

Role of Banking in Rural Area

BY

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Abstract

Rural banking is banking that is done in an area that is not close to towns or cities, making it difficult for those who need to conduct banking business. Many times a bank's agent will come to the rural area to offer basic banking services. Rural banking is not as prevalent in the U.S. as it is in rural areas of India, Africa and some other countries. The goals of Rural Banks are to provide banking services to the rural/village population of India. Gramya banks or Grameen banks are banks in India that provide banking services for the rural population in India. There are a total of 32 Grameen banks.

INTRODUCTION

Rural banking is a common practice in places where banking institutions are few and far between, and people who need to carry out banking transactions may have difficulty finding a way to do so. With modern technology, more and more people have access to online systems that allow them to conduct certain types of banking without a nearby branch, but this technology is not available for everyone, and demand for rural banking is still high in some areas.

Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Rural banking is popular for very small towns and farmers who live far away from areas of larger population and cannot make the drive to these locations whenever they need to use banking services. Typically, an

agent of the bank will visit these rural locations and offer to make transactions in an official capacity.

While rural banking is sometimes mentioned in America, it does not usually refer to rural areas that are outside the range of major banking services. The meaning has evolved to refer to banking services especially for farmers and others in rural areas, and how easily they can access these services using technology in the United States.

Banking in Ancient India

Evidence of money lending practices can be traced to 2000-1400 B.C. based on Vedic texts. many aspects of Vedic lending traditions like most of the continued tradition of India can still be seen in some parts of rural India. The literature of the Buddhist period, e.g., the Jatakas, and recent archaeological discoveries supply evidence of the existence of sresthis, or bankers. From the laws of Manu, it appears that money-lending and allied problems had assumed considerable importance in ancient India.

The **history of banking** begins with the first prototype banks of merchants of the ancient world, which made grain loans to farmers and traders who carried goods between cities. This began around 2000 BC in Assyria and Babylonia. Later, in ancient Greece and during the Roman Empire, lenders based in temples made loans and added two important innovations: they accepted deposits and changed money. Archaeology from this period in ancient China and India also shows evidence of money lending activity.

Banking, in the modern sense of the word, can be traced to medieval and early Renaissance Italy, to the rich cities in the north such as Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank, established by Giovanni Medici in 1397.^[2] The oldest bank still in existence is Monte dei Paschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472.^[3] It is followed by Berenberg Bank of Hamburg (1590).

The development of banking spread from northern Italy throughout the Holy Roman Empire, and in the 16th century the position of the Medicis was eventually taken over by the Fugger and the Welsers, followed by a number of important innovations that took place in Amsterdam during the Dutch Republic in the 17th century, and in London in the 18th century. During the 20th century, developments in telecommunications and

computing caused major changes to banks' operations and let banks dramatically increase in size and geographic spread. The financial crisis of 2007–2008 caused many bank failures, including some of the world's largest banks, and provoked much debate about bank regulation.

Schemes for Rural Development:

Pradhan Mantri Gram Sadak Yojana

The **Pradhan Mantri Gram Sadak Yojana** or **PMGSY** is a nationwide plan in India to provide good all-weather road connectivity to unconnected villages.

This Centrally Sponsored Scheme was introduced in 2000 by the then Prime Minister Of India Shri Atal Bihari Vajpayee. The Assam Tribune has reported that the scheme has started to change the lifestyle of many villagers as it has resulted in new roads and upgradation of certain inter-village routes in Manipur.

• Swarnjayanti Gram Swarozgar Yojana

The objective of the Swarnjayanti Gram Swarozgar Yojana (SGSY) is to bring the assisted poor families (Swarozgaries) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. This objective is to be achieved by inter alia organising the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets. The SHG approach helps the poor to build their self-confidence through community action. Interactions in group meetings and collective decision making enables them in identification and prioritization of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power.

The poverty line varies from State to State. As per the latest (1999-2000) estimates of the Planning Commission, the poverty line in terms of per capita consumption expenditure per month in the rural areas varies from Rs.262.94 in Andhra Pradesh to Rs.367.45 in Himachal Pradesh.

Regional Rural Bank:

The main purpose of RRB's is to mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRB's also perform a variety of different functions. RRB's perform various functions in following heads • Providing banking facilities to rural and semi-urban areas. Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc. • Providing Para-Banking facilities like locker facilities, debit and credit cards.

Recapitalization of Regional Rural Banks

Subsequent to review of the financial status of RRBs by the Union Finance Minister in August, 2009, it was felt that a large number of RRBs had a low Capital to Risk weighted Assets Ratio (CRAR). A committee was therefore constituted in September, 2009 under the Chairmanship of K C Chakrabarty, Deputy Governor, RBI to analyse the financials of the RRBs and to suggest measures including re-capitalisation to bring the CRAR of RRBs to at least 9% in a sustainable manner by 2012. The Committee submitted its report in May, 2010. The following points were recommended by the committee:

- RRBs to have CRAR of at least 7% as on 31 March 2011 and at least 9% from 31 March 2012 onwards. recapitalisation requirement of Rs. 2,200.00 crore for 40 of the 82 RRBs. This amount is to be released in ' two installments in 2010-11 and 2011-12. .
- The remaining 42 RRBs will not require any capital and will be able to maintain CRAR of at least 9% ifs on 31 st March 2012 and thereafter on their own.
- A fund of Rs. 100 crore to be set up for training and capacity building of the RRB staff.

The Government of India recently approved the recapitalization of Regional Rural Banks (RRBs) to improve their Capital to Risk Weighted Assets Ratio (CRAR) in the following manner:

- Share of Central Government i.e. Rs.1, 100 crore will be released as per provisions made by the Department of Expenditure in 2010-11 and 2011-12. However, release of Government of India share will be contingent on proportionate release of State Government and Sponsor Bank share.
- A capacity building fund with a corpus of Rs.100 crore to be set up by Central Government with NABARD for training and capacity building of the RRB staff in the institution of NABARD and other reputed institutions. The functioning of the Fund will be periodically reviewed by the Central Government. An Action Plan will be prepared by NABARD in this regard and sent to Government for approval.

- Additional amount of Rs. 700 crore as contingency fund to meet the requirement of the weak RRBs, particularly those in the North Eastern. and Eastern Region, the necessary provision will be made in the Budget as and when the need arises.

Rural Development

National Bank for Agriculture and Rural Development (NABARD) is an apex development bank in India having headquarters based in Mumbai (Maharashtra) and other branches are all over the country. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), set up by the Reserve Bank of India (RBI) under the Chairmanship of Shri B. Sivaraman, conceived and recommended the establishment of the National Bank for Agriculture and Rural Development (NABARD). It was established on 12 July 1982 by a special act by the parliament and its main focus was to uplift rural India by increasing the credit flow for elevation of agriculture & rural non farm sector and completed its 25 years on 12 July 2007. It has been accredited with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India". RBI sold its stake in NABARD to the Government of India, which now holds 99% stake. NABARD is active in developing financial inclusion policy and is a member of the Alliance for Financial Inclusion.

NABARD role in rural development in India is phenomenal. National Bank For Agriculture & Rural Development (NABARD) is set up as an apex Development Bank by the Government of India with a mandate for facilitating credit flow for promotion and development of agriculture, cottage and village industries. The credit flow to agriculture activities sanctioned by NABARD reached Rs 1,57,480 crore in 2005-2006. The overall GDP is estimated to grow at 8.4 per cent. The Indian economy as a whole is poised for higher growth in the coming years. Role of NABARD in overall development of India in general and rural & agricultural in specific is highly pivotal.

Through assistance of Swiss Agency for Development and Cooperation, NABARD set up the Rural Infrastructure Development Fund. Under the RIDF scheme Rs. 51,283 crore have been sanctioned for 2,44,651 projects covering irrigation, rural roads and bridges, health and education, soil conservation, water schemes etc. Rural Innovation Fund is a fund designed to support innovative, risk friendly, unconventional experiments in these sectors that would have the potential to promote livelihood opportunities and employment in rural areas. The assistance is extended to Individuals, NGOs,

Cooperatives, Self Help Group, and Panchayati Raj Institutions who have the expertise and willingness to implement innovative ideas for improving the quality of life in rural areas. Through member base of 25 crore, 600000 cooperatives are working in India at grass root level in almost every sector of economy. There are linkages between SHG and other type institutes with that of cooperatives.

The purpose of RIDF is to promote innovation in rural & agricultural sector through viable means. Effectiveness of the program depends upon many factors, but the type of organization to which the assistance is extended is crucial one in generating, executing ideas in optimum commercial way. Cooperative is member driven formal organization for socio-economic purpose, while SHG is informal one. NGO have more of social color while that of PRI is political one. Does the legal status of an institute influences effectiveness of the program? How & to what an extent? Cooperative type of organization is better (Financial efficiency & effectiveness) in functioning (agriculture & rural sector) compared to NGO, SHG & PRIs.

Recently in 2007-08, NABARD has started a new direct lending facility under 'Umbrella Programme for Natural Resource Management' (UPNRM). Under this facility financial support for natural resource management activities can be provided as a loan at reasonable rate of interest. Already 35 projects have been sanctioned involving loan amount of about Rs 1000 crore. The sanctioned projects include honey collection by tribals in Maharashtra, tussar value chain by a women producer company ('MASUTA'), eco-tourism in Karnataka etc.

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