

## ROLE OF COMMERCIAL BANK IN RURAL DEVELOPMENT

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### **Introduction:-**

Bank that makes loans to business, consumers & non business institutions. "A banker is one who in the ordinary course of his business honors cheques drawn upon him by persons from & for whom he receives money on current accounts."

### **Defination:-**

#### **i) As per Banking Regulation Act 1949-**

"Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise & withdrawal by cheque, draft, order or otherwise."

#### **ii) Crowther-**

*"A banker is a dealer in debt his own and other people."*

Economic development of a country largely depends upon industrialization and a developed banking organization is a pre-requisite for the industrial development of a country.

The banking system is all the more important for the economic growth of less developed countries (LSCs). This is so because most of the underdeveloped countries are trapped in the vicious circle of poverty and this vicious circle can be broken only if there is a sound banking system in the country. In other words, no underdeveloped country can hope to progress without first setting up a sound system of commercial banking in the country. The importance of a sound banking system for a developing country likes India can be defected though the following important points.

#### **1) Promotion of saving in rural area:-**

Since most of the people in our country are poor, the rote of saving in such

country is usually low. Even the people who want to save with proper financial institution. Because of the lack of adequate banking facilities in India. To collect the scattered savings of the rural people & to make them available for productive & investment purposes the role of sound banking system in rural area is very important

## **2] Capital formation to Rural Industries:-**

Capital occupies a position of strategic importance in any plan of economic development. As a matter of fact, no economic development in a sizeable magnitude can be possible without adequate capital in any industry. But paucity of capital and low rate of capital formation are the chief features of underdeveloped countries. It is observed that in most of the low developed countries, the rate of capital formation is about 5% to 8% of national income as against 15% to 20% in developed countries.

Low capital formation and lower availability of resources reduce the productivity of the people and this in turn results in lower production and national income followed by low per capita income.

This vicious circle can be broken only if the savings from common man of the rural area are encouraged and utilized for productive and investment purposes in rural area. The role of commercial banks is very important in capital formation in rural area by encouraging rural people for saving and use of these savings for development of rural entrepreneur in that respective rural area.

## **3) Finance to small scale Industries in rural area:-**

As the most important function of bank is finance to persons which are in need of funds for productive purpose. In rural area the commercial banks play a vital role to provide financial assistance to all small scale industries, Agro-based industries and other subsidiary industries available in rural area, this financial help by commercial banks leads to proper and sound growth of rural industries which helps to mobilize employment generation in rural area.

## **4) Finance to Agriculture Sector:-**

Agriculture is a back-bone of Indian economy. About 70% Indian people are engaged in agriculture sector. In India 56% of national income derived from only

agriculture sector. In all industries 80% industries are depend on agriculture sector for supply of raw material to their final product. For example, the Sugar industry, Cotton industry, Bakery product, Jute industry an many more.

That's why the increase in agricultural production is very important to increase industrial production i.e. our national income. The role of commercial banks in this fact is very important to boost agricultural production by providing proper funds to our vast population which is engaged in India's most important profession i.e. agriculture sector.

#### **5) Financial inclusion in Rural area:-**

The recent concept of financial inclusion which means providing financial facilities to the rural poor people. For example, people comes under Below Poverty Line (BPL).

The role of commercial banks in this regards is very vital which can made all these efforts to make our rural poor efficient to get their livelihood.

#### **6) Promotion of Trade & Commerce in rural area:-**

The role of commercial bank in promotion of domestic and foreign. They provide a convenient mechanism for making payments arising out of trade transactions and thus give a boost to trade & commerce especially foreign trade. The banks provide a link between two parities viz, exporter and importer, who are often miles apart and unknown to each other in rural area.

#### **7) Promotion to growth and development of rural families:-**

Banking facilities in rural area leads to overall growth of that respective area which helps to increase the standard of living of people of rural families. Commercial banks play a key role in this regards by providing various financial facilities. In rural area a remunerative price for example commercial banks provide agriculture cash credit (Kisan Credit Card) at only 2% rate of interest to farmers.

#### **8) Help to employment generation in rural area:**

Commercial banks provide proper funds to rural industries. These rural industries obviously demands more number of skilled and unskilled labours. These can be provided by rural area so the role of commercial banks in employments generation is very important which cannot be neglected.

**9) Finance to priority sector in rural area:-**

As per the rule of Govt, of India and RBI, the bank should finance about 40% topriority sector. To growth of priority sector depends mostly on the finance from commercial banks. These sectors are much more important in countries economic development. In these most important priority sector is agricultural, cottage and small scale industries.

In short, the plan priorities are determined by Govt, and banks by providing loans and advances to socially desirable sectors facilitate the right pattern of economic growth.

**10) Monetization:-**

The existence of a large non-monetised sector, especially in the rural and backward areas, is a common characteristic feature of an under-developed country. Obviously, the existence of this non-monetised sector is an impediment which obstructs the growth and development of the less developed countries. The banks, by opening new branches in backward regions can play an important role in accelerating the process of monetisation in the economy. Before the nationalization of bank in India, branch expansion in rural areas was totally neglected due to lack of adequate business in the area. But after their nationalization in 1969, there has been a positive change in their attitude and large numbers of branches have been opened in the hitherto unbanked sector. Naturally, through this network of branches in rural and backward areas, the banking system can be promote the process of monetisation in the economy.

**Conclusion:-**

From the above discussion it is quite clear that banks have now come to occupy an important position in the industrial and commercial life of a country. They play a decisive role in promoting economic development as financial intermediaries by mobilising the scattered saving of people and by making them available for productive purpose. Thus, as well organized and a sound banking system can prove to be a boon for the economic development of the underdeveloped countries in rural areas.

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