



# The Role Of Commercial Banks In Promoting Rural Development: A Study Of Nagaon District Of Assam

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**Abstract:** Commercial banks play a crucial role in fostering rural development by facilitating financial inclusion, credit accessibility and economic growth. This study examines the contribution of commercial banks to rural development in Nagaon district of Assam, focusing on credit flow and their impact on key rural sector such as agriculture and other priority sector. The research analyzes the trends in credit disbursement, the effectiveness of priority sector lending and role of banks in enhancing rural livelihoods. Finding indicates that the growth rate of credit flow to the priority sector by the commercial banks has decreased during the period (2018-24). The study also highlights the need for improved financial outreach, enhanced banking infrastructure and policy interventions to optimize the role of commercial banks in rural development. The research concludes that while commercial banks contribute significantly to rural economic progress, a more inclusive and targeted approach is essential to maximise their impact on sustainable development in Nagaon District.

**Key-Words:** Commercial Bank, Rural Development, Credit, Priority Sector Lending, Agricultural Financing

## SECTION-A

### I. INTRODUCTION

Since the nationalization of banks in 1969, commercial banks have played a significant role in rural transformation. Over the years, the number of bank branches in rural areas has grown substantially, facilitating rural development through the provision of credit facilities to various sectors of society. Rural development has remained a priority for both the State and Central Governments. In Assam, where 86 percent of the population resides in rural areas, the majority of people face economic challenges and poverty. Recognizing this, the Government of Assam has placed special emphasis on eliminating rural poverty and improving the economic conditions of rural populations. The ultimate goal is to ensure that rural communities achieve a quality of life comparable to those in urban and suburban areas.

This study is structured into three sections. Section I provides a brief introduction, conceptual framework, and review of literature. Section II discusses the objectives, methodology, and profile of the study area. Section III focuses on the analysis, discussion, and conclusions of the study, followed by references.

## II. CONCEPTUAL FRAMEWORK

The concept of rural development is broad and multidimensional, often interpreted differently by various scholars and organizations. Generally, rural development encompasses agricultural growth, improvement in the welfare of rural communities, provision of basic needs, structural transformation of rural societies, and achieving higher living standards for rural populations.

The World Bank (1975) defines rural development as *"a strategy designed to improve the economic and social life of a specific group of people—the rural poor."* It emphasizes extending the benefits of development to marginalized groups, including small-scale farmers, tenants, and the landless.

The Asian Centre for Development Administration (ACDA) views rural development as *"a process that leads to a continuous rise in the capacity of rural people to control their environment, accompanied by a wider distribution of benefits arising from such control."*

According to S.K. Sharma (1991), rural development consists of *"strategies, policies, and programs for the development of rural areas, focusing on agriculture, forestry, fisheries, rural crafts, industries, infrastructure, public health, and education."* The ultimate aim is to accelerate agricultural production, utilize physical and human resources efficiently, improve income levels, and enhance living conditions, especially for the rural poor. This is complemented by efforts to create conditions for self-sustained growth. (Agrawal and Kumar, 2009)

**Role of Banks in Rural Development:** Banks in India, particularly commercial banks, have been integral to supporting rural development. They contribute to government-sponsored programs targeting poverty alleviation, upliftment of marginalized sections (e.g., Scheduled Castes and Tribes), and overall rural economic growth. Recognizing the significance of rural credit, the Government of India has introduced numerous policies and schemes to enhance the role of institutional credit while reducing the influence of non-institutional lenders. Commercial banks perform several vital functions to support rural development, including:

- 1) **Promotion of Savings in Rural Areas:** In states like Assam, where a significant portion of the population lives in poverty, commercial banks mobilize rural savings and channel them into productive investments. This encourages saving habits and generates capital for economic growth.
- 2) **Financing the Agricultural Sector:** Agriculture is the backbone of Assam's economy. Farmers require timely and adequate financing for essentials such as fertilizers, seeds, machinery, and irrigation systems. Additionally, agriculture supports various industries, such as sugar, jute, and cotton. Commercial banks provide much-needed capital, enabling agricultural growth and contributing to the rural economy.
- 3) **Capital Formation for Rural Industries:** Rural areas in Assam face challenges such as a scarcity of capital and low capital formation rates. Commercial banks support small-scale industries, agro-based enterprises, and other rural industries by providing financial assistance. This leads to the growth of rural industries and creates employment opportunities in rural areas.
- 4) **Facilitating Financial Inclusion:** Financial inclusion is a critical component of rural development, focusing on providing financial services to the rural poor. Commercial banks play a key role by offering banking facilities such as no-frills accounts and implementing schemes like the Kisan Credit Card (KCC). These initiatives improve the standard of living and promote overall growth in rural areas.

## III. REVIEW LITERATURE

A.K. Sharma (2017) in his study on *"Role of Commercial Bank on Agricultural Finance"* examines the crucial role of commercial banks in providing financial support to the agricultural sector, a key driver of rural development in India. It evaluates various government initiatives, including the Priority Sector Lending (PSL) policy, Kisan Credit Card (KCC) scheme, and other agricultural credit programs designed to enhance farmers' access to institutional credit. The study highlights that commercial banks have significantly contributed to improving rural credit flow, supporting farm mechanization, and promoting agricultural productivity. However, the research also identifies several challenges, including the rising burden of Non-Performing

Assets (NPAs) in agricultural loans, delays in loan disbursement, and the difficulty in reaching small and marginal farmers. The study emphasizes the need for better risk management strategies, financial literacy programs for farmers, and improved banking infrastructure to make agricultural credit more accessible and sustainable in the long run.

Gupta & Dube (2018), in their study "A Study of the Role of Commercial Banks in Rural Development in India", examined the functions of commercial banks in supporting rural economic growth. Their research highlighted that while commercial banks play a crucial role in mobilizing and allocating financial resources for rural development, their overall performance during the period 2006–2016 was not entirely satisfactory in achieving key rural development objectives. The study pointed out several challenges, including inadequate credit flow to priority sectors, inefficiencies in loan distribution, and difficulties in reaching marginalized rural populations. Despite various policy initiatives, commercial banks struggled to bridge the financial gap in rural areas, emphasizing the need for improved financial inclusion strategies and digital banking interventions.

N. Ramesh (2019) in their study on "Impact of banking sector reform on Rural Credit" analyzes the effects of banking sector reforms on rural credit accessibility in India. It explores key reforms such as privatization, digital banking advancements, financial inclusion initiatives, and regulatory changes introduced to enhance banking efficiency. The findings indicate that while these reforms have improved operational efficiency, increased financial inclusion through digital platforms, and expanded credit outreach in some regions, they have also contributed to a reduction in the number of rural bank branches. This decline has negatively impacted direct financial access for rural populations, particularly small farmers and marginalized communities who rely on physical banking infrastructure. The study underscores the need for a balanced approach that integrates technological advancements with on-ground banking services to ensure rural financial inclusion. Policymakers and financial institutions must work towards strengthening rural banking networks, enhancing digital literacy, and addressing structural challenges to maximize the benefits of banking reforms in rural credit distribution.

Das & Barman (2022) in their study on "Role of Banking Institutions in Implementing Rural Development Programmes: A Multiple case of Jorhat District of Assam, India", (volume 8, issue 2) investigates the role of banking institutions in implementing rural development programs in Jorhat District, Assam, and evaluates their contributions to rural credit access. The research highlights that, despite the crucial role played by financial institutions in providing credit for agricultural and rural development, significant challenges persist. These include the inadequate availability of funds to meet the growing demand for rural credit, a lack of awareness among rural populations about banking services, and widespread illiteracy. The study also identifies cultural and behavioural barriers such as the unwillingness of some rural borrowers to repay loans on time, which impacts the overall effectiveness of rural credit programs. Furthermore, the paper suggests that while banks have made strides in providing financial support to rural communities, these challenges hinder the full potential of banking institutions in driving sustainable rural development. It concludes that increasing financial literacy, improving loan recovery mechanisms, and expanding banking infrastructure are essential for overcoming these obstacles and enhancing the impact of financial institutions on rural development in Jorhat and similar regions.

S. Banerjee & A. Sen (2023) in their study "Role of Public and Private Sector Banks in Rural Development" provides a comparative analysis of the contributions of public and private sector banks in fostering rural development in India. It examines key areas such as rural credit distribution, employment generation, and support for self-employment initiatives. The findings suggest that public sector banks play a crucial role in rural financial inclusion due to their extensive branch network and government-backed schemes. However, they often encounter bureaucratic inefficiencies, slow loan processing, and higher non-performing assets (NPAs). On the other hand, private sector banks offer superior customer service, faster credit disbursal, and innovative banking solutions but have relatively lower penetration in remote rural areas due to profitability concerns. The study highlights that while both sectors contribute significantly to rural development, there is a need for improved collaboration between public and private banks to enhance financial access, digital banking adoption, and credit availability. Addressing challenges such as financial illiteracy, digital infrastructure gaps, and policy constraints can further strengthen the role of commercial banks in promoting sustainable rural growth.

## **SECTION – B**

### **IV. OBJECTIVES OF THE STUDIES**

The major objectives of the study are:

- 1) To analyze the progress of loans and advances provided by commercial banks, in India, with a specific focus on their performance in Assam.
- 2) To examine the trends and patterns of credit flow by commercial banks in Nagaon district of Assam.

### **V. METHODOLOGY OF THE STUDY**

The study is based on descriptive research design, which aims to understand the role of commercial banks in promoting rural development in Nagaon district by analyzing the existing data. The focus would be on historical data and trends in banking services, agricultural finance, financial inclusion and rural credit distribution. Therefore, the study is based on secondary data would be gathered from various reliable sources, NABARD Annual Report, Economic survey of Assam, Statistical Hand book of Assam etc. The period of the study is considered from 2018-19 to 2023-24. In order to draw inference, Compound Annual Growth Rate (CAGR) been calculated.

### **VI. PROFILE OF THE STUDY AREA: NAGAON DISTRICT OF ASSAM**

Till 1826, Nagaon was under Burmese rule; It came under British rule after the Yandaboo treaty was ratified. Nagaon district was carved out as a separate administrative district unit in the year 1832. It took a couple of years before the British finally settle on the present site of Nagaon town, on the bank of the Kalong River as the district headquarters in 1839. Known earlier as Khagorijan, the district headquarter was later renamed Nowgong and gradually it developed into a flourishing town. Total area of the district 2287 Sq. Km. It surrounded by the river Brahmaputra river and sonitpur district in the North, Golaghat and Karbianglong district in the East, Hojai & Dima Hasao district in the south and Morigaon district in the west.

In 2011 census, Nagaon had population of 2,823,768 of which male and female were 1,439,122 and 1,384,656 respectively. Population density of Nagaon district for 2011 is 711 people per Sq. Km. Average literacy rate of Nagaon district in 2011 were 72.37 as compared to 72.37 of 2001 with male and female literacy rate were 76.51 and 68.07 and 54.74 percent respectively. Out of the total population for 2011 census, 13.09 percent lives in urban regions of district. In total 369,534 people lives in urban area of which males are 188,127 and females are 181,407. As per 2011 census, 86.91% population of Nagaon district lives in rural areas of villages. The total Nagaon district population living in rurals area is 2,45,234 of which males and females are 1,250,985 and 1,203,249 respectively. (<http://www.census.co.in>). Presently, there are 22 numbers of commercial banks out of which 12 public sector banks, Assam Gramin Vikash Banks, Assam Co-operative Apex Bank and 8 private sector banks.

**SECTION – C****VII. ANALYSIS AND DISCUSSION****TABLE 1: AGENCY WISE CREDIT FLOW OF COMMERCIAL BANKS IN INDIA**

| Agency<br><br>Year    | Commercial<br>Banks<br><br>(in lakh<br>Crore) | Regional<br>Rural<br>Banks<br><br>(in lakh<br>crore) | Corporative<br>banks<br><br>(in lakh<br>crore) | Total<br><br>(in lakh<br>crore) |
|-----------------------|-----------------------------------------------|------------------------------------------------------|------------------------------------------------|---------------------------------|
| 2018-19               | 9.55                                          | 1.5                                                  | 1.52                                           | 12.57                           |
| 2019-20               | 10.71                                         | 1.65                                                 | 1.57                                           | 13.93                           |
| 2020-21               | 11.8                                          | 1.9                                                  | 1.9                                            | 15.6                            |
| 2021-22               | 12.82                                         | 2.2                                                  | 2.07                                           | 17.09                           |
| 2022-23               | 16.1                                          | 2.6                                                  | 3                                              | 21.7                            |
| 2023-24               | 19.8                                          | 3                                                    | 2.3                                            | 25.1                            |
| CAGR                  | 12.92%                                        | 12.25%                                               | 7.15%                                          | 12.22%                          |
| Mean                  | 13.46                                         | 2.14                                                 | 2.06                                           | 17.67                           |
| Standard<br>Deviation | 3.49                                          | 0.52                                                 | 0.5                                            | 4.4                             |
| Range                 | 10.25                                         | 1.5                                                  | 1.48                                           | 12.53                           |
| Maximum               | 19.8                                          | 3                                                    | 3                                              | 25.1                            |
| Minimum               | 9.55                                          | 1.5                                                  | 1.52                                           | 12.57                           |

*Source: NABARD, Annual Report.**Note: Author's Calculation*

Table-1 show agency wise credit flow of commercial banks in India from 2018-19 to 2023-24. Among all categories of banks, commercial banks have disbursed highest loan and advances followed by regional rural bank and co-operative banks. From the above table, it shows that the commercial banks have higher growth rate, which is far better than growth rate of co-operative bank of India. Commercial banks have higher mean and standard deviation among three groups and cooperative banks have the least mean as well as standard deviation.

**TABLE 2: BANK GROUP-WISE PRIORITY SECTOR ADVANCE (Rs. in Crore)**

| <b>Bank Group</b>  | <b>Public<br/>Sector<br/>Banks<br/><br/>Year<br/><br/>(in crore)</b> | <b>Private<br/>Sector<br/>Banks<br/><br/>(in crore)</b> | <b>Regional<br/>Rural<br/>Banks<br/><br/>(in crore)</b> | <b>Co-<br/>operative<br/><br/>(in crore)</b> | <b>Total<br/><br/>(in crore)</b> |
|--------------------|----------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|----------------------------------------------|----------------------------------|
| 2018               | 22989                                                                | 9045                                                    | 3751                                                    | 186                                          | 35971                            |
| 2019               | 24952                                                                | 12849                                                   | 3603                                                    | 96                                           | 41500                            |
| 2020               | 25858                                                                | 15937                                                   | 3546                                                    | 140                                          | 45481                            |
| 2021               | 30742                                                                | 16168                                                   | 3780                                                    | 1223                                         | 51913                            |
| 2022               | 34266                                                                | 14529                                                   | 4354                                                    | 1346                                         | 60568                            |
| 2023               | 36896                                                                | 13605                                                   | 5181                                                    | 1296                                         | 66158                            |
| CAGR               | 8.20%                                                                | 7.04%                                                   | 5.53%                                                   | 38.20%                                       | 10.69%                           |
| Mean               | 29283.83                                                             | 13688.83                                                | 4035.83                                                 | 714.5                                        | 50265.17                         |
| Standard Deviation | 82049.98                                                             | 2386.91                                                 | 575.4                                                   | 575.53                                       | 10531.58                         |
| Range              | 1307                                                                 | 7123                                                    | 1635                                                    | 1250                                         | 30187                            |
| Maximum            | 36896                                                                | 16168                                                   | 5181                                                    | 1346                                         | 66158                            |
| Minimum            | 22989                                                                | 9045                                                    | 3546                                                    | 96                                           | 35971                            |

*Source: Economic survey of Assam,*

*Note: Author's Calculation*

Table-2 Bank groups wise priority sector advances in Assam from 2018 to 2023. Among all categories of banks, commercial banks especially public sector banks have disbursed highest loan during the period 2018 to 2023 followed by private sector commercial banks, regional rural bank and co-operative banks. From the above table, it shows that the Co-operative bank have higher growth rate, which is far better than growth rate of commercial banks in Assam. However, Commercial banks have higher mean and standard deviation among these groups and regional rural bank and cooperative banks have almost same standard deviation but regional rural bank have higher mean as compared to cooperative bank during the period from 2018 to 2023.

**TABLE 3: AGENCT WISE PRIORITY SECTOR AND WEAKER SECTION ADVANCE IN  
ASSAM (IN PERCENTAGE)**

| Year        | Type of Advance<br>(in %) | Public Sector<br>Banks | Private Sector<br>Banks | Regional<br>Rural Banks<br>(AGVB) | Assam co-<br>operative<br>Bank |
|-------------|---------------------------|------------------------|-------------------------|-----------------------------------|--------------------------------|
| 2018-<br>19 | PSA to Total<br>Advance   | 57.2                   | 61.1                    | 86.3                              | 21                             |
|             | WSA to PSA                | 18.9                   | 62.7                    | 72.4                              | 37.5                           |
|             | WSA to Total<br>Advance   | 10.8                   | 38.3                    | 62.5                              | 7.9                            |
| 2019-<br>20 | PSA to Total<br>Advance   | 59.2                   | 65.7                    | 87.1                              | 8                              |
|             | WSA to PSA                | 21.2                   | 65.5                    | 73.1                              | 76.4                           |
|             | WSA to Total<br>Advance   | 12.38                  | 43                      | 63.7                              | 6.1                            |
| 2020-<br>21 | PSA to Total<br>Advance   | 56.5                   | 66.04                   | 87.69                             | 9.71                           |
|             | WSA to PSA                | 23.27                  | 49.24                   | 73.3                              | 62.72                          |
|             | WSA to Total<br>Advance   | 12.38                  | 32.52                   | 64.28                             | 6.09                           |
| 2021-<br>22 | PSA to Total<br>Advance   | 52                     | 56                      | 86                                | 86                             |
|             | WSA to PSA                | 50                     | 54                      | 99                                | 2                              |

|         |                      |    |    |     |    |
|---------|----------------------|----|----|-----|----|
|         | WSA to Total Advance | 26 | 30 | 85  | 2  |
| 2022-23 | PSA to Total Advance | 55 | 50 | 86  | 95 |
|         | WSA to PSA           | 47 | 54 | 104 | 7  |
|         | WSA to Total Advance | 26 | 27 | 90  | 6  |
|         |                      |    |    |     |    |
| 2023-24 | PSA to Total Advance | 50 | 43 | 87  | 90 |
|         | WSA to PSA           | 41 | 44 | 106 | 9  |
|         | WSA to Total Advance | 21 | 19 | 93  | 8  |
|         |                      |    |    |     |    |

Source: Economic survey of Assam,

Note: Author's Calculation

Table 3 presents agency-wise priority sector and weaker section advances in Assam (in percentage). Public sector banks serve as the primary source of credit in the state of Assam. According to the State Level Banker's Committee as on 31<sup>st</sup> March 2023, the share of credit extended by private sector banks stood at 27.8%, while public sector banks accounted for approximately 64%. To ensure adequate credit availability for agriculture, weaker sections, and small-scale industries, banks are required to allocate at least 40% of their credit to these priority sectors. As of March 31, 2023, more than 54% of total bank loans in Assam were directed toward the priority sector.

Table 3 further highlights that during the period from 2018 to 2024, public sector banks provided the highest share of loans and advances, reaching 59.2% of the total advances in the financial year 2019–20. In 2020–21, private sector banks led with 66.04% of total advances, while Regional Rural Banks (RRBs) also recorded a significant share, contributing 87.69% of total advances in the same year. In 2023–24, Assam Cooperative Banks emerged as the highest contributors to priority sector lending, allocating 90% of their total advances to this segment (priority sector).

**TABLE 4: AGENCY WISE CREDIT FLOW OF BANKS IN NAGAON DISTRICT OF ASSAM**

| <b>Agency<br/>Year</b>      | <b>Commercial Banks<br/>(in lakh)</b> | <b>Scheduled<br/>Commercial<br/>Banks<br/>(in lakh)</b> | <b>Regional Rural<br/>Banks<br/>(in lakh)</b> |
|-----------------------------|---------------------------------------|---------------------------------------------------------|-----------------------------------------------|
| 2018-19                     | 2,01,513.07                           | 361.3                                                   | 3,946.06                                      |
| 2019-20                     | 1,75,621.25                           | 8,303.62                                                | 7,453.91                                      |
| 2020-21                     | 1,46,150.74                           | 651.6                                                   | 11,727.81                                     |
| 2021-22                     | 1,47,885.13                           | 1,306.72                                                | 17,077.87                                     |
| 2022-23                     | 1,87,573.36                           | 1,342.12                                                | 32,765.13                                     |
| 2023-24 (Targets)           | 2,30,511.04                           | 19,089.65                                               | 1,00,016.75                                   |
| CAGR(2018-23)               | -1.19%                                | 24.45%                                                  | 42.30%                                        |
| Mean(2018-23)               | 171748.71                             | 5982.68                                                 | 14594.16                                      |
| Standard Deviation(2018-23) | 21799.36                              | 2979.26                                                 | 10088.95                                      |
| Range(2018-23)              | 55362.33                              | 18728.35                                                | 28819.81                                      |
| Maximum(2018-23)            | 201513.07                             | 19089.65                                                | 32765.87                                      |
| Minimum(2018-23)            | 146150.74                             | 361.3                                                   | 3946.06                                       |

Source: State Level Banker Committee, (various issue)

Note: Author's Calculation

Table 4 shows agency wise credit of banks in Nagaon district of Assam during the year from 2018-23 and target credit flow for the financial year 2032-24. Among all categories of banks commercial banks have provided highest loan and advances during the year 2018-23 but the compounded annual growth rate of commercial banks goes down negative. The regional rural banks have highest CAGR of 42.30%. The commercial banks have higher mean and standard deviation followed by Regional Rural Banks (RRBs).

Table 4 presents agency-wise credit distribution of banks in Nagaon district, Assam, from 2018 to 2023, along with the target credit flow for the financial year 2023–24. Among all categories, commercial banks provided the highest loans and advances during this period (2018-23). However, compounded annual growth rate (CAGR) of commercial banks declined into negative territory. In contrast, regional rural banks (RRBs) recorded the highest CAGR of 42.30%. Commercial banks also exhibited the highest mean and standard deviation, followed by Regional Rural Bank (RRBs).

## VIII. CONCLUSION

Commercial banks play a crucial role in fostering rural development in Nagaon District by providing financial support to agriculture and small-scale industries. Their credit disbursement, particularly in priority sectors, has contributed to improving rural livelihoods and stimulating economic growth. However, despite being the primary source of institutional credit, the growth of commercial banks in the district declined into negative territory during the period 2018–24. Challenges such as financial exclusion, uneven credit distribution, and rising non-performing assets (NPAs) continue to hinder their effectiveness. To enhance their impact on rural development, there is a need for improved financial literacy, expanded banking infrastructure, and stronger policy interventions. Strengthening digital banking services, increasing credit accessibility for small farmers and entrepreneurs, and ensuring timely loan disbursement can further reinforce their role in rural progress.

In conclusion, while commercial banks are instrumental in driving rural development in Nagaon District of Assam, a more inclusive and targeted approach is necessary to ensure sustainable economic growth and financial empowerment for the rural population.

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