

STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

To kindle interest in economic affairs...
To empower the student community...

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Student's Corner

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RURAL BANKING IN INDIA

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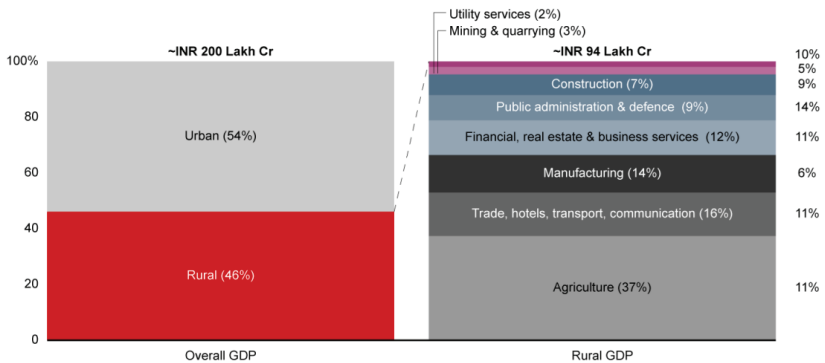
The “SIB Students’ Economic forum” is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is **“Rural Banking in India”**

Introduction

Ever since Independence, the Government of India in collaboration with the State Governments have been striving to provide better development , growth and prosperity for citizens of the country. However, access to banking services is seen to be a key catalyst to nurture growth. For various reasons, banking services were seen to be difficult to reach for people who resided or engaged themselves in activities where bank branches were far away. With more than 70% of the Indian population residing in rural areas, one must understand that India’s rural economy has contributed nearly half of the nations’s overall GDP in 2019-20 and is expected to grow even more. Also, it employs more than 350 million people (68% of the total workforce). Therefore, the prominence of the rural economy and the need to provide access to banking facilities is very much clear.

Share of GDP (% , 2019–2020)

CAGR
2015–2020



Sources: Ministry of Statistics and Programme Implementation; Bain analysis

About Rural Banking

Rural banking is "the process of conducting bank transactions in a country where bank branches are too far away to be used. Rural banks are very popular in very small towns with farmers living far away from densely populated areas and are unable to visit these

areas whenever they need to use banking services." Informal/unorganised lending markets tend to take advantage in such areas where it is difficult to access banking services / facilities. It is observed that lack of awareness about the process and the benefits of banking and fear of security result in people shying away from approaching banks. This also adds momentum to the growth of the unorganised lending practices which tends to increase social evils and create more damage in the society.

In India, farming being the prominent activity of occupation in rural areas, farmers are always in search for easy access to credit for farming and for support in its allied activities. It is also understood that literacy and education tends to increase the access of the rural people to formal credit and thereby reduce the costs incurred through unorganised money markets.

The introduction and promotion of Self Help Groups through various government initiatives along with various other government support which is being disbursed through banks has helped the people in the rural community to get away from the fear / social stigma towards banking. Banks were seen to be the direct distributors of government support / relief / initiatives and this has helped more people to become comfortable to approach banks as a way to access credit and other banking facilities before they turn towards unorganised money markets

Regional Rural Banks

Regional Rural Banks were established under the provisions of an ordinance passed on 26 September 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. As a result, five RRBs were set up on 2 October 1975 on the recommendations of the Narsimham Committee on Rural Credit.

First 5 Regional Rural Banks in India	
S No	Name
1.	Prathama Bank
2.	Gaur Gramin Bank
3.	Gorakhpur Kshetriya Gramin Bank
4.	Haryana Kshetriya Gramin Bank
5.	Jaipur-Nagaur Anchalik Gramin Bank

Regional Rural Banks are guided by the Regional Rural Banks Act, 1976. They are jointly owned by the Government of India (50%), State Government (15%) and sponsoring bank (35%). At present there are 43 Regional Rural Banks with more than 21,800 branches. It may be noted that 92% of their branches are located in rural / semi urban areas. Today, regional rural banks are seen to be playing a vital role in the development of various sectors in the economy especially farming by making it easy for people to get access to banking facilities including loans at a very reasonable rate of interest.

With an increase in rural banking facilities we can expect the following advantages

1. Increase in farm and non-farm output by providing services and credit facilities which act as a catalyst to boost the related activities.
2. Boosts self employment opportunities as now people in rural areas are able to access credit for feasible projects which not only creates self employment but also creates employment for many.
3. Helps to promote the creation and growth of MSMEs which can become a key resources provider and help the initiative of Make in India.

Financial Inclusion in Rural India

The World Bank estimates that the average banked populations in low income economies stand at 32.6% and the average banked population in high – income economies is 90.5%, but the GDP per capita for low income economies is less than 2% of the GDP per capita of high income economies. Therefore, even a percentage improvement in financial inclusion can result in exponential growth when it comes to economic development. Various new initiatives are being launched primarily to increase the number of persons who can get access to the banking system. These initiatives include various loans and savings schemes, financial literacy programs, Banking Technology adoption exercises and techniques, support for connectivity and power infrastructure and support for regulatory infrastructure.

Conclusion

India is marching towards prosperity and development. This is possible in the situation where majority of its population gets access to banking and financial services. The Government has so far been successful to ensure that the number of people who are on-boarded into the banking system has an increasing trend. However, there is still a long way to go.

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