



Recent Trends and Development in Banking for Rural Development

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Abstract: The Banking sector has been playing an important role of the rural India. In the context of India, the NABARD is very much role play in the refinance of the Agriculture loans. The Challenge facing banking institutions today is the growing and changing needs and expectations of consumers with increased education levels and growing wealth. The factors which are affecting the acceptance of banking services among the customers and also indicates levels of concern regarding security and privacy issues in India.

Keywords: Indian Economy, Innovative Technology, Rural Development, Microfinance.

Introduction

The Banking Sector has been making the new innovative technology for the development. In India, There is need for providing better and customized services to the customers, Banks must be concerned about the attitudes of customers with regard to acceptance of internet banking. The importance of security and privacy for the acceptance of banking has been noted in many earlier studies and it was found that people have weak understanding of banking, although they are aware about risk. Today the customers are more to join new technologies contain little risk. Electronic Banking: Electronic distribution channels provide alternatives for faster delivery of banking services to a wider range of customers (Kaleem and Ahmad, 2008).

NABARD Services

NABARD is most important role play in India. Its refinance is available to State Co-operative Agriculture and Rural Development Banks, State Co-

operative Banks, Regional Rural Banks and Commercial Banks and other financial institutions approved by RBI. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State owned corporations or societies; production credit is generally given to individuals.

NABARD is also known for its 'SHG Bank Linkage Programme' which encourages India's banks to lend to Self Help Groups (SHGs). Because SHGs are composed mainly of poor women, this has evolved into an important Indian tool for micro finance. As of March 2006 2.2 million SHGs representing 33 million members had to been linked to credit through this programme.

Rural innovation

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.

Microfinance and NABARD

For a better reach of microfinance program a continuous check of the status, progress, trends, qualitative and quantitative performance comprehensively is required. Thus the Reserve Bank of INDIA and NABARD has laid out certain guidelines in 06-07 for the commercial banks, Regional Rural Banks and Cooperative Banks to provide the data to RBI and NABARD about the progress of the microfinance program. There are three aspects on which the data was collected, savings of self-help groups with banks, loan disbursed by banks to self-help groups default by self-help group's repayment of the loans taken from banks. Banks also provides data regarding loans given by banks to the microfinance institutions.

NABARD a 100 % CSR company

NABARD has been instrumental in grounding rural, social innovations and social enterprises in the rural hinterlands. This endeavour is perhaps unparalleled in the country, it has in the process partnered with about 4000 partner organisations in grounding many of the interventions be it, SHG-Bank Linkage programme, tree-based tribal communities' livelihoods initiative, watershed approach in soil and water conservation, increasing crop productivity initiatives through lead crop initiative or dissemination of information flow to agrarian communities through Farmer clubs. Despite all this, it pays huge taxes too, to the exchequer – figuring in the top 50 tax payers consistently. NABARD virtually ploughs back all the profits for development spending, in their unending search for solutions and answers. Thus the organisation had developed a huge amount of trust capital in its 3 decades of work with rural communities.

E-banking defined as following measures:

1. Internet Banking (Online Banking)
2. Telephone Banking
3. TV-based Banking
4. Mobile Phone Banking
5. PC Banking (Offline Banking) (Kolodinsky et al., 2004)

Tele-banking: Tele-banking service is provided by phone. To access an account it is required to dial a particular telephone number and there are several options of services.

PC-banking: The term 'PC-Banking' is used for banking business transacted from a customer's PC,

i.e., customers can use their personal computers at home or at their office to access their accounts for transactions by subscribing to and dialing into the bank's internet proprietary software system used password.

Online banking: Online banking is the making transactions and bills through internet. This allows cash transfers and bill settlement within the time. The key benefit of this payment is the convenience and the fact that the access to money, as long as there is Internet access.

Commercial Banks:

Commercial banks perform many functions. They satisfy the financial needs of the sectors such as agriculture, industry, trade, communication, so they play very significant role in a process of economic social needs. The functions performed by banks, since recently, are becoming customer-centred and are widening their functions. Generally, the functions of commercial banks are divided into two categories: primary functions and the secondary functions. The following chart simplifies the functions of commercial banks. Commercial banks perform various primary functions, some of them are given below:

- Commercial banks accept various types of deposits from public especially from its clients, including saving account deposits, recurring account deposits, and fixed deposits. These deposits are payable after a certain time period
- Commercial banks provide loans and advances of various forms, including an

overdraft facility, cash credit, bill discounting, etc. They also give demand and demand and term loans to all types of clients against proper security.

- Credit creation is most significant function of commercial banks. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw. In other words, while sanctioning a loan, they automatically create deposits, known as a credit creation from commercial banks.

Along with primary functions, commercial banks perform several secondary functions, including many agency functions or general utility functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

Regional Rural Banks

These are the banking organizations being operated in different states of India. They have been created to serve the rural areas with banking and financial services. However, RRB's may have branches set up for urban operations and their area of operation may include urban areas too. They are also referred to as Grameen Banks/ Gramin Banks. There are as many as 67 RRB's.

Functions

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 Govt. 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

1. Providing banking facilities to rural and semi-urban areas
2. Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
3. Providing Para-Banking facilities like locker facilities, debit and credit cards.

Regional Rural Banks were established under the provisions of an Ordinance passed on the 26th September 1975 and the RRB Act, 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. These were set up on the recommendations of Narsimhan Committee at the tenure of Indira Gandhi's government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2nd October 1975 with the forming the first RRB Prathama Grameen Bank. Also on 2nd October 1975, five regional rural banks were set up on with a total authorized capital of Rs. 100 crore (\$ 10 Million) which later augmented to . 500 crore. There were five commercial banks, viz. Punjab National Bank, State Bank of India, Syndicate Bank, United Bank of India and United Commercial Bank, which sponsored the regional rural banks. Earlier Reserve Bank of India had laid down ceilings on the rate of interest to be charged by these RRBs. However from August 1996 the RRBs have been granted freedom to fix rates of interest, which is usually in the range of 14-18% for advances.

Recapitalization of Regional Rural Banks (RRBs)

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 or K C Chakrabarty, Deputy Governor, RBI to analyse the financials of the RRBs and to suggest measures including recapitalisation 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 31st March 2011 and at least 9% from 31st 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% if 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: (a) 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. (b) 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. (c) 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.

Conclusion: The Banking sector has been developing in India due to various improvements. The RBI is very important aspect for the development of banking in India. Today the banking sectors to plays a vital role in processing in the development.

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