RURAL BANKING IN ACHIEVING INCLUSIVE GROWTH FOSTERING RURAL DEVELOPMENT

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Abstract

Rural Banks play a significant role in the upliftment of rural mass. The aim of rural banks is to bridge the credit gaps existing in the rural areas and they are supposed to be effective instruments of economic development in rural India. Agriculture employs more people than any other economic sector in India making it the main occupation of the country with majority of Indians forming a large chunk of rural population. Financial inclusion is seen as one of the means for overall economic development of a country. The growth of the Rural Retail Banking Industry fosters Financial Inclusion by Nationalization of banks, priority sector lending, and the lead bank schemes, establishment of more Regional Rural Banks, launch of self-help groups and bank linkage programs to provide financial access to the unbanked and under banked areas. The stark reality is that, even till date the rural areas lack access to sustainable financial services, whether it is saving, credit or insurance. This study aims to identify the most probable scenarios of banking facilities and to address the constraints that exclude people from full participation in the financial sector.

Keywords: Rural Banks, Financial Inclusion, Rural Development, RBI

I. INTRODUCTION

Financial inclusion is intended to connect people to banks with consequential benefits ensuring that the financial system pays its due role in promoting inclusive growth. The World Bank defines Inclusive Growth as “Growth that allows people to contribute to and benefit from economic growth”. It differentiates this from pro-poor growth which is mainly interested in the welfare of the poor while inclusive growth is concerned with opportunities for the majority of the labor force. The consensus is that Finance promotes economic growth and banks play an important role by Financial Inclusion and contributes in achieving inclusive growth. To achieve this is one of the biggest challenge faced by the emerging economies. Access to a well-functioning financial system by creating equal opportunities enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks.

Rural Banks have for a number of years been regarded as the step-child of the banking system in India. They have been subject to extensive interference in their operations, being seen as a conduit for government subsidies and a means of political patronage. The co-operative movement, Nationalization of Banks, Priority sector lending, Lead bank scheme, establishment of Regional Rural Banks, Self-help groups, Micro financial Institutions etc., are the various steps that have been taken by the RBI over the years to increase access to the poor segment of the society. RBI’s vision for 2020 is to open nearly 600 million new customers’ account and service them through a variety of channels by leveraging on Information Technology. This paper is an attempt to understand the role of rural banking in achieving inclusive growth with Financial inclusion which contributes for rural development.
II. LITERATURE REVIEW

D. A TamilaRasu (Feb 2014) in his study on Role of Banking sectors on Financial Inclusion Development in India, noted that for standing out on a global platform, India has to look upon the inclusive growth and financial inclusion is the key for the growth. Mere opening of no-frill bank account is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through development of strong linkages.

Radhika Dixit and Munmun Gosh (March 2013) in their study on Financial inclusion for inclusive growth of India - A study on Indian states have focused on understanding inclusive growth phenomenon, its need and financial inclusion as an instrument to attain it with reference to its extent in Indian states. The study has found that the percentage of financial inclusion in the different states of the country varies differently, as south states account for higher rate of financial inclusion whereas eastern states stand poor in the ground of financial inclusion.

Ashima Thapar (June 2013) conducted a study on the effectiveness of the financial inclusion program in India. The study aims to analyze the approaches adopted by different banks and the customer response towards the banking approaches under financial inclusion program. It also highlights on the major initiative and policy measures taken by RBI and Government of India for financial inclusion.

Robson William B. P., Bergevin Philippe (2012) argues that Canada’s federal government, which began issuing real-return bonds (RRBs) in 1991, should issue more RRBs of more types than it currently plans to do. Issuing more RRBs would not only better satisfy existing demand from investors, it has the potential to spur the development of other price-indexed instruments. Experience elsewhere suggests that more federal RRBs could encourage other entities to issue price-indexed debt, and would let intermediaries provide such products as inflation-linked annuities, thus providing more Canadian savers with protection against intentional or accidental inflation.

Rama Pal and Rupayan Pal (June 2012) in their study on Income Related inequality in financial inclusion and role of Banks; provides estimates of the effects of various socio-economic and demographic characteristics of households on prosperity of a household to use formal financial services and compare that for rural and urban sectors. Greater availability of banking services foster financial inclusion particularly among the poor.

Soni kumar Anil, Kapre Abhay (2012) analyzed the financial performance of RRBs in India during the period 2006-07 to 2010-2011. The present study is the extension of the work done by them. They had analyzed the performance using various key performance indicators such as number of banks, branches, loans, advances etc. and concluded a positive impact on the performance of RRBs.

D. Mahalakshmi Krishnan (Dec 2012) in their study “Rural banking challenges in India” says that for bringing rural population to the main stream economy, the most important factor is the coverage of bank presence in rural sectors. Many of the socio-economic measures of the Government are not reaching the rural masses due to absence of banking channels. The study also suggested that banks have to explore using modern information and communication technologies and other means of outreach such as business correspondents and the emerging 3G technologies to expand their reach in rural areas and promote financial inclusion.

Dr. Vigneswara Swamy and Dr. Vijayalakshmi (2009) conducted a study on Role of Financial Inclusion for Inclusive growth in India- Issues and challenges, states that Financial inclusion has far reaching consequences which can help many people come out of poverty condition. The objective of
Financial Inclusion is that to extend the scope of activities of the organized financial system to include within its ambit, people with low Income. The study concluded that through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of the poverty

**Objectives of the Study**

1. To analyze the prevailing scenario of Inclusive growth in India.
2. To examine the role of rural banks in achieving growth.
3. To identify the major initiatives and policy measures taken by RBI for inclusive growth.
4. To suggest measure and to build a road map for rural banks to serve better and to meet the requirements of Rural mass.

**Methodology**

The study is basically conceptual in nature and the entire scope of discussion has been made on the basis of secondary sources. The relevant secondary data has been collected from Annual report of RRBs, publications of NABARD, RBI Bulletin and other related information is collected from Journals, conference proceedings and websites.

**Data Analysis**

Reforms to the Indian Financial sector over the past 20 years have resulted in significant growth and availability of financial services. These have unleashed increased competition, diversification of financial services and wider capital market enabled by regulatory liberalization along with more stringent prudential regulation and better supervision. Yet substantial proportions of the population continue to be deprived of financial services. Access to financial product is constrained by several factors which include lack of awareness about the financial products, unaffordable products, high transaction costs and products which are inconvenient, inflexible, non-customizable and of inferior quality. The main streams like banks and financial institutions have an important role to play in overcoming these constraints, not as a social obligation, but as pure business proposition.

**The Role of RBI and GOI in inclusive Growth:**

RBI has granted in-principle approval to some entities to set up differentiated banks namely “Small Finance Banks” (SFBs) and “Payments Banks” to further the cause of financial inclusion in the country. To sustain the momentum of achieving the financial inclusion objectives by setting FIP targets for banks, the third phase of Financial Inclusion Plans for the next three years 2016-19 has been initiated. Under the third phase, the focus is on more granular monitoring of the progress made by banks under FIPs at district level.

Banks in India have been mandated to set up FLCs for extending financial literacy. Currently, about 1380 FLCs across India are functional which adopt a tailored approach to conduct of camps.

The Rural Self Employment Training Institutes (RSETIs) have been set up by various banks all over the country at the district level. The key objective of RSETI is “Short term training and long term hand holding with assistance to credit linkage for trainees”.

The credit absorption capacity of the farmers can be enhanced through consolidation of fragmented landholdings by ushering in land reforms or through pooling of land holdings in an SHG format. Efforts to enhance the credit absorption capacity must also be supplemented through financial literacy and vocational training initiatives, comprehensive insurance cover against failure of crop & innovative practices in farming.

Considering the strong linkage between financial inclusion and the payment systems, RBI has taken several steps. Some of these include encouraging use of Mobile Banking, pre-paid instruments in the form of digital wallets and mobile wallets, operationalization of the Aadhaar Bridge Payment
System (ABPS) and Aadhaar-Enabled Payment system (AEPS) etc.

The number of banking outlets in villages went up from 67,694 in March 2010 to 5,86,307 in March 2016 after RBI permitted appointment of BCs and laid out a roadmap for spreading banking services in rural India through a mix of bank branches and BC outlets. In addition, the number of urban locations covered through BCs has also surged from 447 in March 2010 to 1,02,552 in March 2016.

The Basic Savings Bank Deposit Accounts (BSBDAs) have gone up from 73 million in March 2010 to 469 million as on March 31, 2016. Under the PMJDY alone, until June 1, 2016, 220 MN accounts have been opened with an approximate balance of Rs. 384 bn.

There were 47.31 million small farm sector credit accounts and 11.3 million small non-farm sector credit accounts with an outstanding of Rs. 5130.7 billion and Rs. 1493.3 billion outstanding respectively as on March 31, 2016. The number of small farm and non-farm sector credit accounts stood at 24.3 million and 1.4 MN respectively in March 2010.

The total number of transactions in BC-ICT accounts which were around 26 million during 2010-11 have increased to 826.81 million as on March 31, 2016.

- Government of India initiated the Financial Inclusion program with the launch of the Swabhiman Campaign in the union budget of 2010-11 to achieve inclusive growth by making finance available to poor.

- Local area banks (LABs) were set up in an attempt to mobilize rural savings through local institutions and make them available for investment locally.

- Self Help Group (SHGs) with bank linkage was another indigenously developed banking model. The linkages are achieved through non-governmental organizations (NGOs) and other intermediaries and this has formed the basis of the micro finance movement in India.

- No-frills account with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

- Know-your customer (KYC) requirements for opening bank accounts were relaxed for the small accounts. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhar number.

- Business Correspondence (BCs) and use of Technology- RBI permitted banks to engage business facilitators and business correspondents as intermediaries for providing financial and banking services to rural and remote areas in a viable manner.

- General purpose credit card facility-Banks have been advised to introduce GCC up to 25,000 INR at their rural and semi-urban branches.

- Branch Authorization and opening of branches in unbanked rural centers and Road map for providing banking services in unbanked villages with a population of more than 2,000.
Table – 1: Showing number of commercial banks in India

<table>
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<tr>
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<tbody>
<tr>
<td>Number of commercial banks</td>
<td>167</td>
<td>173</td>
<td>155</td>
<td>207</td>
<td>206</td>
<td>206</td>
</tr>
<tr>
<td>Scheduled commercial banks</td>
<td>163</td>
<td>169</td>
<td>151</td>
<td>146</td>
<td>146</td>
<td>147</td>
</tr>
<tr>
<td>Of which RRB’s</td>
<td>82</td>
<td>82</td>
<td>64</td>
<td>57</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Non - scheduled commercial banks</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Statistics of commercial banks, RBI

The above table shows the number of commercial banks in India. The number of commercial banks and scheduled commercial banks is showing fluctuating trend for the period from 2011 to 2016. The Regional Rural banks showing decreasing trend continuously for the period 2011 to 2016, whereas non-scheduled commercial bank remain unchanged for the period 2009-2013. The decrease in number of Regional Rural banks affect banking facilities that has to be reached to rural areas.

Table – 2: Region wise distribution of no. of offices of district central co-operative banks

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>North</td>
<td>2504</td>
<td>2527</td>
<td>2568</td>
<td>2377</td>
<td>2485</td>
<td>2362</td>
</tr>
<tr>
<td>East</td>
<td>1391</td>
<td>1288</td>
<td>1345</td>
<td>1329</td>
<td>1058</td>
<td>1107</td>
</tr>
<tr>
<td>Central</td>
<td>2401</td>
<td>2482</td>
<td>2277</td>
<td>2285</td>
<td>2311</td>
<td>2250</td>
</tr>
<tr>
<td>West</td>
<td>4288</td>
<td>4362</td>
<td>4454</td>
<td>4576</td>
<td>4435</td>
<td>4498</td>
</tr>
<tr>
<td>South</td>
<td>2615</td>
<td>2771</td>
<td>2863</td>
<td>3639</td>
<td>2896</td>
<td>2995</td>
</tr>
<tr>
<td>North-East</td>
<td>228</td>
<td>248</td>
<td>243</td>
<td>2461</td>
<td>258</td>
<td>261</td>
</tr>
<tr>
<td>All India</td>
<td>13427</td>
<td>13678</td>
<td>13750</td>
<td>14452</td>
<td>13443</td>
<td>13475</td>
</tr>
</tbody>
</table>

Source: Statistics of co-operative banks, RBI

The total offices of West and North-East regions shows increasing trend from 2011-2016. North, East Central and South regions showing fluctuating trend from 2011-2016. Of all the regions west region has record highest
and east region records the lowest. The co-operative banks are one of the main banks where banking facilities can be extended directly to rural mass.

Table – 3: Showing number of bank offices in India

<table>
<thead>
<tr>
<th>Area</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>30927</td>
<td>31598</td>
<td>32529</td>
<td>33868</td>
<td>36503</td>
<td>39439</td>
</tr>
<tr>
<td>Semi urban</td>
<td>18027</td>
<td>19337</td>
<td>21022</td>
<td>23299</td>
<td>26144</td>
<td>28691</td>
</tr>
<tr>
<td>Urban</td>
<td>15566</td>
<td>16726</td>
<td>18288</td>
<td>19046</td>
<td>20650</td>
<td>21720</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>14267</td>
<td>15236</td>
<td>16364</td>
<td>17806</td>
<td>19080</td>
<td>19961</td>
</tr>
<tr>
<td>All India level</td>
<td>78787</td>
<td>82897</td>
<td>88203</td>
<td>94019</td>
<td>102377</td>
<td>109811</td>
</tr>
</tbody>
</table>

Trend Percentage (%)  | 100   | 105.2 | 111.95| 119.33| 129.94| 139.37|
Actual increase in percentage | 0     | 5.2   | 11.95 | 19.33 | 29.94 | 39.37 |

Source: Statistics on Commercial banks, RBI

It is clear from the above table that the number of bank offices in India is showing increasing trend for the period 2009 to 2013 taking 2008 as the base year respectively. It is 5.20% in the year 2009, 11.95% in the year 2010, 19.33% in the year 2011, 29.94% in the year 2012 and 39.37% in the year 2013. The percentage increase shows that banking facilities are extended to all levels of population irrespective of areas which adds to the growth of economy...

Table – 4: Showing population per office

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>15000</td>
</tr>
<tr>
<td>2010</td>
<td>14000</td>
</tr>
<tr>
<td>2011</td>
<td>13000</td>
</tr>
<tr>
<td>2012</td>
<td>13000</td>
</tr>
<tr>
<td>2013</td>
<td>12000</td>
</tr>
</tbody>
</table>

Source: Statistics of commercial banks, RBI

The above table shows that the population per office is decreasing year after year. This indicates that bank/branch expansion is not happening to match with the increasing population.
The above table shows the number of Kissan credit cards issued to small farmers. It is 24.31 million for the year 2010; 27.11 million for the year 2011; 30.24 million for the year 2012 and 33.79 million for the year 2013. This says that large number of farmers are accessing credit facilities which can contribute for rural development.

Findings:

1. Banks have adopted various measures to promote financial inclusion program such as creating financial awareness through advertising, conducting surveys to collect database, conducting financial literacy programs to provide knowledge on banking services to the people within their rural areas covering Swabhiman scheme.
2. Majority of the banks are offering no-frills accounts to their customers, but the same is
not very effective for the coverage of more population as its condition of maintaining maximum of Rs. 50000 in the account in a year is difficult.

3. Business correspondence, Kissan credit card, general purpose credit card, micro credit facilities and other products are offered by more than 50% of the branches and the same are getting positive response from the customers.

4. From the analysis, it is found that the number of scheduled commercial banks and Regional Rural banks are reduced from 2011 to 2016. In order to achieve inclusive growth through financial inclusion, all the banks has to cadre to the needs of the people in order to implement effectively the schemes adopted by RBI and GOI and bank and branch expansion program should be undertaken on a large scale.

5. The total number of bank offices have been increased in almost all the areas of rural, urban, semi-urban and metropolitan for the period 2009 to 2013. The increase in bank offices, especially in rural areas not only extended banking facilities and also can protect the people from the clutches of money lenders who charge high rate of interest for the borrower.

6. The region wise distribution of District co-operative Banks shows increasing trend for the period 2011 to 2016. There is uneven distribution of banking services in terms of population coverage per bank office in the regions of the country. The co-operative banks plays an important role in priority sector lending and can uplift the marginal and landless laborers by providing credit at cheaper rates.

7. Population per office is showing decreasing trend for all the years from 2009 to 2013. This will affect the RBI vision in providing banking facilities to unbanked areas and to have a bank for a population of 2000.

Suggestions:

1. Special Financial assistance should be provided to the co-operative credit institutions to wipe out the accumulated losses and strength the capital base as these banks (primary agricultural societies) have a large reach over the rural population. Accordingly there is a need to revitalize these co-operatives as per the Vaidya Nathan committee recommendation and use them extensively in rural areas.

2. Though the mergers and acquisition of Regional Rural banks can help in recovery and reducing losses, it must strengthen effective administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery to serve the credit needs of rural people in the best way.

3. Norms relating to priority sectors lending must be enforced meticulously to protect poor from the clutches of money lenders and other source of credit which are highly exploitative in nature. Problems of rural indebtedness cannot be solved without reforms. RBI and Government of India should take initiatives in making reforms that suits the need of the rural population.

4. Banks should customize their products to serve the people living in villages as most of the bank products are designed to serve urban and metro customers. Though the initiatives have been taken in this respect of issuance of multi-purpose unique identity cards by UIDAI, banks should customize their products and services to their rural
customers like farmers, craftsmen, artisans, small entrepreneurs etc.,

5. NABARD has to play pro-active role with rural credit institutions in the field and identify new initiatives that contributes effective financial inclusion involving Self Help groups and Micro Finance Institutions to provide financial assistance in a cheaper and better way to serve the rural population.

6. For achieving inclusive growth, the RBI, Government, NABARD and the implementing agencies should contribute extensively towards implementing and executing the banking requirements.

**Conclusion**

Inclusive growth attainment depends on equitable distribution of growth opportunities and benefits.

**III. REFERENCE**

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Recognizing the importance of inclusive growth in India, efforts are being taken by the Government of India and RBI to make financial system more comprehensive and to have sustainable development through commercial banks, the co-operative and Regional Rural banks to serve rural population. However there is a long way to go for the financial inclusion to reach to the core poor; according to KC Chakrabarty, RBI Deputy Governor “Even today the fact remains that nearly half of the Indian population doesn’t have access to formal financial services and are largely dependent on money lenders. The rural banks will have to be leveraged for benefiting the rural population through economic growth by promoting various Financial products meant for Financial Inclusion.