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INDIAN BANKING SECTOR IMPACT ON ECONOMIC GROWTH RATE AND SOCIAL DEVELOPMENT OF RURAL AREAS OF INDIA

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Abstract:

Banking sector plays a critical role in the financial health of a nation .The banking system of India features a large network of banking branches, offering many kinds to the people. One of the major measures of economic development and financial growth of a country has been the sound performance of its banks .To maintains a healthy banking practices. The Reserve bank of India formulates and executes a monetary policy is one of the important of economic development in India. India economic growth is largely supported by banking sector .After independence, the major aim of rural credit policy in our country has been to expand of institutional financing with a view to curtail the role of indigenous financial agencies like moneylenders. The All – India Rural Credit Survey Committee (AIRCSC) perceived that only multi-purpose co-operatives can be a viable solution to the problem of rural finance. The working and significance of agriculture in the economy of India for generation of employment, the rural development is taken as one of the most important way for country's growth. Rural populations are poor and they depend upon agriculture. For a smooth running in credit delivery mechanism of rural poor, Indian Government initiated rural regional banks. Rural banking in India plays a main role in development of economy of rural sector.

Keywords: *RBI, Commercial Banks, performance, rural credit market, Regional rural bank.*

INTRODUCTION

As per the Reserve of India (RBI), India's banking sector is sufficiently capitalized and well regulated. The economic and financial conditions in the country are dominating every other country in the world. Diminishing of Indian banking industry is expected to witness better growth rate in 2015 as a sense of optimism from the government measures towards energise the industrial growth. In addition, RBI's New measures may go a long way in helping the restricting of the domestic banking India. Banking system of India consists of 56 regional rural banks, 26 public sector banks, 1589 urban cooperative banks. In addition to cooperative credit institutions .Public sector banks control nearly 81% of the market, there by leaving comparatively much smaller shares for its private peers. Standard poor estimate that credit growth in India's banking sector would improve to 13-14 percent in Financial year 2015-2016 from less than 11 percent in the second half of Financial year 2015-2016 .In recent time, we has witnessed that the world economy is passing through some circumstances as bankruptcy of banking and financial Institution debt crises in major economies of the world and Euro zone crises. Scenario has become very uncommon causing recession in major economies like Europe and USA. This poses some serious question about the survival; growth and maintaining the sustaining development however, amidst all this turn moil. India's banking system Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has remarkable over the past decade. It is evident from the higher pace of credit expansion; expanding profitability and productivity to banks in developed markets, lower incidence of nonperforming

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assets and focus on financial inclusion have contribution to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and revaluate the prospect on hand to keep the economy rolling.

OBJECTIVE OF INDIA BANKING SYSTEM

1. To Initiates advance planning for introduction of new system or service in banking industry.

2. To boost knowledge and education of the law and practice of banking.

3. To initiate and enhance progressive banking principles, practices and conventions and to contribute to the developments of creative banking.

4. To be a customer centric organization known for its differentiated customer service

5. To offer a comprehensive range of products to meet all financial needs of customers

6. To be a top creator of shareholder wealth through focus on profitable growth

7. To transform the customer banking experience into a fruitful and enjoyable one.

8. To leverage technology for efficient and effective delivery of all banking services.

9. To have bouquet of product and services tailor-made to meet customers aspirations.

10. India which is panned is catered into branches over all the states of the country will be exhaust to further the socio economic standards of the Government of India with stress on Financial Inclusion.

CO-OPERATIVE BANKS AND RURAL CREDIT

Co-operative banks have a history of almost 100 plus years. The Co-operative banks are an important part of the Financial System of India, by observing the role given to them, the expectations they are supposed to be achieved, and the number of offices they are operating. Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the intense hike in the number of primary co-operative banks. The Co-operative Banks in India are registered under the Co-operative Societies Act of India. The RBI also regulates the cooperative bank. They are executed and governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Co-operative banks in India finance rural areas under:

- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

Institutional Arrangements for Rural Credit (Co-operatives):

- Short Term Co-operatives
- Long Term Co-operatives

Primary Agricultural Credit Societies (PACSs):

An agricultural society can be started with 11 or more persons normally belonging to a village or a

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group of villages on credit basis. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. Liability of members is quite limited that is each member is only responsible for all the loss of the society, in the any event of failure. Loans are sanctioned for lesser periods, like for the harvest season, to carry out on agricultural exercise, and the rate of interest is fixed. There are now over 82,000 lower level agricultural credit societies in the country which have membership of over 100 million and over. They should give loans and advances to the members who are really in need, mainly out of these deposits. Central Co-operative Banks (CCBs): The central co-operative banks are located at the district headquarters or some prominent town of the district. These banks provide both finance and management to private individuals. Three sources of funds are available to the central co-operative banks.

Their own share capital and reserves

Deposits from the public and

Loans from the state co-operative banks

Their main function is to lend to primary credit society apart from that, central cooperative banks have been undertaking normal commercial banking business also, such as attracting deposits from the lending of funds to the needy individuals proper securities. There are now 367 central co-operative banks. State Co-operative Banks (SCBs): The state Co-operative Banks, now 29 in number, they finance, co-ordinate and control the working of the central Cooperative Banks in each state. They serve as the link between the Reserve bank and the general money market on the one side and the central co-operative and primary societies on the other. They acquire their money mainly from the general public through deposits, loans and advances from the RBI and they own their share capital and reserves.

REGIONAL RURAL BANK

The Narasimham Committee on rural credit suggested the incorporation of Regional Rural Banks (RRBs) on the platform that they would be much better match to the commercial banks or co-operative banks in meeting the needs of rural areas. They would combine the local feel and familiarity with rural problems which cooperative possess and the degree of business organization, ability to mobilize deposit, access to central money markets and modernized outlook which the commercial banks have. On Narasimham Committees recommendation, the Government passed the Regional Rural Banks Act, 1976. The main objective of RRB is to provide credit and other facilities particularly to small and marginal farmers, agricultural laborers, artisian and small entrepreneurs and develop agriculture, trade, commerce, industry, other activities in the rural areas. The first five RRB were set up on October 2 1975, at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur and Rajasthan and Malda in West Bengal. These banks were sponsored by the Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The role of regional rural banks (rrb) in the present scenerio: To accept deposit To grant advances To provide ancillary banking services To supply inputs and equipments to farmers To provide assistance in the marketing of their products To maintain godowns The authorized capital of RRB is fixed at Rs. 1crore, and its issued capital at Rs. 2 lakhs. Out of issued capital, 50% should be subscribed by the Central Government, 15% by the concerned State Government and the rest 35% by the sponsoring bank.The working and the affairs of the RRB are directed and managed by a Board of Directors. The Board of Directors include chairman, three directors to be nominated by the Central Government concerned, and not more than 3 directors to be nominated by the Central Government

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and his term of office does not exceed five years.The progress of RRB in the initial stages was quite rapid. At present 196 RRB in 23 states with 14500 branches operating in the country. The total deposit with RRB in 2004-05 amounted to Rs. 58350 crores and their advances came to Rs.31770 crores. Over 95 % of the advances of the RRB are direct advances to small marginal farmers, landless laborers and rural artisian or, in other words to weaker section of the society.More especially about 48% of RRB loan assistance is to agricultural and 52% for non-agriculture (rural artisian, retail trade, etc). State wise, the largest number of offices in a single State is to be found in Uttar Pradesh (3100) followed by Bihar (1950) and Madhya Pradesh (1620). RRB has an essential role in our rural economy, because they have to act as alternative agencies to give institutional credit to the rural areas. In course of time it is necessary to remember that they have not been set up to replace cooperative credit societies but act as a supplement to them. RRB has always been active participant in programmes designed to provide credit assistance to weaker sections. The problems faced by RRB:

Too much speedy work and lack of coordination in different branches

Difficulties in deposit mobilization

Constraints in deposit mobilization

Slow progress in lending activity

Urban orientation of staff

1. The unique role of RRB in providing credit facilities to weaker sections in the villages must be preserved. The RRB should act as rural banks of the rural poor.

2. The RRB may be permitted to lend up to 25% of their total advances to the richer section of the village society.

3. The State Government should also take interest in RRB's growth.

4. RRB should encourage local individuals' participation in its equity share capital.

5. Local staff may be appointed as far as possible.

6. Sponsorship may be allowed to Cooperative societies with commercial banks in the establishment of the RRB.

7. Equality in interest rate structure pattern should be a devise for the rural financial agencies.

8. The RRB must make healthy and effective credit administration through credit appraisal.

9. The credit policy of the RRB should be based on the group approach of financing rural activities.

COMMERCIAL BANKS AND RURAL CREDIT

The commercial banks give short term loans for crops. Nearly 46% to 49% of the total loans sanctioned by the commercial banks. Term loans for varying periods are given for purchasing pump sets, tractors and other agricultural machinery, for construction of wells and tube well, for development of garden and fruit crops, for development of land, for purchase of ploughs, animals, etc. commercial banks also extend loans for allied activities viz., for dairying, poultry, piggery, bee keeping, fisheries and others. These loans come to 15 to 16%. The commercial banks identifying the small farmers through Small Farmers Development Agencies (SFDA) set up in various districts and group them into various categories for credit assistance so as to enable them to become bible farmers. As result small cultivators near urban areas and irrigation facilities, commercial banks can help them

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to go in for cultivation of vegetables or combine it with small poultry farming and maintain one or two mulch cattle.

CONCLUSION

Development of the rural economy is essential in order to ensure a balanced economic growth. The various problems faced by the rural sector such as: illiteracy, lack of access to basic services of electricity, sanitation, drinking water etc. can be overcome if adequate credit facilities are provided. The initiative taken by the RBI to set-up the Regional Rural Banks and other such banks to promote banking in the rural India has come as a boom for these areas. In the present study, the role of RRBs in the rural credits structure has been deeply analysed. The structure of rural credit consists of priority sector and the non-priority sector. There has been a lot of achievement in disbursing loans to both the sectors. Though the banks are not left untouched by the challenges, yet an ample amount of opportunity is waiting to be grasped by these banks.

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