

PROBLEMS OF COMMERCIAL BANK RELATED TO RURAL DEVELOPMENT OF BIHAR

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Abstract : The economy of Bihar is mainly agrarian, banks plays an important part in the development of our rural areas. The rural branches of banks provide various services to farmers, rural farmers, businessmen and disadvantaged groups and help them to develop themselves thereby. Our banking sector consists of three kinds of banks - State Owned Commercial Banks (SOBs), Private Commercial Banks and Foreign Private Commercial Banks. Among them, Nationalized Commercial Banks and some other private banks and more particularly some specialized banks are operative in rural areas. The foreign private banks are not interested to open their branches in rural areas. A commercial bank is a type of bank that provides services such as accepting deposits, making business loans, and offering basic investment products. Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public. As we know that the Agriculture is the backbone of economy of any country like India. Research is based upon the secondary data which provide the findings on commercial banks and how it helpful in economic development. So this research will helpful in finding out that how commercial banks are helpful in credit flowing, employment generations in rural areas and how it will contribute in development of Indian economy.

Index Terms - Commercial Bank, Rural Development, Services, Agriculture, Problem faced.

I. INTRODUCTION

The business of banking entails the collection and transmission of funds from the saving surplus to the saving deficit economic units. Thus banks act as the mobilize of funds to all sectors of the economy. Commercial banks have growing from about seven in 1952 to thirty two by March 1985 with 1159 branch network. But the industry has continuously bene under attack by main observers especially marketing critics for failure to utilize fully the advantages of modern marketing principles in operating their banking business for better achievement of co-operate objectives and goals. Unfortunately, product management is the most criticized of all banking practices. Thus the poor product management practices of the banks have resulted into sense of complaints of dissatisfaction among customers about the quality of services offered. To them services are inadequate and poorly rendered. Beside most customers and potential customers are not fully aware of the bank services.

With the introduction of liberalization, privatization and globalization the role of banking sector changed dramatically. Credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and/or adopt new technologies. The importance of agricultural credit is further reinforced by the unique role of Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planned development era in India. India is home to 22 per cent of the world's poor. Such a high incidence of poverty is a matter of concern in view of the fact that poverty eradication has been one of the major objectives of the development planning process. Indeed, poverty is a

global issue. Its eradication is considered integral to humanity's quest for sustainable development. Reduction of poverty in India is, therefore, vital for the attainment of international goals.

II. ROLE OF THE BANK IN RURAL DEVELOPMENT

The role of the bank in rural development is manifold. Banks are functional in the processes of savings, capital formation, investment, production in the rural economy. The main role of Commercial banks in Rural Development such as -

- Banks motivate the people for savings through various programs and collect the dispersed savings of the people. Further, the bank invests it in the rural economy.
- Banks provide the rural small businessmen with loans from deposited money which plays a crucial role in rural development. Especially, the micro-credit programs of different banks made the rural landless people bankable and provided them with the required capital for business and other economic activities.
- Banks play a crucial role in rural capital formation, Banks collect the dispersed savings of rural people through different deposit schemes. Then distribute loans to them for starting a productive as well as any other self-sufficient economic activity.
- Commercial and specialized banks, specially State-Owned Commercial Banks (NCBs) distribute agricultural loans to rural people which make them able to invest in their firms or lands. As most of our farmers are poor they can not invest enough to increase the production, bank loans help them to increase their production through proper irrigation, fertilization and so on.
- Banks play a crucial role in sustaining and developing our small and cottage industries. Because most of our small and cottage industries are being closed due to lack of enough capital.
- Banks can provide our unemployed youths with training and loan to start a business or to invest in a farm. Such training and income-generating projects can make our youths self-reliant, lessen the intricate problem of unemployment and improve the standard of living in our rural areas.
- Banks play a crucial role in mentioning the disadvantaged groups in the community under some special programs. Even, through making the disadvantaged people economically self-sufficient, banks play important role to empower them and lessen social inequality thereby.

III. PROBLEM FACED BY COMMERCIAL BANK IN RURAL DEVELOPMENT :

The following points highlight the nine major problems faced by commercial banks.

Problem # 1. Losses in Rural Branches:

Most of the rural branches are running at a loss because of high overheads and prevalence of the barter system in most parts of rural Bihar.

Problem # 2. Large Over-Dues:

The small branches of commercial banks are now faced with a new problem—a large amount of overdue advances to farmers. The decision of the former National Front Government to waive all loans to farmers up to the value of Rs. 10,000 crores has added to the plight of such banks.

Problem # 3. Non-Performing Assets:

The commercial banks at present do not have any machinery to ensure that their loans and advances are, in fact, going into productive use in the larger public interest. Due to a high proportion of non-

performing assets or outstanding due to banks from borrowers they are incurring huge losses. Most of them are also unable to maintain capital adequacy ratio.

Problem # 4. Advance to Priority Sector:

As far as advances to the priority sectors are concerned, the progress has been slow. This is partly attributable to the fact that the bank officials from top to bottom could not accept nationalisation gracefully, viz., diversion of a certain portion of resources to the top priority and hitherto neglected sectors. This is also attributable to the poor and unsatisfactory loan recovery rates from the agricultural and small sectors.

Problem # 5. Competition from Non-Banking Financial Institution:

As far as deposit mobilisation is concerned, commercial banks have been facing stiff challenges from non-banking financial intermediaries such as mutual funds, housing finance corporations, leasing and investment companies. All these institutions compete closely with commercial banks in attracting public deposits and offer higher rates of interest than are paid by commercial banks.

Problem # 6. Competition with Foreign Banks:

Foreign banks and the smaller private sector banks have registered higher increase in deposits. One reason seems to be that non-nationalised banks offer better customer service. This creates the impression that a diversion of deposits from the nationalised banks to other banks has probably taken place.

Problem # 7. Gap between Promise and Performance:

One major weakness of the nationalised banking system in Bihar is its failure to sustain the desired credit pattern and fill in credit gaps in different sectors. Even though there has been a reorientation of bank objectives, the bank staff has remained virtually static and the bank procedures and practices have continued to remain old and outmoded.

The post-nationalisation period has seen a widening gap between promise and performance. The main reason seems to be the failure of the bank staff to appreciate the new work philosophy and new social objectives.

Problem # 8. Bureaucratisation:

Another problem faced by the commercial banks is bureaucratisation of the banking system. This is indeed the result of nationalisation. The smooth functioning of banks has been hampered by red-tapism, long delays, lack of initiative and failure to take quick decisions.

Problem # 9. Political Pressures:

The smooth working of commercial banks has also been hampered by growing political pressures from the Centre and the States. commercial banks often face lots of difficulties due to various political pressures. Such pressures are created in the selection of personnel and grant of loans to particular parties without considering their creditworthiness.

IV. CONCLUSION

In spite of such prospects as discussed above, banks in our country are not effective enough in rural development. A number of causes are responsible for such failure among whom some notable causes : There are some problems in bank management that disrupt the very process of loan distribution as well as the collection. Hence, loans, especially government loans are not being distributed through proper channel and manner. Our people are not oriented to saving and investment. They lack motivation for saving and

investment. The people cannot utilize the distributed money / loan properly. Even banks also are not undertaking training programs to make them able to utilize the loans properly. People have to face serious complexities to get loans. Besides, people who get loans do not return on time.

In spite of some limitations, the role of the bank in rural development in Bihar is praiseworthy speedway' the microcredit program, primarily introduced by Grameen Bank has become widespread and played crucial role in the well being of rural poor. However, our government, private bank authorities should mandrake more comprehensive programs for rural development.

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