

FINANCIAL INCLUSION & ROLE OF BANKING SECTORS IN RURAL DEVELOPMENT: AN OVERVIEW

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Abstract

In India, most rural people are generally away from banking services. Consequently, the Indian Government has taken a multi-faceted approach to inclusion of rural people in banking finance. Like the other segment, the bank's role is also important for the socio-economic development of the rural area. The policymakers of the country have recognized the significance of rural banking since independence. All India Rural Credit Survey and All India Rural Credit Review paved the importance of the bank in the field of rural area development. It is worth understanding that the people of India were habitual with the system of Mahajani and Jamidari system for taking the loan for their household purposes. However, the system of Mahajani and Jamidari was substituted by commercial and co-operative banking, with the introduction of the Community Development Program and such other planned rural development planned. Despite that, due to some unavoidable reasons, rural credit is still low because commercial banks face high transaction costs in their rural branches. The issues in rural banking for the commercial banks are:- lack of infrastructure; the reluctance of staff to serve in remote rural areas; a large number of accounts dealing in small amounts; difficulty in getting financial information on rural borrowers leading to some amount of uncertainty in the minds of the bankers; lack of security for carrying cash in remote areas by mobile banking

Key words: Rural Banking, Mahajani and Jamidari, Financial Inclusion, Rural Credit, Rural Development, Regional Rural Banks

Introduction

Ever since the time of independence, the Government of India has been emphasized the rural area development programmes.¹ Today, more than 70 percent of the total population has been living in the rural area of the country. Hence, it is essential to develop the country's rural areas so that the people can have an everyday life.² Therefore, the policymakers of the country have given weightage to rural areas and rural area development plans. For the holistic development of the rural areas, a large amount of money is needed, which is not possible for the government to contribute.

¹ Mandal, Sagar, & Ray, G.L., Rural Development, Kalyani Publicatin, 2007 p. 19

² Hatiboruah, Diganta, Rural Development, Saraswati Publication, Golaghat, 214, p. 12
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Finance is the most important part of any development process. The country's policymakers have been paid more attention to financial sectors and try to include them with the development programme. Hence, the government's efforts in rural banking started in the 50s with the All India Rural Credit Survey (1954). Consequently, the All India Rural Credit Review in 1969 introduced social banking for commercial banks, followed by bank nationalization. However, it could not help achieve the goals and goals of the government's development programmes due to certain particular problem³ such as complex land mortgage procedures, significant amount and paperwork, the need for multiple visits to banks and bribes, bureaucratic dealings. Result that the rural people incur considerable transaction costs in obtaining bank loans.

Rural development is a complex and dynamic process to develop the socio-economic conditions of rural areas. It can be viewed as a process of realizing specific goals or values, such as improved health, housing, nutrition, communication, transportation, utilization of rural resources. It is also involved in continuous reorientation and adaptation of traditional values, practices, and institutions to incorporate the increasing quantity of scientific knowledge and technologies to enhance the people's quality of life and welfare.⁴ In brief, we may view that rural development is a people- centered programme that tried to bring change in rural areas. There is no unique definition of rural development until today; hence, the scholars apt to view it from different perspectives. Some scholars look at the rural development from widening opportunities for rural people to realize their full potential through education and share in decision and action which directly and indirectly affect their lives. On the other hand, some scholars argued that rural development increases rural output, creates employment opportunities, and eradicated rural poverty.

The World Bank defines rural development as a strategy designed to improve the social life of a specific group of people of the rural poor.⁵ It involves extending the benefits of the development to the poorest among those seeking a livelihood in rural areas. The group includes small-scale farmers, tenants, and landless. *Hornby* defines the concept of rural development as the 'gradual growth of something so that it becomes more advanced, stronger, etc.; the process of producing or creating something new.' Similarly, *Simon* stated that development is an improvement in the quality of life (not just material standard of living) in both quantitative terms.' In simple words, rural development is a multi-dimensional involving changes

³ Desai, Vasant, Rural Development in India, Himalayan Publishing House, 2012,p.60

⁴ Ibid p.2

⁵ Mandal, Sagar, & Ray, G.L., Rural Development, Kalyani Publicatin, 2007 p. 2

process through which attempt has been made to improve the country's socio-economic condition.

Rural people in India belong to deferent groups such as small and marginal farmers, landless agricultural labourers, artisans, and socially and economically backward castes and classes, have been exploited Mahajans and Jamidars in the name of credit during pre and post-independence of the country.⁶ But, with the introduction of development programmes, more particularly the rural development schemes, the traditional credit system was partially replaced by society. Hence, the rural credit system of India still consists of both formal and informal financial institutions and agencies. The informal sector, i.e. Mahajanis and Jamidaris, provides loans at very high interest rates and their terms and conditions. Many times in the name of traditional rural credit, the borrower class never in a position to return their loan, for which they were compelled to hand over their property to the Mahajanis and Jamidaris. On the other hand, the banking sectors have also provided the loan to the rural people complying with the development programme. But, the percentage of the rural credit is still not satisfactory due to specific reasons such as helpful information, documentation, midgrade, etc.

Despite that, the banks have contributed a lot to the development process of rural areas. Therefore, the banks have been entrusted with this task just after introducing the programme of rural development. So, every bank was given a target to provide service at least 1700 of the rural and semi-urban areas. Since then, the attempt has been made from the banking side to provide the said service for the greater interest of the rural people. The NABARD banks have already achieved this goal. It regulates the flow of credit, monitors the growth of agriculture, small-scale industries, cottage and village industries, handicrafts, and other rural crafts.⁷

Rural indebtedness had taken deep roots in the country. It constituted a severe economic, social and political problem. Banks came to the rescues of the rural population as a 'messiah' and gave them a new sense of dignity. The picture of rural India has changed in a big way since the seventh decade of the 20th century. Since in 1969, the Indian Government decided to nationalise the banks. With the policy of nationalization of banks, the concept and attitude of the bankers got changed. Generally, the Banking industry is an industry whose prime function is deposit-taking and lending- money. The objectives of it are to maximise profits with minimum risk. Social responsibility and accountability were far away from their goals. But with the nationalization of banks in 1969, the concept and attitude of the bankers got changed.⁸

⁶ Hatiboruah, p.283

⁷ Annual report of NABARD 20150

⁸ Desai Vasant, "Indian Banking", (Nature and Problems) Mrs.MeenaPandey for Himalaya Publishing House, "Ramdot", Dr.BhaleraoMarg, Girgon, Bombay-400004, 1991.

Hence, the Banking sector in India has been recognized as an institution of social responsibility. Extending a helping hand towards the weaker sections becomes a basic plan for them. They go to the weaker sections of society and help them financially in achieving their goals and aspirations. Rural areas which are still not touched by banks became the target area for them. So, opening branches in rural started, which plays a significant impact in rural areas. In a statement, it was stated that more than 40 per cent of the branches of nationalized banks are in rural areas which covers more than 70 per cent of the total people of the land. The commercial banks, co-operative banks and regional rural banks have opened their branch in these areas. After that, this bank achieved a remarkable achievement in agricultural credit in 2008-09. Against the target of Rs.2,80,000 crore of credit flow to agriculture for 2008-09, the banking system disbursed Rs,2,87,149 crore achieving 102 per cent of the target. Commercial banks, co-operative banks and Regional Rural Banks (RRB) have also achieved 89 per cent of the targets.⁹

The history of Regional Rural Banks in India started in the year of 1975. Based on the recommendation of Narasimham's committee, the RRB was born on the 26th of September 1975.¹⁰ The committee recommended for establishment of regionally oriented rural banks to address the problems of rural people. The RRBs activate financial resources from rural/semi-urban areas and grant loans and advances primarily to small and marginal farmers, agricultural labourers, and rural artisans. For the classification of bank branches, the Reserve bank of India defines a rural area as a place with less than 10,000 of population. RRBs are jointly owned by the Government of India, the concerned State Government, and Sponsor Banks; the owners share the issued capital of an RRB in the proportion of 50%, 15%, and 35%, respectively. The objectives of RRBs can be summarized as follows:

1. To provide cheap and liberal credit facilities to small and marginal farmers, agriculture
2. Laborers, artisans, small entrepreneurs and other weaker sections.
3. To save the rural poor from the moneylenders.
4. To act as a catalyst element and thereby accelerate the economic growth in the particular region.
5. To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
6. To increase employment opportunities by encouraging trade and commerce in rural areas.
7. To encourage entrepreneurship in rural areas.
8. To cater to the needs of the backward areas that are not covered by the government's other efforts?
9. To develop underdeveloped regions and thereby strive to remove the economic disparity between

⁹ibid

¹⁰ Desai, Vasant, Rural Development in India, Himalayan Publishing House, 2012,p.316
www.asianmirror.in

regions.

At present, the rural banking policy is based on the Committee on Financial Inclusion report in India. The report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by groups such as weaker sections and low-income groups at an affordable cost. Therefore, according to the committee, financial inclusion should include ‘access to mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services and insurance facilities.’¹¹ The overall strategy for building an inclusive financial sector should be based on “effecting improvements of the existing formal credit delivery mechanism. Suggesting measures for improving credit absorption capacity especially amongst marginal and sub marginal farmers and poor non-cultivator households. Evolving new models for effective outreach and leveraging on technology-based solutions, Provision of customized savings, credit and insurance products; incentivizing human resources for providing inclusive financial services and simplification of procedures for agricultural loans.” The recommendations relating to RRBs extend their services to non-banking areas and increase their credit deposit ratios in co-operative banks.

In India, banks with rural development are essential to promote and develop the rural area. The establishment of branches of commercial and co-operative banks in the remote area of the country is also simultaneously crucial. Some necessary initiatives need to be taken into consideration in a bid to get the objectives. These considerations may be-

1. Create awareness among the people regarding rural credit and the benefits of banks loan.
2. To generalize the concept of financial inclusion and rural credit, developmental agencies and NGOs should organise awareness camps in rural areas. For that, they may organize a seminar and discussion programme.
3. The government and bank authority should be emphasized upon the peoples' participation in banking sectors to understand the importance of banking sectors in the process of rural development and social upliftment. On the other hand, the rural people are afraid of taking a loan from the bank rather than taking a loan at a high-interest rate from Mahajans of the locality. This concept should also be abolished from their minds so that rural people show their interest in the bank.
4. In a bid to enhance financial inclusion, it is essential to reduce the operating transaction costs. The operating cost of providing small accounts is a hindrance to the expansion of banking services to low-income groups.
5. There is also a need for expeditious implementation of the model money lending legislation by the state

¹¹ Annual Report 2008-09, National Bank for Agriculture and Rural Development. Report on

government, considering the significance of money lenders, especially in the rural credit delivery system.

6. For speed delivery of banking service, the banks need to strengthen their financial condition to play a more significant role in promoting financial inclusion.

7. The government and the bank authority should encourage the rural people to enhance their agriculture and agriculture-related industries to do the rural development programme and rural upliftment.

Conclusion

From the above discussion, it is viewed that the role of the banking sector is essential to uplift the rural poor's and areas. For the rapid development of the rural area, the inclusion of banks in the rural development process is also essential. For that, the government of India has adopted a multi- pronged approach towards financial inclusion. The country's planners and policymakers have recognized the importance of rural banking since independence. All India Rural Credit Survey and All India Rural Credit Review paved the way for commercial banks entering into rural banking in a big way. In the development index of the last few decades, it has been observed that the role of the bank in the process of rural area development is very much essential. However, due to some misunderstandings and traditional beliefs of the Bank's authority and rural population the objectives of rural development and the needs of rural people have yet to be achieved. The rural development plan to overcome this situation requires a holistic approach.

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