

## Impact of banking on rural society

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### Abstract

The concept of Rural Credit is in fact the most prevalent phenomenon in the banking business in the country. Rural Credit was considered as a problem by many bankers in the pre-socialisation of banking in the country and even now the bankers feel so. The country being pre-dominantly rural based and depending on agriculture sector for a long time for its economic development, rural banking became inevitable. As the well-established commercial banks were reluctant to lend to the farmers, particularly to the small and medium farmers, the Government took the initiative of lending through its own arrangement and also by sponsoring co-operatives as early as 1890s and in the beginning of 20th century. The Indian agricultural sector is the main source of employment in India. Near about 70% employment is provided by agricultural and agriculture-related businesses. The Indian agricultural sector contributed in GDP nearly 17% in the FY 2014-15. Every business organisation needs working capital as well as that of agricultural sector. Farmers also need credit facility which is provided by different financial sources. It includes commercial banks, co-operative banks, money lenders and government etc. If farmers get proper credit facility in appropriate time, it directly affects the quality of product. For the production, farmer needs four basic inputs-land, water, manpower and cash.

**Keywords:** Barter trading, scheduled banks, National Bank for Agricultural and Rural Development (NABARD), Regional Rural Bank (RRB)

### Introduction

The Indian banking system started from the 18<sup>th</sup> century. The first bank of India was started in 1770 AD as “Bank of Hindustan” and got liquidated in the year, 1829-32 AD. Again, another Indian bank was established in 1786 AD as “General Bank of India”. India has no long history of banking system because barter trading method had been used. It was the method that directed exchange of goods and services for other goods and services. Barter trading was done without the exchange of money. Then paper currency was introduced in Indian trading market and people began using banking services in their daily lives. In this way of the banking system came to existence in India.

This could be understood from the changes made in the rural credit delivery system from a historical perspective. According to the All-India Rural Credit survey (1954), formal credit institutions provided only less than 9% of rural credit needs in India. The co-operative credit societies which had been existent for 50 years then catered only less than 5% of the rural credit needs (AIRCS, 1954). Further, it disclosed that the non-institutional credit sources accounted for 75% of the total credit needs (informal sector). The informal sector for rural finance is traditional and deep-rooted. It consists primarily of rural money lenders, traders, merchants & commission agents, etc. The survey stated that it was avaricious and ruinous for the rural India.

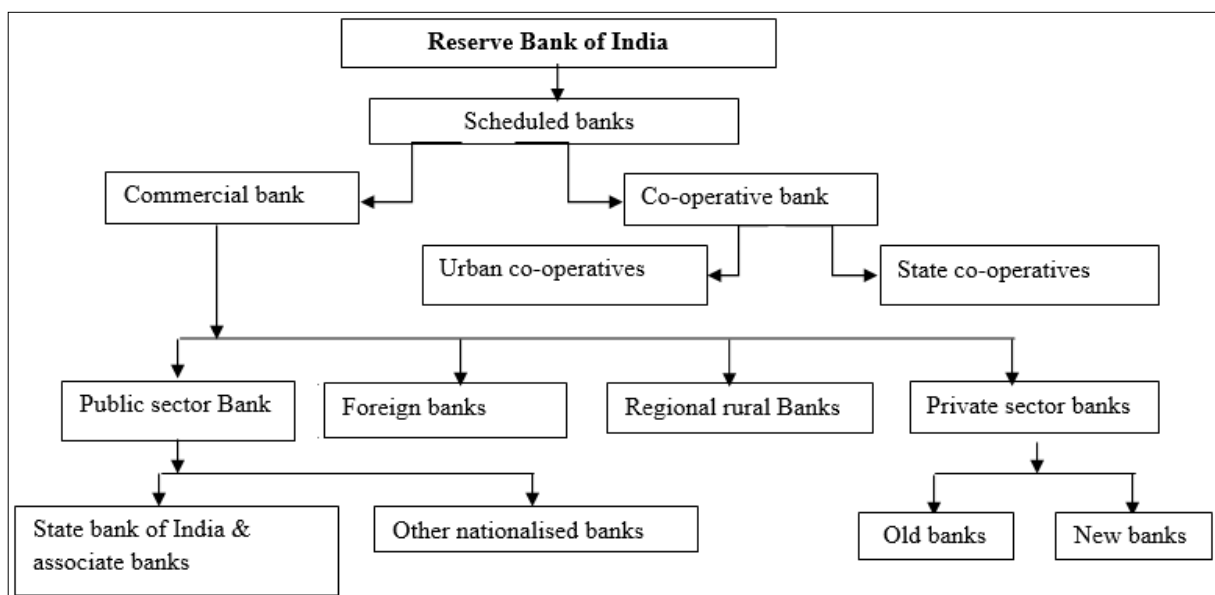


Fig 1: Structure of the organised banking sector of India

The Indian agriculture banking started growing from 1975. Its goal was to expand the banking activities in rural area. Banking sector tried their best to provide better quality services to the customers for that reason. They adopted new technologies to satisfy the customers. The Reserve Bank of India (RBI) and the Government of India (GoI) try to encourage agricultural banking. In 1975, RBI established Regional Rural Bank (RRB) with motives to expand the rural banking in rural areas and farmers should take benefit of banking facility. Thereafter in 1982, RBI again established new agricultural finance corporation which is National Bank for Agricultural and Rural Development (NABARD) to provide finance aid, carry agricultural policy and schemes in favour of farmers.

**Nationalised banks**

In the year 1949, the Banking Regulation Act enacted and “The Imperial bank of India” was nationalised. It is now known as “State Bank of India” (SBI). It handles central and state banking transactions; and also functions as a principal agent of “Reserve Bank of India” (RBI). In 1959, seven SBI subsidiary banks were nationalised. Then in the year 1969, again 14 major banks were nationalised. In 1980, also 6 major banks were nationalised. They provide agricultural credit facility to farmers. It has become the major source of agricultural credit in India.

**Regional Rural Bank (RRB)**

It was established in 1975. It works under the “1975 Act” (Section 54 of the RBI act). Its main purpose was to make the financial credit available to the farmers on the lowest interest rates.

- It fulfils the basic needs of working capital of farming.
- It provides loan and advance funds to the co-operative society and other credit societies which are related to the agricultural services.

- Accepting deposits from rural area and related areas
- Provide loans and advances to small entrepreneurs and others who are engaged in trade, commerce & industry.

**National Bank of Agricultural and Rural Development (NABARD):**

It was established in 1982 under “the National Bank for Agricultural and Rural Development Act, 1981”. NABARD provides long-term refinance for minor irrigation, plantation, horticulture, fisheries etc. It also provides short-term loans for financing of seasonal agricultural operations, marketing of crops etc. It offers medium-term loan facilities for an approved agricultural purpose.

**Co-operative Banking**

It is registered under Co-operative Society Act, governed by the Banking Regulation Act, 1949 and Banking Law (cooperative society) Act, 1955. When a co-operative society engages itself in the banking business, it is called as a ‘co-operative bank’. It provides the credit facility to farmers, salaried employees and small-scale industry. They also take deposits from them. It is divided into three parts.

- Central co-operative bank
- State co-operative bank
- District central co-operative bank

**Sources of agricultural credits**

The various sources of agricultural credit can be classified into two parts.

- 1) Non-institutional Agencies
- 2) Institutional Agencies

Non-institutional agencies include local village’s money lenders, their agents and landlords. Institutional agencies, include co-operative societies, regional rural commercial banks and NABARD

**Table 1**

| Source                 | 1951-52 | 1961-62 | 1970-71 | 1981-82 | 1991-92 | 2002-03 | 2010-11 |
|------------------------|---------|---------|---------|---------|---------|---------|---------|
| Government             | 3.3     | 2.6     | 3.6     | 4       | 6.1     | 3       | 4       |
| Co-operative societies | 3.1     | 15.5    | 22.7    | 28.6    | 21.6    | 26      | 24.9    |
| Commercial banks       | .9      | .6      | 4.0     | 28      | 33.7    | 27      | 43.1    |
| Money-lenders          | 90.9    | 67.4    | 68.4    | 38.8    | 32.7    | 41      | 21.9    |
| Others                 | 1.8     | 13.9    | 1.3     | .6      | 5.9     | 3       | 6.1     |
| Total                  | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   |

**Source:** Reports from the All-India Rural Credit Review Committee, 1969; RBI Bulletin and NSSO, May 2011; Economic survey-2010-11

**Services provided by agricultural banks**

The Indian banking sector provides different services to the farmers that facilitate them to take credit from banks.

- **Cash Credit:** It is one of the major sources of agricultural credit. Most of the banks provide the cash credit facility on behalf of the crops cultivated in farmers’ land. This credit is provided on very low interest near about 4%. It is a short-term loan.
- **Term loan:** It is also a main source of agricultural credit. Banks provide it for long term. This is beneficial for agricultural development.
- **Gold loan:** It is also one of the prevalent types of credit facility. Banks give credit on behalf of gold which is lent by farmers as mortgage. It also fulfils working capital need of farmers.

- **Crop insurance:** This facility is also provided by the bank. This is also beneficial to farmers to reduce the risk of farming.
- **Mobile banking:** Almost all banks started to provide banking facility on mobile. This is beneficial for farmers to access their account balance and transactions.
- **Online banking:** Farmers started to take benefits of online banking. It proves helpful for them to save time and money.

**Impact of agricultural banking on farmers**

1. **Expansion of the irrigation area:** Using the credit facility, farmers can expand the area of irrigation in

farming. It also increases production of crops. They are able to take all three-season crops. Drip irrigation is the best example.

2. **Use of machinery:** Farmers use machinery in farming activities which helps do work accurately and in a timely manner. Farmers save their efforts, money and time by using machinery. Say for example, harvester, tractor equipment etc.
3. **Storage Godown (warehouse):** Farmers have been able to develop storage facility in their area. It has become beneficial for them to store the agricultural goods for better price and supply in market as per requirement. NABARD has separate schemes for agricultural godown.
4. **Processing units:** Nowadays, farmers focus on food processing industry also. Using this, they are able to do proper marketing of their products.
5. **Horticulture:** Farmers are now opting for horticulture farming in their farmland. It has become possible due to the availability of bank credit in time and with ease.
6. **Immunity from money-lenders:** Farmers got rid of traditional moneylenders and landlord tyranny. They are able to bid a desirable price of their products and sell them in different markets.
7. **Financial stability and social development of farmers:** Using banking facilities, farmers are able to derive better profits and they can decisively spend money on their primary needs.

### Conclusion

In India, farmers are not economically stable with comparing to them of foreign countries. For that reason, farmers need proper and uninterrupted credit supply to reform their standard of living. It totally depends on the growth or increase of production and reduction of the production cost. When farmers are about to adopt new technology as well as concentrate on organic farming, they need sufficient credit supply from authorised sources like banks and co-operative societies, with low interest rates. Nowadays, near about 70% credit supply is provided by authorised sources. We need to expand it around 100%. Banking and co-operative societies need to reduce the hectic and time-consuming paperwork of credit and loan facilities. Then we can hope overall banking facility may become really useful to farmers.

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