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# Development of Rural Economy Through Banking Reforms in India

## ABSTRACT

Development of rural areas in India is slow because we have concentrated mainly on urban development in our country. Rural infrastructure is not only a key component of rural development but also an important ingredient in ensuring any sustainable poverty reduction programme. The development of infrastructure and newer agricultural techniques in rural areas will improve rural economy, employment and quality of life. Rural industrialization is also another area which will prove helpful in providing employment, removing poverty and thus the development of rural areas. Further, our village cottage industries that have become outdated due to lack of modernization should be aided, so that our huge labour resource may be employed. Immigration of educated people to the cities makes the situation worst. Though there are handful of rural people who can afford to have education in the cities yet when they get the chance they prefer to settle down in cities only due to lack of employment opportunities and poor standard of living in rural areas. Our rural economy is underdeveloped due to the shortage of finance. The poor rural people are not in a position to start new businesses due to lack of initial and working capitals with them. Banks can help them to overcome this problem. The main objective of establishing the regional rural banks is to provide credit and other facilities, especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas, who are under the shortage of funds. These banks should grant loans and advances, also to artisans, small entrepreneurs and persons of small means engaged in trade, commerce and industry or other productive activities. The financial assistance given to the industries in the rural areas will help the industrial development of these areas. People will get the employment in their areas only instead of migrating to cities, thereby reducing the problems of urban areas also.

### 1. INDIA'S RURAL ECONOMY

Ours is an agricultural based economy and we can prosper on this base only. Still there are lakhs of villages in India in which about 60 crore people of our country are residing. So, India can dream of becoming a developed nation after the planed development of its rural areas. Rural development may be defined as structural changes in the socio-economic situation to achieve improved living standard of low-income population residing in rural areas and making the process of their development self-sustained. It includes economic development with close integration among various sections and sectors; and economic growth specifically directed to rural poor. In fact, it requires area based development as well as beneficiary oriented programmes.

Development of rural areas in India is slow because we have concentrated mainly on urban development in our country. The gap between the rural and urban areas is widening day by day. This is the culminating point that there is slow progress of our rural areas due to lack of even the basic infrastructure facilities which are essential to make a rapid progress in the undeveloped remote areas of our country.

Agriculture is another area that needs special attention, as it is only the main source of employment in the rural areas. To improve agriculture, Green Revolution was brought in the country, but only few areas shared its fruits. Further, due to existence of large number of small land holdings in our country it seems very difficult to make the use of latest technical innovations in our country. So for the use of sophisticated technology in

agriculture, steps should be taken to consolidate the small farms and make it one bigger unit. This will help in the increased production with low cost and will result in savings. These savings will help in the capital formation and further investment in agriculture, thus contributing in the formation of GDP and national income. Also the irrigation facilities need to be improved to rid of dependence on the rainfall.

Next is rural industrialization. It is the need of the time to give aid and assistance to the small and cottage industries like candles making, agarbatties, bakery products, basket making, weaving, gur and khandsari manufacturing etc. which need small investment and can really be proved helpful in providing employment, removing poverty and thus the development of rural areas.

Moreover, half of the rural population is deprived of drinking water, electrification and basic education. These things are making the rural areas even more backward due to which most of the rural youths have a tendency to move towards the cities to find their livelihood. There is a need to wake up now if we want to compete with the developed countries in the world. The primary need is to build a strong infrastructure that will connect the rural areas to the urban cities. Construction of proper roads will shorten the gap between the villages and the cities. In fact rural infrastructure is not only a key component of rural development but also an important ingredient in ensuring success of any sustainable poverty reduction programme. The proper development of infrastructure in rural areas improves rural economy and quality of life. It promotes better productivity, increased agricultural income, adequate employment etc. Development of infrastructure in rural areas is a thrust area to create values through engineering consultancy. Now the UPA Government has launched "Bharat Nirman" time-bound business plan for action in rural

infrastructure up to 2009. Various infrastructure projects under this plan will breath life to new markets, new business, new incomes and above all to new opportunities. Even a narrow road can be a highway to prosperity. Similarly each infrastructure project has a kit of own advantages. Particularly rural connectivity plan ensures that every village in India has access to markets, services, education opportunities and indeed to prosperity.

Our village cottage industries that have become outdated due to lack of modernization need to be aided, so that our huge labour resource may be employed. These cottage industries should be provided with latest techniques to improve production. Through adequate management and techniques, cottage industries can prove to be a boon for the rural economy.

Also the adequate education, drinking water, electrification, and telecommunication facilities will curb the migration of the rural population and will sustain a standard of living of rural areas. The location of rural settlement in the vicinity of the cities will have high potential of development of rural areas. There is a need to design the rural areas in the framework of urban style so that every person can be equal irrespective of the living area. Country's development strategy should not be based only on cities. It should ensure the contribution of villages too. Basically a country is a single unit, it should not be differentiated on the basis of rural and urban areas, because these can achieve full development through their joint efforts.

## 2. ROLE OF BANKS IN THE DEVELOPMENT OF RURAL ECONOMY

Banks can be proved a boon in improving our rural economy to a large extent. Our rural economy is underdeveloped due to the shortage of finance. People are not able to start new

business due to lack of working capital. Banks can help them to overcome this problem. Government has also been giving emphasis on this area since independence.

The establishment of Regional Rural Banks in India is an important landmark in the banking history of the country. These banks were established under the provisions of the Regional rural Banks Ordinance, 1975, promulgated by the Government on September 26, 1975. The main objective of establishing the regional rural banks is to provide credit and other facilities, especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas, who are under the shortage of funds. These banks grant loans and advances, particularly to small and marginal farmers and agricultural labourers, whether individually or in groups, and to cooperative societies, including agricultural marketing societies, agricultural processing societies, co-operative farming societies, primary agricultural credit societies or farmers' service societies for agricultural purposes on agricultural operations or for other purposes connected there with. These banks also grant loans and advances, particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce and industry or other productive activities. The financial assistance given to the industries in the rural areas will help the industrial development in villages. People will get the employment in their areas instead of migrating to cities, thus

reducing the problems of urban areas also.

### 3. BOTTLENECKS OF THE BANKING SYSTEM IN RURAL AREAS

Though the banking sector has flourished leaps and bounds since independence in the rural areas, yet it is not providing enough aid to help the large village groups. The reason behind this phenomenon is that most of the rural population is not aware of the finance schemes generated by these banks and thus is not able to take full advantage of the facilities provided by these banks. Further, the rural people are also not serious to make their economic development. In most of the cases they use the loan money in other purposes instead of using it in productive works and in turn they are unable to pay even the principal amount of the loan.

Short period of loan is also a hurdle in the smooth functioning of rural economy. This period should be extended to the requirement of the objects to make full utilization of these financial resources. Mostly there are public sector banks in the rural areas, which do not work with full enthusiasm and zeal. Branches of private banks should be opened to make a competition with the public sector banks so that rural people can avail more benefits of the banking sector on the lines of the urban areas. In fine, the rural banks should come forward with their full enthusiasm to shoulders this responsibility in making India a developed nation.

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