



RURAL DEVELOPMENT IN INDIA THROUGH BANKING: A STUDY OF GOVERNMENT SCHEMES

ABSTRACT

RBI has been using the commercial banks as vehicles to launch a unique experiment in Rural Development. After nationalization the number of bank branches in India increased manifold. Much of the increase was attained by the banking of unbanked locations in rural areas. Since 1947, it was found that independent commercial banks accounted for a meager 1% of rural household debt. Other formal lenders, like the credit cooperatives and the government, also played limited role in rural economy. The next three decades after 1961 witnessed a dramatic increase in the share of commercial banks.

The Rural development is first major objective in India, it aimed for expanding the branch placement towards unbanked locations. The second major objective of the program was to skew lending towards priority sectors. The policy makers wanted to change the composition of lending with a view to extend their reach to groups, which were traditionally excluded from formal financing. The major target groups were agriculturists, small businessmen and entrepreneurs. The Reserve Bank of India used its control over the banking sector via the lead bank scheme to ensure that these targets were adequately enforced.

This paper would further discuss different schemes of 'Rural Banking' aimed at rural development. Our focus, in particular, would be concentrated on whether the policy driven branch expansion into unbanked locations has helped to connect rural people with Banking Industry and has it been successful in fulfilling the financial needs of rural people.

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INTRODUCTION

"Simplicity and reliability in the financial inclusion in India, though not a cure, but can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians. In order to draw in the poor, the products should address their needs - a safe place to save, a reliable way to send and receive money, and a quick way to borrow in times of need and to escape the clutches of Money Lenders"(RBI Governor, **Shri Raghuram Rajan**)

Working out ways to lift people out of poverty is a key objective within development economics. A policy area that has been successful in attracting a lot of theoretical attention is, credit access to which is frequently considered as critical in enabling people to transform their production and employment activities and to exit poverty. As an attempt to this Prime Minister Narendra Modi dedicated the "ICICI Digital Village" to the nation. (Ref. ICICI Bank, Press Release, January 2, 2015). This digital village is located

at Akodara in Sabarkantha district of Gujarat enabling the villagers to use technology in the various aspects of life which includes banking, payments, education and healthcare among others.

Our focus is squarely on structural change. The reason for this is that there are many evidences which suggest that diversification out of agriculture is associated with increase in productivity and reduction in poverty. In particular, we may infer little about which policies might be effective in expanding the productive opportunities of households.

A recent, mainly theoretical, study examines the determinants of diversification. This study points at credit market imperfections as an important reason for why individuals and economies get stuck in low productivity traps. The argument is that imperfect credit markets lead to the credit rationing of the poor. This, in turn, constrains their occupational and production choices. Credit rationing may thus act as a barrier to diversification and underlie poverty traps and persistent inequality. A suggested policy implication is that policies which provide the poor with access to credit may aid modernization and reduce poverty.

Historically, there have been four major problems with respect to the supply of credit to the Indian countryside.

- ◆ First, supply of formal sector credit to the countryside on the whole has been inadequate.
- ◆ Secondly, the rural credit markets in India have been very imperfect and fragmented.
- ◆ Thirdly, as the foregoing study suggests, the distribution of formal sector credit has been unequal, particularly with special reference to the region and class, caste and gender in countryside. Formal sector credit needs to reach backward areas, low-income households, people of the oppressed castes and tribes, and women.
- ◆ Fourthly, the major source of credit to rural households, particularly low - income working households, have been the informal sector. Informal sector loans typically are advanced at very high rates of interest. Further, certain terms and conditions attached to these loans have given rise to an elaborate structure of coercion - economic and extra-economic - in the countryside.

After 1947, RBI sought to expand rural access to formal credit via the cooperative movement. However, by the mid-1960s it became apparent that increasing the quantum of finance of credit cooperatives by the RBI could not address the central problem. Still the bulk of rural India remains without a source of formal credit.

After nationalization in 1969, the Reserve bank of India focused on Rural Banking and took control of the placement of banks as a means of advancing social objectives. During this period more than 50,000 new branches were built primarily in unbanked, rural locations. This represented a seven fold increase in the proportion of rural locations which were banked.

The key policy variable underlying that the branch expansion program in 'unbanked' rural or semi urban population was not served by any commercial banks. During the Rural Banking era unbanked locations were identified by the 'Lead Bank'. The RBI would circulate the list of unbanked locations to all banks. The RBI also maintained a licensing criterion which stated how many branches at unbanked locations a bank must open in order to be eligible to open a branch at an already banked location. Finally, to ensure that banks do not simply respond by not opening branches the RBI also set targets regarding the number of unbanked locations, which were to be banked during the BBE program (Banking Branch Expansion-BBE) to meet these targets. In this program unbanked locations were allocated to nationalized banks. Given the unbanked locations list and the license criterion individual banks would submit their branch expansion perspective plan to the RBI. Depending on satisfying the above requirements the banks would receive branch licenses.

The Rural Banking effects poverty in rural location. Poverty is central issue regarding branch expansion. The increase in branches built in unbanked locations reduces aggregate poverty whereas expanding branches in banked locations does not. There is no reason to think that building bank branches in unbanked rural locations would affect production and distribution relation in the urban sector.

This paper would discuss the various schemes introduced by Government for rural development. Our focus, in particular, would be on whether policy driven branch expansion into unbanked locations helps to fulfill the financial needs of rural people or not.

GOVERNMENT SCHEMES

The Concept of priority sector lending with all its new dimensions has come to be recognized as "Social Banking". Under Social Banking emphasis is on mass lending and the credit policy is consciously reoriented to meet the increasing needs and aspirations of the poor and down trodden in order to raise their standard of living. Main objective here is to make sure that more credit flows towards agricultural, small transport operators, retail trade, cottage, village & tiny industries, small scale industries etc. Agriculture being the back bone of Indian economy, Government has sponsored many schemes in

rural areas for upliftment and betterment of rural people under rural banking. As per all Government schemes finance is provided by government banks. These schemes are as follows:-

1. Swarnajayanti Gram Swarozgar Yojana (SGRY)
2. Prime Minister Rozgar Yojana (PMRY)
3. National Scheme For Liberation And Rehabilitation Of Scavengers And Their Dependents (SLRS)
4. Khadi & Village Industry Commission(KVIC)
5. Scheduled Caste Development Corporation (SCDC)
6. Pradhan Mantri Jan Dhan Yojna (PMJDY)
7. Bhamashah Yojna (BY)

SWARANJAYANTI GRAM SWAROZGAR YOJANA (SGSY)

The new rural poverty alleviation programme known as Swarnajayanti Gram Swarozgar Yojana (SGRY) was launched by the Government of India on 1.4.1999 by restructuring the six programmes:- Integrated Rural Development Programme(IRDP), Training for Rural Youth for Self employment(TRYSEM), Development of Women & Children in rural Area(DWCRA), Supply of Improved Tool kits to Rural Artisans(SITRA), Ganga Kalyan Yojana(GKY), Millions Wells Scheme(MWS)

Salient features of the Scheme:-

1. Identifying the eligible beneficiaries with involvement of Gram / Local authorities in a transparent manner.
2. Providing freedom to Branch Managers for satisfying themselves about the beneficiaries and activity proposed to be financed.
3. Lending to individuals or group (SHGs) and selecting beneficiaries from BPL families by a team of three members (Bankers, Development Officer, Sarpanch)
4. Provision for training (Basic orientation and skill development) in the scheme. The Basic orientation programme is mandatory. Skill development training has to necessarily be undergone by the Swarozgaris wherever needed as assessed by Technical Line Department and Financing Bank.
5. Individuals or groups below poverty line whose income does not exceed 11,500/- sponsored by DRDA reserve quota for SC / ST - 50% , Women-40% & Disabled 3%.
6. Security norms for individual loans up to Rs. 50000/- and group loans till Rs. 3 lakhs are assets created out of bank loan which would be

hypothecated to the bank as a primary security. For loans in excess of the above units, in addition to primary security collateral security in the form of third party guarantee, assignment of LIC policies, marketable securities or deeds of other property etc. might be obtained.

7. Subsidy will be at 30% of project, subject to a maximum Rs. 7500/- . In respect of Sc / ST it will be 50% of the project subject to maximum of Rs. 10000/- . For SHGs the subsidy will be 50% of the cost of the project , subject to a ceiling of rs. 1.25 lakhs . There will be no monetary limit on subsidy for irrigation projects.

Prime Minister Rozgar Yojana (PMRY):-

The unemployed youth in our country have tremendous potential. Given the right opportunity they can contribute towards economic development of the nation. The Prime Minister Rozgar Yojana (PMRY) implemented since 2nd October 1993, aims at providing sustained employment to educated unemployed youth.

The scheme has many outstanding features which have been modified and improved over the years. Some of the revised features are as follows:-

1. Age:- for all educated unemployed 18-35 years in general with 10 years relaxation for SC / STs , ex servicemen, physically handicapped and women.
2. Educational qualification:- Minimum qualification for this scheme is 8th Pass. Preference for those trained in government recognized / approved institution for a duration of at least six months.
3. Family Income:- The family income should not exceed Rs. 10000/- per annum.
4. Residence:- he should be permanent resident of the area for at least 3 years.
5. Defaulter:- He should not be defaulter of any nationalized bank / financial institutions/ co-operative bank. Further a person already assisted under other subsidy linked government schemes would not be eligible under this scheme.
6. Activity Covered:- All economically viable activities including agricultural and allied activities excluding raising crop etc.
7. Project cost:- Rs. 2 lakh for business sector, Rs. 5 lakh for other activities. Loan to be of a composite nature. If two or more relevant persons join together to form a partnership project cost up to Rs. 10 lakh is covered.

8. Subsidy and margin money:- In this scheme subsidy will be limited to 15% of the project cost , subject to ceiling of Rs. 12,500/- per borrower. Margin money varies from 5% to 16.25 % of the project cost. It depends on the nature of project.
9. Collateral:- No collateral for project up to Rs. 1 lac per borrower.
10. Rate of interest & Repayment schedule:- Normal Bank rate of interest will be charged under this scheme. The repayment may range between 3 to 7 years after an initial moratorium as may be prescribed by the bank.
11. Reservation: - In this scheme preference will be given to the weaker sections including women. The scheme envisages 22.5% reservation for SC / ST and 27% for other backward classes.(OBC).

National Scheme for Liberation And Rehabilitation Of Scavengers And Their Dependents (SLRS):-

The aim of the scheme is to liberate scavengers from their obnoxious occupation of manually removing night soil and filth and provide them with dignified occupations. The scheme comes under “weaker section” under priority sector.

The rehabilitation consists of subsidy, margin money and bank loan.

The project cost may be up to Rs. 50000/- . Subsidy is 50% of project cost with maximum of Rs. 10000/- and margin money is Rs. 7500/- coming from SC Development Corporation. Bank loan would be Rs. 32,500/- . Loan up to 6500/- shall be considered under DRI scheme. Rate of interest on loan is as per RBI directives. As far as possible loan should be disbursed in one installment. Security will be only hypothecation of assets created out of loan, subsidy and margin money.

Under this scheme the repayment of loan can be made between 3 to 7 years inclusive of grace period of 6 months.

Khadi and Village Industry Commission (KVIC):-

Khadi and Village Industry Commission – with the aim of creating more employment opportunity in rural areas the Khadi Gram Udyog Commission has initiated a margin Money Bank Finance Plan since 1996-97 . This plan has following purposes:-

1. The economic aim of helping in the manufacture of things that can be sold in the market.
2. The wider aim of fostering a feeling of self reliance and strengthening village self government in the rural people.

The Margin Money Bank Plan is only for setting up village industries and there is a provision of giving 25% to 30% of subsidy upon the sanctioning of loan. The main features of this scheme are as follows:-

1. The scheme provides for various cooperative committees like, individual, Khadi gramudyog etc. to arrange for loans from the bank's in area with population of twenty thousand and where per capita permanent capital investment is not more than 100000/-.
2. The loan must be applied for on a Performa which should be submitted to the district Industry officer (Khadi) or the gramudyog publicity officer panchayat committee.
3. Twenty five percent Margin Money will be paid to general category applicants and SC, ST, and OBC applicant will be given 30% Margin Money.
4. The general category applicant must put in 10% of his own money whereas SC, ST, OBC candidates must invest 5% of their own money.
5. The general category applicant will be sanctioned 90% of the loan and SC, ST, OBC, candidates will get upto 95% the loan amount.
6. The Margin Money will be given only one loan amount.
7. The aim of this scheme is to provide self-employment and subsidy to rural entrepreneurs. In this scheme loan will be provided for rural industrialization and employment generation. The loan can be taken upto 9 years. Under this scheme repayment schedule will be based on cash accruals. No Collateral security would be taken.

Schemes of Rajasthan Scheduled Caste Development Corporation (SCDC):-

The corporation has mainly two schemes which are being implemented in the rural areas. Subsidy is payable in each scheme. The important conditions for each scheme are as follows:-

The applicant must belong to the Scheduled caste. He must belong to a BPL family, which means that his annual income should be less than Rs. 20000/-. He must be 18 years of age and should not have received any grant or benefit from any other scheme of the corporation and he should not be having loan or any other financial liability towards any bank or financial institution. The Maximum amount of subsidy payable under all schemes initiated in the rural areas by the corporation is Rs. 10,000/- but this would be payable on the basis of 50% of cost of the unit or Rs 10,000/- whichever is less.

Pradhan Mantri Jan Dhan Yojna (PMJDY):-

This scheme was launched by Prime Minister Narendra Modi on 28th of August 2014. The scheme has been launched with a target to provide “Universal access to banking facilities.” Under this scheme:-

- ✦ Account holders will be provided zero balance bank A/c with Ru pay debit card in addition to accidental insurance cover of 1 lakh.
- ✦ Those who open account by January 26, 2015 above 1lakh they will be given life insurance cover of 30000.
- ✦ After 6 months of opening of bank A/c. Holders can avail Rs 5000 Overdraft from the bank.
- ✦ With the introduction of new technology by National Payments Corporation of India a person can transfer funds, check balance through a normal phone which was earlier limited to just smart phones.
- ✦ Mobile banking for the poor would be available through national unified USSD platform for which all banks and mobile companies have united.
- ✦ A monitoring mechanism/MIS would be brought in place for online monitoring. As a tool for ensuring proper coverage of villages.
- ✦ Adequate publicity though would be needed to be carried on different tiers like Central, State, District levels. As there is a need to spread Brand awareness & Sesityation.
- ✦ Financial Literacy and Credit Counseling – Established adequate number of Financial Literacy Centers and mechanisms to increase financial literacy among the financially excluded sections.

Bhamashah Yojna (BY):-

In an attempt to make women more self sufficient Bhamashah Yojna was launched by C.M. Vasundhara Raje on 15th August 2014. This is the largest scheme aimed at the financial inclusion of women. The Bank of Baroda has also co-joined and branded for this scheme. This scheme has aimed at:

- ✦ Providing cash amount of Rs 2000 in the name of woman head of every BPL family of the state in two installments.
- ✦ Bank A/c s are also being opened in the name of women heads being opened for about 1.5 crore families.
- ✦ Second installment of Rs 1000 would be transferred in the bank account 6 months after the first installment.

- ✦ This scheme has also been integrated with the PMJDY so that the benefits of that scheme can also be availed.
- ✦ Under this scheme the Bhamashah card holder women would be able to get rations from the PDS shops using Bio- Metrics system.

Other Advances for priority Sectors:-

1. Educational Loans:- This will include loans and advances to individuals for educational purpose, but will not include advances granted to institutions.

2. Pure consumption Loans under composite loan scheme to weaker sections for following purposes with certain and aggregate finance not exceeding Rs. 1000/- per family.

- ✦ General Consumption
- ✦ Medical Expenses
- ✦ Educational Needs
- ✦ Marriage
- ✦ Religious Ceremonies
- ✦ Birth / Funerals

3. Housing Loans for construction of houses.

4. Loans to SC / ST and weaker sections for housing purposes i.e. Construction / acquiring of houses directly or through any Government agency.

5. Advances to SC / ST organizations and other state sponsored corporation for the purpose of purchase and supply of inputs or for marketing of outputs are also treated as priority sector lending. The benefit of such lending should reach the individual members of these organizations.

6. Loans to self help groups and non-government organizations sponsoring SHGs.

CONCLUSION

In the end it can be concluded that rural banking plays a vital role in providing credit and other financial services to the poor. Thus it helps in raising the standard of living of rural people and contributes to social development as a whole. Government has taken many initiatives for the development of rural banking .This is just the beginning and a lot of work still needs to be done as development of rural people is synonymous to social development of the nation as a whole. It is a well known fact that in India, while one segment of the population has an access to assortment of banking services encompassing regular banking facilities and portfolio counseling, the other segment of underprivileged and lower income group is completely deprived of basic financial services. This in turn is effecting the overall economic growth of the country.

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