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Role of Banking in Development of India

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Banking sector in India has performed an important role in the development of the country. Before independence banks were known as agency houses but after independence RBI had strengthened the banking system by adapting various policies. Till mid-sixties banking in India was oriented to urban area, but specially after nationalization rural sector development was the important priority of Banking sector. Banks accelerates the development of country by the ways like capital formation, credit creation, advances, allocation of funds. Before discussing role of banking in development, it is necessary to discuss the term 'development'.

Concept of 'Development'

1. At a symposium on Social Policy and Planning organized by United Nation, 1970, following definition of 'development' was formulated – **“Development can be defined as a process of improving the capability of a country's institutions and value systems to meet increasing and different demands of a social, cultural, political as well as an economic character.”**

The above definition indicates that, development has many facts. Development means, improvement in 'quality of life' of the people. It refers to transformation of backwards, traditional, stagnant state to a progressive, modern and dynamic state.

2. As per Oxford Dictionary, **“Development means, advance, betterment, change, enlargement, evolution, expansion, extension, gain, growth, improvement, increase, progress, promotion, regeneration, reinforcement, spread.”**

Development is a continuous process of qualitative and quantitative changes in the country which improves standard of living of people. The term consisting of various aspects of human life like economic, social, political, cultural, environmental and technical. Thus, for the improvement of 'quality of life' of society, continuous development process is necessary. Various factors are involved in the development process like Govt., Banks, Society, Institution. Development can be measured by using various criteria like standard of living, infrastructural facilities, education facilities, health care facility. Agricultural development can be measured by agricultural produce, intensity of cropping, cropped area, consumption of fertilizers, consumption of power, net irrigated area, pump-sets, tube wells, roads, electricity. Such criteria shows overall performance of agriculture, modernization of agriculture. Socio-economic development can be measured by various criteria like education facilities, health care facility, road, transport. Industrial development play an important role in economic development. Industrial output, industrial workers, no. of industries, no. of workers engaged in factories are various factors used for industrial development.

Banking sector contributing to improving the 'quality of life' of society by providing finance, accepting deposits, advancing loans and providing banking services. Thus, banking sector accelerates various aspects of development concept.

Banks and Economic Development :

Economic development is a dynamic and continuous process. In other words, economic development is economic progress of a country. Banks have catalyst role in economic development because banks control a large part of supply of money in circulation. In India, several financial institutions were established to provide funds to different sectors of economy. The role played by banks in economic development, over different periods, can be described in various ways.

1. 'Banks are financial intermediates. The direct correlation between economic growth on one hand and financial growth driven by the dynamism of the financial sector in general and banks in particular on the other.
2. Role of banks in creation of money which creates the demand for goods and services.
3. Role of banks as a financial catalyst of social development.
4. Role of banks in facilitating / promotion of entrepreneurship an essential condition of economic development.'

After liberalization, the government has approved significant banking reforms while some of these are related to nationalized banks (like encouraging mergers, disinvestment by government, reducing government interference and increasing profitability and competitiveness), other reforms have opened banking and insurance sector for private and foreign concerns. Financial sector reforms were initiated as a part of overall economic reforms in India and covering industry, trade, taxation, external sector, banking and financial markets, since mid 1991. A decade of economic and financial sector reforms has strengthened the fundamentals of Indian economy and transformed the operating environment for banking and financial institutions. The reforms has helped economy to avoid crises and has actually fuelled growth. The most significant achievement of financial sector reforms has been the marked improvement in financial health of commercial banks in terms of capital adequacy, asset quality and profitability. The reforms have opened new opportunities for banks. At the same time, have brought competition among banks, both domestic and foreign as well as competition from mutual funds, NBFC's. Such increasing competition is squeezing profitability and forcing banks to work efficiently, which results in overall economic progress.

Banks and Rural Development :

Rural development is development of people living in rural area. Development of rural people means raising of standard of their living. The world Bank defined rural development as "Rural development is a strategy to improve the economic and social life of a specific group of people, the rural poor, including small and marginal farmers, tenants and the landless."

Improvement in standard of living of rural poor means social change through economic change. Uma Lele defines "rural development in terms of raising standard of living of rural people." The ultimate aim of rural development is social change.

For rural development 'availability of funds' is essential requirement. Commercial banks have such lendable funds hence, are involved in rural development. Commercial banking was introduced in 18th century. In India, upto independence rural sector was ignored by commercial banks. After independence, Govt. has taken various important steps to make commercial banking finance available to rural mass. Through the commercial banks, direct and indirect finance (funds) was given to rural area. In direct finance, banks provide funds directly to rural people. In Indirect finance, funds were extended to rural banks for further lending of funds to rural people.

After nationalization, rural development got momentum due to opening of large number of bank branches in rural and semi-urban area. Commercial banks were realized about their responsibility towards rural society. Various programs were implemented by the banks for rural development e.g. Lead Bank Scheme, Village Adoption Scheme, DRI Scheme. Banks were providing loans and advances to rural people and also mobilizing small savings through a large network of bank branches. After, liberalization, the strategies and policies of banking sector were changed, from rural agrarian policy to rural entrepreneurial development policy. Banks are encouraging rural youth for establishment of trade, enterprises or agri-allied activities. Hence, banks has played vital role in rural area progress.

Banking in India and 'Development' :

Banks performs important functions in the 'development' of a country. Banks are converting non-productive financial resources in productive resources. It is difficult to think about development without network of commercial banks. The development process can be sustained with the help of banks. In the following ways banks are accelerating development process in India.

1. Capital Formation -

Under Capital Formation function commercial bank has to accept deposits. People deposit their savings in banks which results in capital formation. It is a function of generation, mobilization and channelizing of savings of society. Bank offers facility of saving and thus encourage the habit of savings amongst society.

"Commercial banks cannot satisfy the massive need for development capital in economies like India nor are they capable of financing the much needed infrastructure therein, yet they make a most basic and flexible contribution to development process." 11

2. Branch Expansion -

Rapid economic development presupposes rapid expansion of commercial banks. Initially, the banks were conservative and limited upto civilized area. After nationalization and introduction of lead bank scheme, branch expansion gained momentum.

3. Deposits Mobilization and Credit Creation -

The basic role of commercial banks is to mobilize financial resources to meet the financial demands of various productive sectors of economy. It depends upon effective mobilization of deposits.

4. Priority Sector Lending by Banks -

Prior to nationalization, commercial banks had neglected priority sectors like agriculture. Neglect of priority sector lending was one of the cause of nationalization of top 14 banks in 1969.

5. Finance for Agriculture -

Agriculture is the main occupation of the rural population and the development in agriculture results in style and standard of living of the people. In order to reduce unemployment and to raise income sources of farmers, development of allied activities in agriculture is essential.

Banks, through a network of branches throughout the country provide finance to agriculture and allied activities. After nationalization maximum segment of advances were issued to priority sectors like agriculture by the banks. As per the above table agriculture sector finance was increased from Rs. 160 crores in 1969 to Rs. 1,55,220 crores in March 2006, which is tremendous increase in finance.

6. Finance to Industrial Development -

In order to reduce unemployment, poverty and increase standard of living, industrial development plays a dominant role. Such industrial development is encouraged by the finance provided by banking institutions.

Commercial banks plays catalyst role in development of industrialization. It helps in the formation of new venture, financing to sick industries for making them viable, finance to purchase capital goods. Bank also provide finance to purchase consumer durable. It means banks not only improve standard of living but also help in creation of demand for consumer goods.

7. Allocation of Funds -

Banks also help in proper allocation of funds among different regions. Branch expansion makes it possible for banks to develop their business in different regions. It helps in transference of surplus fund from excess region to neglected area. By doing so, commercial banks can create infrastructure which is essential for economic development.

All regions of the country are not equally developed. Certain regions are more developed than other. Banks collect such surplus fund and transfer it to less developed area.

8. Financial Inclusion -

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Under financial Inclusion, banks has to provide banking services to financially excluded population. He financial Inclusion is necessary for sustainable and equitable development.

Bank has to establish a system for financing to excluded population. Banks provides an avenue of deposit of savings withdrawal and all banking services. Banks tie-up with the technology solution providers such as Bio-metric cards. In which the customer will enjoy 'virtual banking' at their door-steps.

Financial inclusion is essential for unorganized illiterate and disadvantaged population. The network, infrastructure and human resources of commercial banks would play important role in financial inclusion. Hence, it is necessary to discuss about recent developments of commercial banks in India.

It is clear from the above explanation that Banks plays a very special and dynamic role in the development and economic growth of every economy. Banks are an important constituent of country's money market. The bank lending and investment activities leads to improvement in quality of life. Agriculture activities and Industrial innovations become possible only through finance provided by banks. Thus banks had occupied important place in the life of a nation.

Recent development in commercial banks in India :

The earliest commercial Banks were known as agency houses and were started by East Indian Company. Before independence banks could not develop themselves to desired extent. After independence RBI followed the policy of merger to strengthen the banking system. The bank nationalization is an important development in the history of banking. At present these banks function in accordance with national policies and programs and priorities given to the rural sector.

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