2016) thus registering a growth of 446.31% over the years. Thus the growth in amount was more than the growth rate in number of deposits. We also find that the percentage of amount of rural deposit accounts has decreased from 10.8 % (2006) to 10.5 % (2016). This indicates that rural sector is still lagging behind from other areas such as semi-urban, urban and metropolitan areas in terms of actual amount on comparative basis.
3. In terms of amounts mobilised through deposits we find that the actual amount has grown from 2260611.8 in rupees million (2006) to 10089413.2 (2016) thus registering a growth of 412.82% over the years. We also find that the percentage of no. of rural deposit accounts has increased from 28.8 % (2006) to 35% (2016). Thus even after reduced no. Of bank branches we find their is increase in mobilising of rural area deposits by commercial banks.
4. In terms of no. Of accounts for credits given we find that the actual number has grown from 28576751 (2006) to 54161214 (2016) thus registering a growth of 189.53 % over the years. Thus the growth in credit account number was much less than the growth rate in number of deposits. We also find that the percentage of amount of rural credit accounts has remained more or less in same percentage level from 33.4 % (2006) to 33.4 % (2016). Thus the percentage of people taking credit from commercial banks in rural areas has remained more or less same as the actual no. Of credit taking account has increased over the years in all India level. thus it has kept pace with all India growth.
5. In terms of amounts dispersed through credits issued we find that the actual amount has grown from 126078,3.4 in rupees million (2006) to 6746701.5 rupee million (2016) thus registering a growth of 535.12 % over the years. We also find that the percentage of credit outstanding amount has increased from 8.3 % (2006) to 9.0% (2016). This increase is less than 10% of 2006. When compared with increase in number of credit accounts we find that this growth is much more than the growth rate in credit accounts. Thus we can conclude that benefits of credit extension has been taken extensively by rural masses over the years on average accounts basis. Thus we can say that commercial banks have been very successful in performing their role of extending credit to the rural area per account basis.
6. Looking at the growth rate of deposits (number wise and amount wise) as compared to growth rate of credit we find that the growth in amount of deposit was about 1.08 times more than the growth in accounts of deposit. However the growth rate was 2.82

times in case of credit between its number of accounts growth and amount of credit outstanding. Thus in actuality we can conclude that on average account basis the amount of credit taken per account was 2.61 times greater than the amount deposited per no. of account.

The table no. 2 gives us details of the percentage of bank credit extended to rural areas among the total of rural, semi urban, urban and metropolitan areas and also show a breakup of occupation for which it was extended from 2006-2016. This table help us to obtain facts area of importance considered by the commercial banks. The important observation from this table are as following:-

1. We find that the total bank credit percentage has fallen from 2006(13.2%) to 2016 (9.8) showing a drastic fall to 74.24% of its original percentage among the four areas in which commercial banks operate. Thus we can say that in general the commercial banks have rendered lower priority to rural sectors development even though the growth in credit amount might be huge as observed from table 1. On average basis there was a decrease as average declined to 10.7% from 13.2%. Thus there was a decreasing trend in general.
2. Among the various occupations we find that the agricultural credit has grown(112.4%) maximum in terms of percentage over the study period and its average also shows a increasing trend. However this is due to tremendous credit facility provided to Indirect Finance area which grew by 179.12% and on average it registered a percentage of 13.65. Thus the commercial banks are strategising to give finance to agricultural sector through indirect mode. The direct finance registered a decline to 92.71% and its average percentage was 44.87% lower than 48% of 2006.
3. The Industry sector in general suffered the maximum over the years as the credit extended to it declined to 20.21% of its 2006 percentage and the average percentage came down to as low as 4.97% from 9.4% in year 2006. among its four components the mining and quarry suffered the maximum as its percentage growth in 2016 came to 8.87% of 2006 percentage. The average too was a very low 8.67% among the total credit for 11 years combined. This was followed by electricity gas and water which showed a decline to 12.12 % of 2006 percentage and a average of 6.18% compared to 9.9% of 2006 percentage. this is followed by construction (19.74% and 4.05%) and Manufacturing and processing (24.73% and 4.94%). Therefore we can conclude that the commercial banks are not really developing anys schemes to promote industry and infrastructure in rural areas over the study period. This might also be due to low inclination of rural people for this occupation.
4. The credit extended to transport operators also show a dismal figure as its percentage has declined to

37.78% in 2016 of its percentage in 2006. Also the average percentage is around 7.67% whereas it was 13.50% in 2006. Therefore the commercial banks have also not extended credit to enhance transport services at rural areas which is one of their social objectives for all round economic growth.

5. Among the professional and other services too we find the same trend as the percentage in 2016(4%) shows a lower percentage to 2006 (5.9%) showing a decline to 67.80%. the average percentage also falls to 4.51% from 5.9% in 2006.
6. Among the personal loans occupational credit we find that only the household section register a tremendous rise to 377% as its percentage in 2016(37.7%) increases from 2006(10%). The average percentage also grows to 23.25 % registering a growth rate of 232.5% as compared to 2006 data. However the other two sections loans for purchase of consumer durables and other loans register a steep decline in their growth of 2016 to 2006 percentage and also the average percentage. As a result of this decline the overall personal loan section falls to 76.72 percentage in 2016(8.9%) as compared to 2006(11.60%) percentage. The average percentage also falls to 10.08% showing a declining trend. Thus we can say that the commercial banks are also not performing well in terms of extending loans on personal front too. Their main focus seems to be others areas of economy.
7. The trade section too follows the same trend as personal loan section where one of its subsection wholesale trade registers a rise by 104.64% when comparing 2016(15.80%) to 2006(15.10%). The average also shows a increase to 16.67% as compared to 2006. However average being higher than 2016 figure means there is a declining trend in recent years for this subsection too. On the other hand retail trade shows a declining percentage for 2016(11.00%) as compared to 2006(14.40). the average percentage is also lower at 10.71% as a result the overall trade section registers 13.40% in 2016 as compared to 14.80% and the average falls to 13.55%. therefore in case of trade promotion too the commercial banks have not performed satisfactorily for the study period.
8. The Finance section shows a varying but slightly increasing trend on an average basis but the recent years show significant decline in its percentage as compared 2006 for 2016.
9. All the others Section shows a similar trend of falling average over the years as well as lower percentage for 2016(8.60%) as compared to 2006(12.20).
10. In all we can say all sections have shown a downward trend in 2016 as compared to 2006 and in terms of average percentage except for the Agriculture section. The agriculture section too registered a growth only

on account of high growth in indirect finance subsection.

VI. CONCLUSION & SUGGESTION

From the discussions regarding table 1 and table 2 we can conclude that the commercial banks, for the study period 2006-2016, have not been able to perform satisfactorily in 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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Annexure:

| TABLE NO. 1.- DEPOSITS AND CREDIT OF SCHEDULED COMMERCIAL BANKS IN RURAL AREAS WITH PERCENTAGE TO ALL INDIA LEVEL FROM MARCH 2006 TO MARCH 2016 | | | | | |
|---|----------------|-----------------|------------|-----------------|--------------------|
| (Amount in Rupees millions) | | | | | |
| | DEPOSITS | | | CREDIT | |
| | No. of Offices | No. Of Accounts | Amount | No. of Accounts | Amount Outstanding |
| | 1 | 2 | 3 | 4 | 5 |
| 2006 | 30,610 | 13,95,70,235 | 226061,1.8 | 285,76,751 | 126078,3.4 |
| | (43.2) | (28.8) | (10.8) | (33.4) | (8.3) |
| 2007 | 30,393 | 1496,62,685 | 253013,6.9 | 304,64,649 | 154897,9.7 |
| | (41.5) | (28.8) | (9.7) | (32.3) | (8.0) |
| 2008 | 30898 | 1680,34,312 | 303423,0.4 | 327,41,086 | 183106,8.1 |
| | (39.8) | (28.9) | (9.3) | (30.6) | (7.6) |
| 2009 | 31,549 | 1996,95,080 | 363910,1.9 | 333,07,651 | 207926,1.3 |
| | (38.6) | (30.2) | (9.3) | (30.3) | (7.3) |
| 2010 | 32,320 | 2241,54,850 | 420337,7.2 | 361,92,714 | 249276,9.6 |
| | (37.2) | (30.5) | (9.2) | (30.5) | (7.5) |
| 2011 | 33367 | 250253643 | 4932655.2 | 39129655 | 2958145.4 |
| | (36.2) | (30.9) | (9.2) | (32.4) | (7.3) |
| 2012 | 35,936 | 28,30,71,790 | 5731858.5 | 4,11,15,982 | 3805176.5 |
| | (35.6) | (31.3) | (9.4) | (31.4) | (7.9) |
| 2013 | 39233 | 335347106 | 6698886.8 | 44035167 | 4561908.1 |
| | (35.9) | (32.1) | (9.6) | (34.3) | (8.3) |
| 2014 | 44653 | 406624148 | 7871511.1 | 47896289 | 5246133.8 |
| | (36.9) | (33.1) | (9.9) | (34.5) | (8.4) |
| 2015 | 48536 | 493969524 | 9156764.6 | 49927765 | 5983459.9 |
| | (37.2) | (34.3) | (10.3) | (34.6) | (8.7) |
| 2016 | 50102 | 576170952 | 10089413.2 | 54161214 | 6746701.5 |
| | (37.2) | (35.0) | (10.5) | (33.4) | (9.0) |
| Percentage of growth of 2016 over 2006. | 163.68 | 412.82 | 446.31 | 189.53 | 535.12 |

Source : compiled from RBI data for commercial banks for various years

Annexure

| Table 2 OCCUPATION-WISE BANK CREDIT - PERCENTAGE SHARE ACCORDING TO POPULATION GROUP FROM MARCH 2006 TO MARCH 2016 | | | | | | | | | | | | Average growth rate from 2006 to | |
|--|------------|------|------|------|------|------|------|------|------|------|------|----------------------------------|---------------------------------|
| S. N | OCCUPATION | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | 2016 |
| | | | | | | | | | | | | | Growth rate of 2016 % to 2006 % |

| | | | | | | | | | | | | | | 2016 |
|------------|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------|-----------|
| I. | AGRICULTURE | 37.1 0 | 37.0 0 | 38.4 0 | 38.7 0 | 38.5 0 | 37.9 0 | 38.0 0 | 39.3 0 | 38.0 0 | 41.1 0 | 41.7 0 | 112.40 | 38.7 0 |
| | 1. Direct Finance | 48.0 0 | 46.5 0 | 46.5 0 | 47.3 0 | 45.6 0 | 43.2 0 | 42.2 0 | 42.7 0 | 42.5 0 | 44.6 0 | 44.5 0 | 92.71 | 44.8 7 |
| | 2. Indirect Finance | 9.10 | 9.10 | 10.3 0 | 9.80 | 15.8 0 | 13.6 0 | 17.1 0 | 18.5 0 | 14.1 0 | 16.4 0 | 16.3 0 | 179.12 | 13.6 5 |
| II. | INDUSTRY | 9.40 | 7.30 | 10.2 0 | 6.80 | 6.70 | 3.90 | 2.60 | 2.50 | 1.60 | 1.80 | 1.90 | 20.21 | 4.97 |
| | 1. Mining & Quarrying | 20.3 0 | 16.0 0 | 24.3 0 | 11.7 0 | 8.10 | 2.80 | 2.00 | 4.40 | 2.10 | 1.90 | 1.80 | 8.87 | 8.67 |
| | 2. Manufacturing & Processing | 9.30 | 6.80 | 9.40 | 6.60 | 6.40 | 4.10 | 2.70 | 2.70 | 1.90 | 2.10 | 2.30 | 24.73 | 4.94 |
| | 3. Electricity, Gas & Water | 9.90 | 11.5 0 | 16.7 0 | 9.60 | 8.40 | 3.00 | 2.60 | 2.50 | 1.10 | 1.50 | 1.20 | 12.12 | 6.18 |
| | 4. Construction | 7.60 | 5.40 | 7.70 | 5.30 | 6.70 | 3.80 | 2.30 | 1.90 | 1.10 | 1.30 | 1.50 | 19.74 | 4.05 |
| III | TRANSPORT OPERATORS | 13.5 0 | 12.2 0 | 7.80 | 6.10 | 8.70 | 6.70 | 6.80 | 6.00 | 5.70 | 5.80 | 5.10 | 37.78 | 7.67 |
| IV | PROFESSIONAL AND OTHER SERVICES | 5.90 | 6.30 | 6.30 | 4.70 | 6.00 | 3.80 | 2.90 | 3.10 | 3.20 | 3.40 | 4.00 | 67.80 | 4.51 |
| V. | PERSONAL LOANS | 11.6 0 | 10.5 0 | 11.9 0 | 9.10 | 11.5 0 | 11.0 0 | 9.30 | 9.20 | 8.80 | 9.10 | 8.90 | 76.72 | 10.0 8 |
| | 1. Loans for Purchase of Consumer Durables | 19.8 0 | 18.4 0 | 17.4 0 | 7.10 | 8.20 | 7.50 | 9.30 | 6.30 | 6.40 | 6.70 | 6.60 | 33.33 | 10.3 4 |
| | 2. Loans for Housing | 10.0 0 | 8.70 | 11.1 0 | 23.3 0 | 28.9 0 | 27.1 0 | 23.7 0 | 21.2 0 | 33.8 0 | 30.3 0 | 37.7 0 | 377 | 23.2 5 |
| | 3. Rest of the Personal Loans | 13.1 0 | 12.2 0 | 12.7 0 | 10.9 0 | 15.2 0 | 14.5 0 | 11.8 0 | 12.5 0 | 10.7 0 | 11.7 0 | 11.2 0 | 85.50 | 12.4 1 |
| VI | TRADE | 14.8 0 | 13.9 0 | 14.4 0 | 11.9 0 | 12.1 0 | 12.2 0 | 14.8 0 | 14.5 0 | 14.2 0 | 12.9 0 | 13.4 0 | 90.54 | 13.5 5 |
| | 1. Wholesale Trade | 15.1 0 | 15.9 0 | 15.4 0 | 13.6 0 | 12.6 0 | 12.8 0 | 22.5 0 | 22.4 0 | 20.0 0 | 17.3 0 | 15.8 0 | 104.64 | 16.6 7 |
| | 2. Retail Trade | 14.4 0 | 11.9 0 | 13.5 0 | 10.4 0 | 11.7 0 | 11.5 0 | 8.60 | 7.80 | 8.50 | 8.50 | 11.0 0 | 76.39 | 10.7 1 |
| VI | FINANCE | 2.00 | 1.80 | 3.70 | 3.20 | 3.20 | 2.40 | 1.40 | 1.80 | 0.80 | 1.40 | 1.00 | 50 | 2.06 |
| VI | IL | 12.2 0 | 14.5 0 | 11.7 0 | 10.4 0 | 8.80 | 6.60 | 8.20 | 7.20 | 5.10 | 7.20 | 8.60 | 70.49 | 9.14 |
| | TOTAL BANK CREDIT | 13.2 0 | 12.1 0 | 13.4 0 | 10.9 0 | 11.5 0 | 9.60 | 9.20 | 9.50 | 9.00 | 9.50 | 9.80 | 74.24 | 10.7 |