

# Role of Commercial Banks in the Development of Rural Industries in India

R.Eswaraiah<sup>1</sup>, Prof.P.R.Sivasankar (Rtd.)<sup>2</sup>

<sup>1</sup>Research Scholar, Department of Commerce, VSU College, Kavali-524201

<sup>2</sup>Department of Commerce, VSU College, Kavali-524201

**Abstract-Rural industries play a pivotal role in the economic development of India. It is generally stated that the economy in rural industrialization not only raises the per capita income and living standards of the people by providing gainful employment opportunities, but also reduces income disparities between rural and urban areas. Moreover, promotion of rural industries provides an ample opportunity for optimum utilization of local resources to serve the local needs. Rural industrialization has become one of the major economic and social goals of economic development and formed part and parcel of planning and development of India. The objective of rural industrialization implies widely dispersed on a Micro, Small and Medium Enterprises (MSMEs) with as high an employment potential as is compatible with an efficient technique and the requirement of process of development.**

**The Commercial banks are playing an important role in the development of rural industries in India. Most of the credit-related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. The banking sector's role in deposit mobilization and extending credit is of much importance. The commercial banks have extended loans at concessional rates to rural industries. The functioning of banks through financial inclusion and social banking is also worthy of note. Commercial banks have to concentrate more and more lending to the rural industries. Otherwise, Rural Industries will suffer from shortage of money. The role of Commercial banks should be increased further in lending to the rural Industries.**

**Keywords: Rural Industries, Commercial Bank, Lending policies, MSMEs.**

## INTRODUCTION

Rural industries play a pivotal role in the economic development of India. It is generally stated that the economy in rural industrialization not only raises the per capita income and living standards of the people

by providing gainful employment opportunities, but also reduces income disparities between rural and urban areas. Moreover, promotion of rural industries provides an ample opportunity for optimum utilization of local resources to serve the local needs. Rural industrialization has become one of the major economic and social goals of economic development and formed part and parcel of planning and development of India. The objective of rural industrialization implies widely dispersed on a Micro, Small and Medium Enterprises (MSMEs) with as high an employment potential as is compatible with an efficient technique and the requirement of process of development.

Rural industrialization facilitates shifts in work force from primary to secondary sector. Industrialization promotes an economy fundamentally relying on agriculture into a more advanced industrial economy. The issues of industrialization are different at different levels of growth with political goals. Economic growth, equity and welfare, national independence etc. dominate industrialization. The strategy of industrialization immensely depends on the theoretical framework and ideological setting. It is impossible to develop everything simultaneously and therefore priorities are to be identified. The right choice has dimensions like relative roles of public and private sectors, heavy industry and light industry, import-substitution and export-promotion, labour-intensive and capital-intensive etc.

## ROLE OF COMMERCIAL BANKS

A commercial bank is an entity whose economic activity is financial intermediation. In other words, it takes deposits from the public and directs those resources to grant credits to obtain a profit. These banks can generate profits from the interest rate they

charge for the financing granted. Thus, they not only recover the borrowed money but also obtain additional income. Commercial banks are usually involved in the opening and maintenance of savings accounts or current accounts. Through these products, customers make deposits to keep their money safe and achieve a small return. Most of the Indian joint stock Banks are Commercial Banks such as State Bank of India, Punjab National Bank, Allahabad Bank, Canara Bank, Andhra Bank, Bank of Baroda, etc. The commercial banks are extending loans at concessional rates to rural industries. The functioning of banks through financial inclusion and social banking is also a noteworthy. At present, most of the commercial banker are merging with the major bank among them.

#### REVIEW OF LITERATURE

A few of the research studies are referred hereunder to understand the role of commercial banks for the development of rural industries in India.

Parvath Mithra (2017) in his paper stressed that there is an urgent need to promote rural artisans, village crafts and cottage industries as they are contributing substantially towards economic and social upliftment of the large chunk of our population in rural areas. He observed that for the exploitation of full potential of the village industries an integrated approach is necessary since these traditional skills have been retained by the craftsmen of different regions face various problems that need to be solved in a co-ordinated manner. It was, therefore, suggested that a detailed analysis be carried out relating to their performance over the past ten years so as to identify their specific problems and to take suitable measures to remove them. Attention should be drawn towards the need to bring about the suitable technological changes, which lead to production of better-quality goods thereby increasing the income level of workers. He has felt that the various organizations have to play a positive role towards this end and the financial institutions should come forward with easy credit facilities.

Gangadhara Rao (2018) had made a detailed and an in-depth study of the Rural Industries located in the industrial estates of Coastal Andhra Pradesh and attempted to evaluate the impact of the programme of industrial estate on the emergence of entrepreneurship in the MSME sector. The study found that the

educational and income levels are important factors motivating entrepreneurship of all the ambitions. Money making is the major ambition of the entrepreneurs.

Dr. Raghavendra NR (2019) said that the Micro, Small and Medium Enterprises (MSME) play a dominant role in the generation of employment opportunities in rural areas of the country. But these MSMEs are suffering from lack of financial resources. Among the sources of finance available to MSMEs, the major source is loans from banks. Especially commercial banks are concentrating more on large scale and profitable industries that is why MSMEs are not in a position to get adequate loan from these banks. Central Government has recently announced that merging of syndicate bank with Canara Bank in the coming days. A case study of these two banks is taken into consideration to know the role of these banks in the development of MSME sector in the country. An attempt has been made to know the difference in lending by commercial banks towards MSME sector. T test is used to know the difference between Loan disbursed by Canara bank and Syndicate Bank towards MSME sector.

Chandra and B.Ramji (2020) have studied that the Indian commercial banks are expected to act as an instrument in fostering growth at rural areas by promoting activities are development of entrepreneurship, Commercial Banks have undertaken specific activities and launched special schemes to develop entrepreneurship at rural levels. The purpose is to encourage small scale entrepreneurship to set up business at rural areas and thereby generate income and increase employment levels of rural community in general.

B.Patras Verma and V.Chendu Goyal (2021) made it clear in their research paper that the Commercial Banks provide much needed financial assistance to the various essential but fund starved rural industries. They identify industries which are of essential nature but lack proper funds and raise funds from sectors which have surplus funds to direct the funds to these industries. Commercial Banks have devised schemes with low interest and zero interest loan facility for various marginal communities, Self-Help Groups and less developed rural industrial sectors. Banks have also acted as facilitator of smooth flow of goods and services from the producer to consumer.

**OBJECTIVE**

The main objective of this paper is to study the role of Commercial Banks in the development of Rural Industries in India.

**IMPORTANCE OF COMMERCIAL BANKS**

Commercial banks are playing very important role in providing credit to rural industries, which increases the production, employment and consumer spending, thereby boosting the economy. These banks are heavily regulated by the Central Bank of that country, the RBI, in India. For example, central banks impose reserve requirements on commercial banks, which means that the commercial banks would need to hold a certain percentage of their consumer deposits at the central bank in case of a rush to withdraw funds from the general public. These entities help markets thrive and, if their influence is used well, can positively foster development so that more people can access essential services and consumer goods.

Commercial banks are classified into two categories, i.e., scheduled commercial banks and non-scheduled commercial banks. Furthermore, scheduled commercial banks are classified into three types: private banks, public banks and foreign banks.

**GROWTH AND ROLE OF COMMERCIAL BANKS**

Among the roles played by commercial banks in modern economies are - Mobilize savings for capital creation, Finance the industry, Finance trade, Finance agriculture, Financing of consumer goods, Finance activities that generate employment, and Help the government and central banks in monetary policy.

Table 1 reveals that the regional distribution of Commercial Bank Branches during 2019-20. It could be seen from the table highest portion occupies in the southern region number of commercial bank branches were 28400 with 27.57 percent, next portion central region branches were 22600 with 21.94 percent, third portion occupies western region branches were 15300 with 14.85 percent, fourth portion occupies northern region were branches 14300 with 13.88 percent, fifth portion occupies eastern region branches were 14160 with 13.75 percent and least portion north-eastern region branches were 8520 with 8.01 percent respectively are recorded.

Table 1-Regional Distribution of Commercial Bank Branches during 2019-20

S. No	Region	Number of branches	Percentages
1	NORTHERN REGION (Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab & Rajasthan)	14300	13.88
2	NORTH-EARSTERN REGION (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland & Tripura)	8250	8.01
3	EASTERN REGION (Andaman and Nicobar Islands, Bihar, Jharkhand, Orissa, Sikkim & West Bengal)	14160	13.75
4	CENTRAL REGION (Chhatisgarh, Madhya Pradesh, Uttar Pradesh & Uttarakhand)	22600	21.94
5	WESTERN REGION (Dadra and Nagar Haveli, Daman and Diu, Goa, Gujarat & Maharashtra)	15300	14.85
6	SOUTHERN REGION (Andhra Pradesh, Telangana, Karnataka, Kerala, Lakshadweep, Puducherry & Tamil Nadu)	28400	27.57
All-India		103010	100.00

Source: Reserve Bank of India bulletin end of March 2020

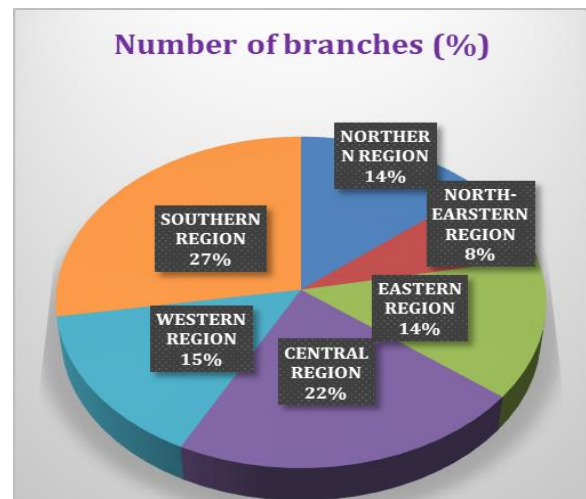


Fig 1: Regional Distribution of Commercial Bank Branches

Year-wise and Area-wise, the number of Commercial Bank Branches in India is presented in the Table 2.

The number commercial bank branches were 41250 in the year 2010-11, it was gradually increased to 44850 branches in the rural areas. In the semi-urban areas, increased from 18520 branches to 22820 branches in between 2010-11 and 2019-20 were recorded. 32120 branches in the year 2010-11, it was regularly increased to 35340 branches in the year 2019-20 were recorded in the urban areas.

Table 2 Year and Area wise number of Commercial Bank Branches in India

Year/ Area	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Rural	41250 (44.78)	42200 (43.68)	43105 (44.06)	43250 (44.11)	43620 (44.32)	43750 (44.32)	44902 (44.37)	44205 (44.51)	44230 (43.63)	44850 (43.54)
Semi-Urban	18000 (20.10)	20500 (20.81)	20000 (20.67)	20200 (20.65)	20250 (20.57)	20350 (20.61)	20369 (20.58)	20922 (20.52)	22200 (22.10)	22800 (22.15)
Urban	32350 (35.12)	34310 (35.51)	34510 (35.27)	34550 (35.24)	34560 (35.11)	34620 (35.07)	34680 (35.05)	34720 (34.96)	34750 (34.28)	35340 (34.31)
Total	92000 (100)	96620 (100)	97830 (100)	98430 (100)	98430 (100)	98720 (100)	99300 (100)	99800 (100)	101380 (100)	103010 (100)

Source: Reserve Bank of India bulletin end of the March 2020

Note: Figures in Parentheses indicate percentages to total

Table 3 reveals that the year-wise deposits and credit of scheduled commercial banks in rural areas with percentage to all India level from March 2006 to March 2020. It is observed from the table number of offices increased from 30,610 to 58,462 with growth rate of 190.99 percent between 2006 and 2020. The number of deposit accounts increased from 13,95,70,235 to 68,74,52,950 with growth rate of 492.55 percent in between 2006 and 2020, the deposit amount of Rs.2260611.8 million in the year 2006, it was gradually increased to Rs.11281245.6 million in the year 2020 respectively are recorded. The number of credit accounts increased from 2,85,76,751 to 6,15,22,124 with growth rate of 215.29 percent in between 2006 and 2020, the credit amount of Rs.1260783.4 million in the year 2006, it was steadily increased to Rs.8124536.7 million in the year 2020 respectively are recorded.

Table 3 Year wise deposits and credit of scheduled commercial banks in rural areas with percentage to all India level from March 2006 to March 2020

(Amount Rs. in millions)

Year	No. of Offices	Deposits		Credits	
		No. Of Accounts	Amount	No. Of Accounts	Amount
2006	30,610	13,95,70,235	2260611.8	2,85,76,751	1260783.4
2007	30,393	14,96,62,685	2530136.9	3,04,64,649	1548979.7
2008	30898	16,80,34,312	3034230.4	3,27,41,086	1831068.1
2009	31,549	19,96,95,080	36391019	3,33,07,651	20792613
2010	32,320	22,41,54,850	4203377.2	3,61,92,714	2492769.6
2011	33367	25,0253643	4932655.2	3,91,29,655	2958145.4
2012	35,936	28,30,71,790	5731858.5	4,11,15,982	3805176.5
2013	39233	33,53,47,106	6698886.8	4,40,35,167	4561908.1
2014	44653	40,66,24,148	7871511.1	4,78,96,289	5246133.8
2015	48536	49,39,69,524	9156764.6	4,99,27,765	5983459.9
2016	50102	57,61,70,952	10089413.2	5,41,61,214	6746701.5
2017	53205	60,15,23,000	10152024.3	5,64,28,132	7012540.2
2018	55230	62,35,48600	10912480.8	5,85,45,650	7415280.4
2019	56480	64,75,28,390	11045250.7	5,97,87,869	7814537.2
2020	58462	68,74,52,950	11281245.6	6,15,22,124	8124536.7
Percentage of growth of 2020 over 2006	190.99	492.55	499.04	215.29	644.40

Source: Compiled from RBI data for commercial banks for various years

Table 4 depicts that the year wise Deposits and Credit of Commercial Banks in the development of Rural Industries with percentage to all India level from March 2006 to March 2020. The commercial banks are very important role in the development of rural industries in India. The commercial banks are financial assistance to the rural entrepreneurs for the development of rural business. It could be seen from the table number of offices were 26019 in the year 2006, it was increased to 49693 in the year 2020 with growth rate of 191 percent. The number of deposit accounts increased from 118634700 to 584335008 with growth rate of 492.55 percent in between 2006

and 2020. The deposit amount of Rs.1921520.03 million in the year 2006, it was increased to Rs.9589058.76 million in the year 2020 respectively are recorded. The number of credit accounts increased from 24290238 to 52293805 with growth rate of 215.29 percent in between 2006 and 2020, the credit amount outstanding of Rs.1071666 million in the year 2006, it was gradually increased to Rs.6905856 million in the year 2020 with high growth rate of 644.40 percent were recorded.

Table 4 Year wise Deposits and Credit of Commercial Banks in the development of Rural Industries with percentage to all India level from March 2006 to March 2020

(Amount Rs. in millions)

Year	DEPOSITS			CREDIT	
	No. of offices	No. of Accounts	Amount	No. of Accounts	Amount Outstanding
2006	26019	118634700	1921520.03	24290238	1071666
2007	25834	127213282	2150616.37	25894952	1316633
2008	26263	142829165	2579095.84	27829923	1556408
2009	26817	169740818	30932366.15	28311503	17673721
2010	27472	190531623	3572870.62	30763807	2118854
2011	28362	212715597	4192756.92	33260207	2514424
2012	30546	240611022	4872079.73	34948585	3234400
2013	33348	285045040	5694053.78	37429892	3877622
2014	37955	345630526	6690784.44	40711846	4459214
2015	41256	419874095	7783249.91	42438600	5085941
2016	42587	489745309	8576001.22	46037032	5734696
2017	45224	511294550	8629220.64	47963912	5960659
2018	46946	530016310	9275608.68	49763803	6302988
2019	48008	550399132	9388463.09	50819689	6642357
2020	49693	584335008	9589058.76	52293805	6905856
Perc entage of growth of 2020 over 2006	190.99	492.55	499.04	215.29	644.40

Source: Compiled from RBI data for commercial banks for various years

Table 5 shows that the agency wise institutional credit flow to Rural Industries in India. Out of Rs.2958145 million, the share of commercial banks outstanding amount of Rs.2514424 million, from cooperatives of Rs.147907.3 million and from regional rural banks of 295815 million to the rural industries in the year 2011. The share from commercial banks outstanding amount of Rs.6905856 million, from cooperatives of Rs.406226.8 million and from regional rural banks of 812454 million to the rural industries out of Rs.8124537 million in the year 2020.

Table 5 Agency wise institutional credit flow to Rural Industries in India

(Amount Rs. in millions)

Year	Commer cial Banks	Cooperatives	Regional Rural Banks	Total
2011	2514424	147907.3	295815	2958145
2012	3234400	190258.8	380518	3805177
2013	3877622	228095.4	456191	4561908
2014	4459214	262306.7	524613	5246134
2015	5085941	299173.0	598346	5983460
2016	5734696	337335.1	674670	6746702
2017	5960659	350627.0	701254	7012540
2018	6302988	370764.0	741528	7415280
2019	6642357	390726.9	781454	7814537
2020	6905856	406226.8	812454	8124537

Source: Compiled from RBI data for commercial banks for various years

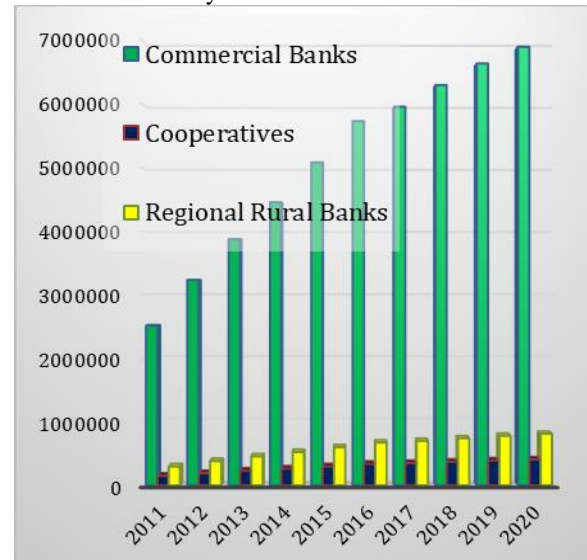


Fig 2: Agency wise institutional credit flow to Rural Industries in India

Table 6 depicts that the state-wise commercial banks financing to the Rural Industries in India in the year 2020. It could be observed from the table that out of Rs.6905856 million, of these, highest portion occupies of Rs.476504 million with 6.9 percent in the state of Karnataka, next portion occupies of Rs.469898 million with 6.8 percent in Himachal Pradesh, third portion occupies of Rs.407446 with 5.9 percent in the Kerala state and small portion occupies of Rs.75964 million with 1.1 percent in the state of Meghalaya are respectively recorded.

Table 6 State-wise commercial banks financing to the Rural Industries in India during 2020

States	Commercial Banks financing to the Rural Industries		
	Number of Branches	Amount Rs. in Millions	Percentages
Andhra Pradesh	1839	283140	4.1
Arunachal Pradesh	852	131211	1.9
Assam	673	103588	1.5
Bihar	1076	165741	2.4
Chhattisgarh	1390	214082	3.1
Goa	1570	241705	3.5
Gujarat	1256	193364	2.8
Haryana	2063	317669	4.6
Himachal Pradesh	3050	469598	6.8
Jammu & Kashmir	2467	379822	5.5
Jharkhand	1525	234799	3.4
Karnataka	3095	476504	6.9
Kerala	2646	407446	5.9
Madhya Pradesh	1525	234799	3.4
Maharashtra	1570	241705	3.5
Manipur	673	103588	1.5
Meghalaya	493	75964	1.1
Mizoram	942	145023	2.1
Nagaland	538	82870	1.2
Odisha	1256	193364	2.8
Punjab	1659	255517	3.7
Rajasthan	1704	262423	3.8
Sikkim	1884	290046	4.2
Telangana	2063	317669	4.6
Tamil Nadu	1884	290046	4.2
Tripura	1973	303858	4.4
Uttar Pradesh	1704	262423	3.8
Uttarakhand	897	138117	2.0
West Bengal	583	89776	1.3
All-India	44850	6905856	100.00

Source: Compiled from RBI data for commercial banks for various years

#### CONCLUSION

It is concluded that the Commercial banks are playing very important role in the development of rural industries in India. Most of the credit-related schemes of the government are implemented to uplift the poorer and the under-privileged sections of the society. The role of the commercial banks in deposit mobilization and extending credit is of much importance. The commercial banks have extended the loans at concessional rates to rural industries. The functioning of banks through financial inclusion and social banking is also a noteworthy. The commercial banks have contributed to the economic development of the country through the development of rural industries. Thus, the commercial banking sector plays very crucial role in making the economy more-stronger and facilitate to emerge as super power in global market through the development of MSMEs in rural areas. Commercial banks have to play a greater role to the development of the rural industries, because still many of the rural industries are suffering from insufficient loans. The role of Commercial banks should be increased further in lending to rural Industries than other financial institutions and money lenders.

#### REFERENCE

- [1] Sharma, V.K. & Kumar, A. (2013). Assessment of Performance of Commercial Banks in India. *Indian Journal of Finance*. 7. 47-54.
- [2] Parvathi Mithra (2017), The role of credit for small business success., A study of the national Entrepreneurship Development Fund in India., *The Journal of Entrepreneurship*, February 14, p.129. 5
- [3] Gangadhara Rao (2018), Commercial Bank Finance for rural industries Development, State Bank of India, Monthly Review, July 1988, Pp.340-362.
- [4] Dr. Raghavendra NR (2019) Penetration of scheduled commercial banks in rural areas: A comparative study. 7. 38-43.
- [5] Chandra and Dr.B.Ramji "Commercial Banks performance towards SSI sectors in Erode District", M.Phil dissertation, Periyar University, p.108.
- [6] Prof.B.Patras Verma and Dr.V.Chendu Goyal (2021) Rural Development in India A Public policy approach, sage publications, New Delhi, 1985