Public Sector Banking and the Unmet Expectations of Rural India

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File: Accessible credit and banking solutions for India's rural sector continues to be an issue that requires an effective solution. Photo: K.K. Mustafah.

As public sector banks fall short of meeting rural India's credit requirements, the money lender, often usurious, has re-emerged as a key financial player. Rural credit distress remains independent India's socio-economic malaise. The post-1991 economic reforms process has also resulted in changes in rural banking. In this article, ***C.H. Venkatachalam, general secretary, All India Bank Employees Association****, points out how the rural sector, which saw some gains between 1969 and 1991, is again pushed towards non-banking solutions for credit, trapping it in a debilitating debt-cycle.*

When the First Five Year Plan began in 1951, close to 70 per cent of India's rural credit was catered to by moneylenders (Table I). The All India Rural Credit Survey recommendations and findings of 1954, laid the foundations of institutional credit to rural sector through formal channels such as co-operatives and commercial banks[1]. The formation of Agricultural Refinance Corporation in 1963, nationalisation of commercial banks in two stages viz., 1969 and 1980[2], setting up of Regional Rural Banks in 1975, and formation of National Bank for Agriculture and Rural Development

(NABARD) in 1982, were the efforts taken by the Reserve Bank of India (RBI) and the Government to institutionalise credit to rural sector.

Supply of credit is an important factor in Indian society and since the nationalisation of major banks in July 1969, the country followed the policy of social and developmental banking. As a result, formal institutions of credit, especially public sector banks, played a major role as an important source of finance to various activities, in particular the Priority Sector, which now includes Agriculture and seven other categories[3]. This was an attempt to displace the usurious moneylenders and landlords.

Supply of Institutional credit

The post-1969 era saw measures by the Government to take banking to rural India. Social control of banking also meant that the government could take steps to meet its goal of inclusive finance. Under the Branch Licensing Policy, nationalised banks were advised to open four branches in rural and unbanked areas for every branch opened at a metropolitan centre.

> "The initiative was strengthened thereafter, with the introduction of the concept of social control of banks in December 1967 and accelerated even further after structural transformation following the nationalisation in 1969 of 14 major commercial banks that had deposits of over Rs 50 crore. The spread of banking to unbanked areas received focused attention after nationalisation. Apart from the adoption of a branch licensing policy to serve this objective, the Lead Bank Scheme was launched under which a 'lead bank' was designated for each district to take the lead role in surveying the credit needs of the population and developing banking and credit facilities. The 11 banks were also mandated to ensure that rural and semi-urban branches maintained a credit-deposit ratio of 60 per cent. As a result, of the 10,543 branches opened in the period between June 1969 and December 1975, as many as 5,364, or more than 50 per cent, were in rural areas[4]."

Secondly, the concept and policy of priority sector lending came to stay thereby the banks shall have to lend 40 per cent of their net bank credit to those sectors of the economy that would not get timely or adequate credit. Another important policy guideline subsequent to nationalisation was the extension of loans at differential rates of interest to low income groups to engage in productive and gainful activities and the rate of interest was fixed at 4 per cent per annum. A special target was given for lending to agriculture and the banks should lend 18 per cent of the net bank credit to agriculture and allied activities.

The flow of increased and liberalised credit to these sectors by the public sector banks led to agricultural growth in India unparalleled till then. For the Green Revolution, White Revolution, and for the all-round growth of the economy since 1969, the public sector banks and their work on credit expansion played a major part.

However, in the early 1990s, the policy of social and developmental banking took a back seat with the recommendations of the Narasimham Committee that stated that the banks should function on commercial basis with profitability as their major and main concern. In the name of “rationalisation and re-location” many bank branches in the rural areas stood closed. The norms for priority sector lending got diluted and the recommendations were that the banks should be given a free hand to decide their rates of interest.

What followed subsequent to the introduction of liberalisation, privatisation and globalisation policies in 1991, the supply of rural credit, in general, and agricultural credit, in particular, got disturbed. Post-1991 saw large-scale closure of rural branches, sharp fall in growth of credit to agriculture, small and marginal farmers stood side-lined in the supply of agricultural credit, and the disadvantaged, dispossessed and low-income sections of population stood increasingly excluded from the formal credit flow. This led to the strengthening the hold of the moneylenders. The recent developments show the hold of moneylenders in metropolitan cities, and in sectors other than agriculture, for instance, the film industry.

Moneylenders have again become a key part of India’s economy, in general, and the rural financial system, in particular. They charge higher, many a times, usurious interest rates. The country has around 13 bank branches per 1 lakh population and the data showing that single households running about 96 per cent of the non-farm enterprises, which are not formally incorporated, with a mere 1 per cent of them having access to lending from formal sources. It is quite sad that the bulk of low-income households rely on moneylenders as dependable source for money when emergencies arise.

Moneylenders extend credit but at highly extortionate rates, sometimes exceeding 50 per cent that keeps the borrowers in lifelong penury. It is another sad part of the commentary that in the current scenario where a farmer commits suicide every half an hour, the debts are passed on from husband to widow and from father to children leading to abject slavery.
The moneylenders continued their presence in independent rural India despite attempts by the successive governments to control and suppress their activities from exploiting the rural masses. Table I reveals the flow of credit to rural areas from institutional and non-institutional sources from 1951 to 2012.

Table I - Institutional and Non-Institutional Rural Credit

	1951	1961	1971	1981	1991	2002	2012
Institutional Agencies	**7.2**	**14.8**	**29.2**	**61.2**	**64.0**	**57.1**	**56.0**
Government	3.3	5.3	6.7	4.0	5.7	2.3	1.2
Coop. Society/Bank	3.1	9.1	20.1	28.6	18.6	27.3	24.8
Commercial Banks incl. RRBs	0.8	0.4	2.2	28.0	29.0	24.5	25.1
Insurance	-	-	0.1	0.3	0.5	0.3	0.2
Provident Fund	-	-	0.1	0.3	0.9	0.3	0.1
Other institutional agencies	-	-	-	-	9.3	2.4	4.6
Non-institutional Agencies	**92.8**	**85.2**	**70.8**	**38.8**	**36.0**	**42.9**	**44.0**
Landlord	1.5	0.9	8.6	4.0	4.0	1.0	0.7
Agricultural Moneylender	24.9	45.9	23.1	8.6	6.3	10.0	5.0
Professional Moneylender	44.8	14.9	13.8	8.3	9.4	19.6	28.2
Traders and Commission Agents	5.5	7.7	8.7	3.4	7.1	2.6	0.1
Relatives and Friends	14.2	6.8	13.8	9.0	6.7	7.1	8.0
Others	1.9	8.9	2.8	4.9	2.5	2.6	2.0

(Source: NSSO data)

The percentage of dependence on moneylenders fell between first Plan period and 1991, despite a marginal increase in the decade between 1981 and 1991. The economic reforms of the 1990s saw a sharp rise in the share of non-institutional agencies in disbursement of rural credit – an upward move from 36.0 per cent in 1991 to 42.9 per cent in 2002. In the year 2012, this has reached 44.0 per cent. Professional moneylenders, clearly, have started regaining their role as lenders to the rural economy since 1991, with the professional moneylenders catering to 28.2 per cent credit needs of the rural population in 2012. The data presented in Table I reveals that while the share of institutional credit was consistently increasing since 1951, it is on a downward trend since the onset of reforms agenda in 1991.

The report of the task force on “Credit Related Issues of Farmers” set up by the Ministry of Agriculture, Government of India in October, 2009, stated:

> “There is an increasing share of moneylenders in the total debt of the cultivators. There was an inverse relationship between land-size and the share of debt from informal sources. Moreover, a considerable portion of the debt from informal sources was incurred at a fairly high interest rate. About 56 per cent of the debt of farmers from informal sources had interest ranging from 20 to 25 per cent and another 38 per cent of loans had been borrowed at even higher rate of 30 per cent and above indicating the excessive interest and debt burden on the small and marginal farmers[5].”

The Task Force Report also revealed that the credit needs of small and marginal farmers were not only growing but were getting diversified due to increasing commercialisation and modernisation of agriculture.

Despite legislations in various States to regulate moneylenders and their activities, including mandatory stipulations for registration by the moneylenders and issue of licenses to them besides the cap on the interest chargeable by them, the Technical Group to Review Legislation on Money Lending set up by the Reserve Bank of India observed,

> "in spite of there being a legislation, large number of moneylenders continue to operate without license, and even the registered moneylenders charge interest rates much higher than permitted by the legislation, apart from not complying with other provisions of the legislation. Signs of effective enforcement are absent [6]."

The most important factor for continuation of informal credit in rural areas is that the existing financial institutions tend to restrict their lending activities to the riskier agriculture sector. Those in the rural credit market prefer to use informal sources, despite higher interest rates, owing to red tape and delay in getting loans from commercial banks and other institutions. Further, it is also possible to obtain loans for such purposes as marriage and other consumption and non-productive activities from informal sources without collateral.

The impact of microfinance on the lives of the poor is quite inconclusive as per the report of Malegam Committee. The analysts expressed doubt as to whether public sector lending agencies have in all cases remained committed to the goal of fighting poverty or whether they are solely motivated by financial gains and profitability.

Change in definition of agricultural credit

Recent trends in Agricultural Credit in India: A Note, by R. Ramakumar, Associate Professor, School of Development Studies, Tata Institute of Social Sciences, gives a detailed analysis of agricultural credit in India [7] . It highlights the following key aspects that determine the credit supply to the rural and agricultural sector.

Factors determining agricultural credit supply and distribution

There are three distinct factors that play a major role in determining the extent of credit supply as well as its distribution in the agriculture sector: the role of indirect finance to agriculture; increase in agricultural loans with large credit limits; and the urbanisation of agricultural credit.

Bank credit to agriculture saw a significant increase in this millennium owing to indirect finance to agriculture. After the advent of reforms in India, the share of indirect finance to agriculture has seen a phenomenal increase barring the period 2011 to 2015. From 1990 onwards, the definition of credit to agriculture especially indirect finance stood broadened by the RBI.

• Till 1993, only direct finance to agriculture was considered as a part of the priority sector target of 18 per cent for agriculture and allied activities. From October 1993 onwards, direct and indirect finance were considered together for meeting the priority sector target.

• In October 1993, it was stipulated that indirect finance to agriculture only up to one-fourth of the total agricultural advances would be considered while meeting the priority sector target of 18 per cent for agriculture. However, indirect finance over and above one-fourth of total agricultural advances was allowed to be reckoned while meeting the overall target of 40 per cent for priority sector advances.

• From May 1994 onwards, loans up to Rs 5 lakh for financing distribution of inputs for allied activities in agriculture, such as cattle feed and poultry feed, were considered as indirect finances to agriculture. The upper limits were revised and fixed at Rs 15 lakh in April 2000, Rs 25 lakh in April 2002, and Rs 40 lakh in October 2004.

• From June 1996 onwards, loans to dealers in drip irrigation systems, sprinkler irrigation systems and agricultural machinery were considered as indirect finances to agriculture. From October 2002 onwards, the credit limit to these dealers was raised from Rs 10 lakh to Rs 20 lakh; it was further raised to Rs 30 lakh in October 2004. Till April 2003, only loans to those dealers located in rural or semi-urban areas were under the ambit of indirect finances. However, from April 2003 onwards, all dealers, irrespective of their location, were treated as eligible for such advances.

• Loans extended to State Electricity Boards (SEBs) for reimbursement of expenditure towards providing low-tension connection to individual farmers from step-down points for energising wells were always classified as indirect finance to agriculture. From 2001 onwards, loans to SEBs for systems improvement under the Special Project Agriculture (SI-SPA) were also considered as indirect finance to agriculture. From July 2005 onwards, loans to power distribution corporations or companies, emerging out of the bifurcation or restructuring of SEBs as part of power sector reforms were also considered as indirect finance to agriculture.

• From August 2001 onwards, loans extended under the scheme for financing “agri-clinics” and “agri-business centres” were considered as indirect finance to agriculture.

• From July 2001 onwards, subscription to the bonds issued by Rural Electrification Corporation (REC) exclusively for financing the pump set energisation programme in rural and semi-urban areas was considered as indirect finance to agriculture.

• From April 2000 onwards, loans from banks to Non-Banking Financial Companies (NBFCs) for onward lending to agriculture were considered as indirect finance to agriculture.

• From November 2002 onwards, loans for the construction and running of storage facilities (warehouse, market yards, godowns, silos and cold storages) in the producing areas and loans to cold storage units located in rural areas, which were used for hiring and/or storing mainly agricultural produce, were considered as indirect finance to agriculture. However, from May 2004 onwards, loans to storage units including cold storage units that were designed to store agricultural produce, irrespective of their location, were treated as indirect finance to agriculture.

• From May 2004 onwards, if the securitised assets of a bank represented indirect finances to agriculture, investment by banks in such assets was considered as indirect finance to agriculture.

• From April 2007 onwards, two-thirds of loans given to corporates, partnership firms and institutions for agricultural and allied activities (such as beekeeping, piggery, poultry, fishery and dairy) in excess of Rs 1 crore in aggregate per borrower was considered as indirect finance to agriculture.

• From April 2007 onwards, loans to food and agro-based processing units with investments in plant and machinery up to Rs 10 crore (other than the units run by individuals, Self Help Groups and cooperatives in rural areas) were considered as indirect finance to agriculture.

The share of direct and indirect finance to agriculture in total credit to agriculture from scheduled commercial banks in India from 1985 to 2015 in percentage terms is as under:

The spurt in the credit to agriculture under direct category since 2011, therefore, was also due to the change in definitions of lending to agricultural sector besides corporatisation and urbanisation of agro credit.

Table II. Share in total agricultural credit (%)

Year	Table II. Share in total agricultural credit (%)		
	Direct Finance	Indirect Finance	Total
1985	83.2	16.8	100
1990	86.8	13.2	100
2000	84.5	15.5	100
2005	76.1	23.9	100
2006	72.1	27.9	100
2007	74.5	25.5	100
2008	77.5	22.5	100
2009	77.1	22.9	100
2010	76.1	23.9	100
2011	82.0	18.0	100
2012	83.4	16.6	100
2013	85.9	14.1	100
2014	84.3	15.7	100
2015	87.7	12.3	100
2016	89.8	11.2	100

(Source: Basic Statistical Returns)

As far as the agricultural credit is concerned, the increase in agricultural advances was due to the fact that there has been a sharp increase in the loans above Rs.10 Crores. The share of agricultural advances has shrunk significantly for lesser category of loans.

The share of agricultural advance for Rs.10 Crores and above in 1990 was a mere 1.3 per cent and as at the decade ending 2010, the share of loans of Rs.10 Crores and above was 20.14 per cent and has increased further in the subsequent years.

The growing shift towards loans with large credit limits are closely related to changes in official policy on agriculture in India, which increasingly favours the growth of a capital-intensive and export-oriented production pattern in agriculture and corporatization of farm credit.

Yet another factor that is significant is that urbanisation of agricultural credit. The share of agricultural credit in rural areas is associated with agricultural activities and it has seen a drastic reduction over the years. This again implies a relative diversion of agricultural credit towards urban-based dealers and corporates and away from farmers based in rural areas.

There is another misuse of credit to agriculture, which has been prevalent in urban and metropolitan areas. This is quite important and significant because the objective of the scheme is grossly abused. As per the directives, the agricultural jewel loans up to a limit of Rs.3 lakhs can be given in all the areas viz., rural, semi-urban, urban and metropolitan areas on self-declaration by the borrower that the proceeds of the loan would be utilized for agricultural activities. The rate of interest charged for such loans up to Rs.3 lakhs is 7per cent per annum under the interest subvention scheme of the Government of India. However, this facility is being misused by the money lenders especially in urban and metropolitan areas and there is no proper supervision and control mechanism to arrest these despicable activities.

Credit from Microfinance Institutions (MFIs)

As far as the Microfinance institutions are concerned, as per the recommendations of Malegam Committee [8], the RBI, in December 2011, fixed a cap on rate of interest on loans extended by Microfinance institutions at 26 per cent. This was diluted in December 2012, stating that the interest rate may exceed 26 per cent, the maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent. Again, in February 2014, this was further watered down to the extent that the rate of interest shall be the average base rate of the five largest commercial banks by assets multiplied by 2.75 and this average base rate shall be advised by RBI on a quarterly basis.

Hence, the cap on rate of interest fixed by RBI subsequent to the recommendations of Malegam Committee recommendations has been indirectly withdrawn and even now, the Microfinance and NBFCs are charging exorbitantly huge interests on rural credit. While the objective of the Microfinance is to lend to rural sector at reduced rate of interest and affordable, whose population is in the low-income group, the reality is quite the opposite.

In 80s and 90s many developing countries, including India, embraced neo-liberal economic policies. One of the central piece of this policy regime is abandoning state's role in the economy. This was bound to have serious implications for well-being of the poor in the respective country.

Table III. Total Agricultural Credit

Year	Table III. Total Agricultural Credit		
	Rural & Semi-urban	Urban & Metro	Total
1990	85.1	14.9	100
1994	83.4	16.6	100
1995	83.7	16.3	100
2005	69.3	30.7	100
2006	62.4	37.6	100
2011	66.9	33.1	100
2015	95.5	4.5	100
	Direct Agricultural Credit		
1990	88.8	11.2	100
1994	89.0	11.0	100
1995	88.6	11.4	100
2005	84.3	15.7	100
2006	80.0	20.0	100
2011	74.4	25.6	100
2015	89.8	10.2	100

(Source: Basic Statistical Returns)

Around the same time Micro Finance sector started looking up. Initially it was NGO-led; but later, increasingly taken over by for-profit capital market accessing Micro Finance Institutions (MFIs)

These two trends overlapping each other was not a coincidence. MF sector has the same set of international institutional sponsors who were also advocating implementation of neo-liberal economic policies. One such sponsor was World Bank.

Now, after few decades, adequate data, information, successful and failed Micro Finance business models are behind us. It’s a ripe time to take an honest stock.

We have identified three relevant documents, intersecting "World Bank and Micro Finance", published recently. Each of them are worth spending time on.

• Revolutionising Micro Finance: World Bank sponsored symposium - May 2017: Talks about need for "client centric" approach, innovative business models, use of Financial Technology in MF Sector [9].

• Micro Finance and Economic Development: World Bank Policy Research Group Paper - November 2017: Rejects both extreme positions and proposes "Micro Finance is far from dead, but needs fresh thinking" [10].

• How World Bank's push for Micro credit failed the poor: by Milford Bateman - December 2017: Very critical about the world bank sponsored commercialisation of the MF Sector [11].

Hold of Moneylenders in Farm Credit

Therefore, in the absence of institutional support, the rural credit is being misused and abused by private individual moneylenders. The stark reality is that in a majority of the cases, whenever a farmer gets a loan from the private moneylender either he has to sell his produce to him at throwaway prices or face the risk of his small land holding being taken away by the moneylender.

The percentage distribution of outstanding cash debt by rate of interest for institutional and non-institutional agencies is given below:

Table IV

Rate of Interest (%)	Distribution of outstanding cash debt			
	Rural		Urban	
	Institutional	Non-Institutional	Institutional	Non-Institutional
Nil	0.8	18.3	0.4	27.0
<6	7.1	2.3	1.5	1.1
6 – 10	26.0	0.4	14.5	0.9
10 – 12	12.9	0.7	41.6	1.2
12 – 15	42.6	4.1	34.1	7.7
15 – 20	7.3	5.6	6.2	4.3
20 – 25	**2.1**	**33.9**	**1.2**	**27.3**
25 – 30	**0.1**	**0.6**	**0.2**	**0.3**
>30	**1.0**	**34.1**	**0.4**	**30.2**

(Source: NSSO data)

What are the institutions lending in the 15 – 30+ interest category? The non-institutional agencies provided a significant amount of its total loans to households at an interest of 20 per cent and above, the share of such loans to total was 69 per cent in rural areas and 58 per cent in urban areas. Majority of them are from the moneylenders [12].

The percentage distribution of amount of cash debt by terms of interest is given below:

Table V

Terms of interest	% distribution of cash dues in							
	Rural				Urban			
	1981	1991	2002	2012	1981	1991	2002	2012
Interest Free	12	9	8	5	19	17	10	8
Simple	69	66	69	52	68	60	69	61
Compound	11	22	21	43	6	17	17	28
Concessional	2	4	2	1	3	5	3	3

(Source: NSSO data)

The percentage share of cash due for "compound rate of interest" although a much higher share of debt had to be serviced on June 30, 1991 compared with June 30, 1981, it remained stable during the decade ending 2002. However, during 2012, it recorded a double (43 per cent) in rural areas and about 1.6 times (28 per cent) in urban.

However, the NSSO data released in the 70th Round of "Household Indebtedness in India" (January – December, 2013), reveals that in the last decade, there is a rapid increase in loans on "compound interest" and **<u>it is quite ironical that even the "simple interest" is also not a low interest. Either way, the rates of interest on loans in rural areas are high and on the rising side. Under the simple rate of interest category also, the rates charged are quite above 25 per cent.</u>** [Emphasis by author.]

The NSSO data also reveals that the low-income groups incur a relatively small portion of their debts for productive purposes. In percentage terms, the share of debt for productive purposes varies from 11 per cent to 56 per cent, depending upon the income group.

The data and information clearly reveal that the small and marginal farmers stand totally neglected in agricultural credit, and financial institutions including public sector banks are totally unconcerned about lifting this category of people from the level of abject poverty and penury to at least sustainable levels of life besides increasing agricultural productivity.

The loan sharks and the moneylenders are charging exorbitant rates of interest, leading to the bondage and slavery with the debt passed on from the peasant to his wards for generations and in majority of the cases losing their small holding of land while not able to repay the debts and in others, to sell their produce to moneylenders at a dismal price.

Hence, even though the credit to agriculture sector has been on the increase, the major beneficiaries of the revival of agricultural credit since 2000 are not small and marginal farmers.

The way forward

Therefore, the following measures be taken to uplift the small and marginal farmers from the abyss of eternal poverty and from the grip of the usurious moneylenders.

1. Institutional credit should be made available to small and marginal farmers.
2. The definition of agricultural credit should be reverted to pre-October, 1993, categorisation.
3. Urbanisation and Corporatisation of agriculture should be stopped forthwith by the Government, which affects the small and marginal farmers and agricultural labourers.

4. Loans above Rs.1 Crore extended by the banks should not be categorized as agricultural advance to reach the stipulated target of 18 per cent of net bank credit.
5. Farmers should be extended loans for purchase of agri-equipment, seeds and other irrigation machinery etc., by properly channelizing bank credit specifically earmarked for the purpose with interest subventions and at quite low rate of interest.
6. The consumption loans for farmers shall be extended for the purpose of meeting domestic expenses such as marriage, functions, and other related circumstances.
7. Holiday period shall be given for farm loans when there is crop failure and to that extent, the banks shall be subsidised by the Government of India through budgetary allocations.
8. There shall be severe and deterrent punishment for non-registration of moneylenders as well as for charging and extorting interest at exorbitant rates.
9. Initiation of action on the grievance of aggrieved person and the constitution of grievances redressal committee with powers to punish the usurious moneylender at the district levels.
10. Law should be strengthened to support the farmers against extortionists, loan sharks and moneylenders.
11. The farmers shall be extended soft loans to repay the debts availed from the moneylenders.
12. Farm credit should be extended at the rate of 2 per cent per annum on simple basis.
13. Revival of Differential rate of interest scheme loans for low income groups with interest to be charged at 4 per cent per annum on simple basis.
14. There should be a cap on interest rates to be charged by Microfinance Institutions and NBFCs for farm loan credit subject to a maximum of 12 per cent per annum.
15. Regional Rural Banks should be utilized for lending to farmers and rural sector.
16. Cooperative Banks shall be strengthened by providing adequate capital from the State and the Central Governments.
17. The waiver of farm loans shall be refinanced by the State/Central Governments to Regional Rural Banks/Cooperative Banks and the Commercial Banks.
18. Despite the fact that agricultural credit stands expanded in the recent years, small and marginal farmers, who form the bulk of the farming community and who are the critical contributors to the food security of the nation, did not get benefitted. Hence, the issue of flow of credit to small and marginal farmers at concessional rates of interest should be addressed on priority by the government.
19. Credit is an important contributor to the agricultural production and if only such credit reaches the farmers in right earnest especially the small and marginal farmers and the disadvantaged group in rural areas, the increase in agricultural production and the increased share of agricultural produce in the GDP can be achieved.

20. The life and livelihood of farmers, who contribute for the food security of the nation should be addressed on humanitarian grounds, to not only lift them from the levels of poverty but also to increase the food production.

21. The role and objective of the public sector banking shall be the social cause and not solely motivated by financial gains and profitability. To that end, there shall be expansion of bank branches of public sector banks in all the villages and hamlets and the “red tape” at the banks, cooperative institutions and RRBs while sanctioning credit to small and marginal farmers shall have to be removed and a hassle-free credit should be made available to them to permanently put to rest the problem of usurious moneylending and extortions.

Open Bank Branches in Rural and Unbanked Areas

22. The essence of bank nationalisation was to expand the rural banking in India, which made the tremendous expansion of scheduled commercial banks outreach possible. It is found that the post-nationalisation growth rate of the rural branches, rural deposits, rural credit and rural credit-deposit ratio was very impressive.

23. The slowdown in agricultural credit in the 1990s was due to the change in the policy approach of the government. The growth in the next decade was due to the expansion of rural branches and agricultural credit. Between 1995 and 2000, 922 rural bank branches stood closed across the country. However, between 2006 and 2012, the number of rural bank branches rose sharply by 5,662 from 30,188 to 35,850. Between 2004 and 2011, the agricultural credit rose from Rs.96,245 Crores to Rs.46,1021 Crores, an increase of Rs.36,4776 Crores.

24. However, the increase was due to the change in the definition of agricultural credit, corporatisation of agriculture and urbanisation of farm credit. In many a banks, the branches that were situated in and around the vicinity of the metropolitan cities have also been categorised as rural branches.

25. Therefore, the need of the hour is the opening of bank branches in rural and unbanked areas. This is possible only with the expansion of Public Sector Banks.

Strengthen Public Sector Banks

26. The Public Sector Banks have played a major role in catalysing the growth of our economy since 14 major banks were nationalised in 1969. The annual growth rate in credit to agriculture since nationalisation has been quite phenomenal. This has paved the way for consistent growth of agricultural GDP over the years. However, to ensure food security of the country, to improve the GDP growth on a higher trajectory, targeted credit to farm sector is needed and essential. This shall have to be concentrated on a priority basis for which there shall be policy decisions by the Government of India.

Table VI

Growth of Rural Banking in India - Scheduled Commercial Banks in India (1980-2013) (Amount in Rs. Crores)

Year	Number of Bank Offices		Credit Outstanding		Deposits		Credit-Deposit ratio	
	Rural	Percent of total	Rural	Percent of total	Rural	Percent of total	Rural	All Areas
1980	15105	46.59	2165.34	9.67	3975.27	11.93	54.47	67.17
1981	17656	49.44	3061.7	11.4	5261.58	13.03	58.19	66.46
1982	20401	52.07	3749.02	12.13	6313.43	13.78	59.38	67.44
1983	22686	53.91	4551.96	12.35	7671.98	14.09	59.33	67.7
1984	25380	55.98	6740.95	14.83	9243.16	14.37	72.93	70.7
1985	30185	58.74	7277.94	13.77	10411.47	13.39	69.9	67.94
1986	29703	55.74	8403.77	14.66	12808.81	13.89	65.61	62.15
1987	30209	56.08	9745.17	15.11	15521.63	14.33	62.78	59.51
1988	31114	56.15	11356.8	15.84	19215.26	15.06	59.1	56.19
1989	33014	57.21	14552.5	16.29	22046.49	14.99	66.01	60.78
1990	34791	58.22	16067.85	15.4	26233.64	15.26	61.25	60.68
1991	35206	58.46	18598.97	14.97	31009.8	15.46	59.98	61.93
1992	35269	58.22	20692.26	15.14	35749.71	15.08	57.88	57.66
1993	35389	57.85	22906.4	14.1	41409.73	15.01	55.32	58.9
1994	35329	57.16	24670.35	14.03	49331.14	15.23	50.01	54.29
1995	33004	52.91	25174.31	11.93	51819.62	13.67	48.58	55.63
1996	32995	52.35	29012.37	11.39	61313.17	14.39	47.32	59.77
1997	32915	51.79	32525.22	11.44	73769.7	14.74	44.09	56.81
1998	32878	51.19	37598.08	11.4	86706.41	14.54	43.36	55.32
1999	32857	50.59	42090.81	11.01	102697.07	14.71	40.99	54.78
2000	32734	50.04	48753.39	10.6	120539.19	14.67	40.45	56.01
2001	32562	49.39	54431.25	10.11	139431.36	14.69	39.04	56.71
2002	32380	48.91	66681.9	10.17	159423.46	14.19	41.83	58.39
2003	32303	48.55	77153.35	10.21	176502.39	13.83	43.71	59.24
2004	32121	47.8	85020.95	9.66	195081.71	12.91	43.58	58.25
2005	32082	46.93	109975.62	9.54	213104.11	12.2	51.61	65.98
2006	30579	44.01	126078.34	8.33	226061.18	10.81	55.77	72.39
2007	30551	42.52	154897.97	7.96	253013.69	9.74	61.22	74.97
2008	31076	39.8	183106.81	7.58	303423.04	9.34	60.35	74.37
2009	31667	38.6	207926.13	7.3	363910.19	9.28	57.14	72.61
2010	32624	37.2	249276.96	7.5	420337.72	9.2	59.30	73.3
2011	33683	36.2	2958145.4	7.3	493265.52	9.2	599.71	75.6
2012	36356	35	380517.65	7.9	573185.85	9.4	66.39	79
2013	39233	35.9	456190.81	8.3	669888.68	9.6	68.10	78.8
CAGR	2.93		17.60		16.81		0.68	

Source: Basic Statistical Returns of Scheduled Commercial Banks, RBI.

Table VII

Rate of growth of agricultural credit from 1972 to 2011

Period	Annual growth rates (%) in		
	Credit to Agriculture	Total Bank Credit	Agricultural GDP
1972-1980	16.1	8.4	2.3
1981-1990	6.8	8.0	3.5
1991-2001	2.6	7.3	2.8
2002-2011	17.6	15.7	3.3

Source: Ramakumar, R. (op. cit.)

27. This can be achieved only through Public Sector Banks and therefore, the Government of India should strengthen the public sector banks by extending adequate capital to the Public Sector Banks. It is further necessary that to essentially address the issue of rural credit and that of the farmers, there is also a necessity to strengthen the cooperative banking sector by both the State and Central Governments for their capital requirements and needs. The Regional Rural Banks shall have to be merged with the sponsored banks. The branches of the RRBs shall form part of the rural branches of the banks, which shall be the platform from which the banks can operate effectively for the credit needs of the rural masses and agricultural sector.

Massive investment in Agricultural and Rural Sector

28. Over the years, the budgetary allocation towards agricultural and rural sectors has not been increasing to the desired levels that would form the basis of alleviating the problems faced by the rural population and the peasants. There should be a massive public investment in agricultural and rural sector in right earnest by the Governments, both at the Central levels and by the States. When nearly 50 per cent of the working people are being employed in agricultural and allied activities, the share of public investment towards this sector does not commensurate with the requirements. This has given rise to the migration of agricultural workers towards other sectors and towards the towns and cities. This is a negative trend, which if not arrested, would lead to growing unemployment and unrest among the population.

29. Therefore, the need of the hour is the massive investment in agricultural and rural sectors by the Governments. Special programmes should be devised, designed and framed by the

Government to ensure that the investments to agricultural and rural sectors are increased enormously, which shall have the double effect of tackling the food security issues besides reducing the problem of unemployment.

Modernise Agriculture

30. To improve the agricultural output, there shall be concerted efforts from the Government. The modernization of agriculture is necessary and essential in order to improve the productivity as well as to uplift the rural poor above the abject poverty. Hence, schemes should be formulated and the public sector banks should be advised to lend to the farmers including the small and marginal farmers for modernization of agriculture. This credit shall be a very low rate of interest so that over a period of time, the agricultural output shall be quite huge to contribute substantially to the growth of our economy, exports and the GDP besides ensuring the food security of the country.

Do not Privatise Public Sector Banks

31. In order to achieve the desired development of rural areas and the agriculture, the role of the banks are quite important. This is possible only through public sector banks, which have social responsibility to improve the nation's economy and are committed to its growth. Private sector banks cannot perform this task as their main objective is profitability and have a limited role to play in these developmental responsibilities. Hence, the Public Sector Banks should not be privatized and any such attempts would derail the growth of our economy especially the rural and agricultural sector.

Safeguards for the innocent poor and punitive measures for defaulters

32. Contrary to the portrayal that the local moneylenders as villains in India's farm suicide narratives, as per the NCRB data released, from among the 3,097 farmers, who took their lives in 2015, more than 2,474 have borrowed loans from the banks and registered microfinance institutions. The figures also reveal that only 10 per cent of the farmers, who committed suicides, have borrowed from the professional moneylenders. The suicides have tripled in 2015 compared to 2014.

33. Abhijit Sen, former member of the erstwhile Planning Commission, stated that the moneylenders are more flexible compared to banks and microfinance institutions. He further stated, "The organised sector is less flexible because rules don't permit them flexibility. The

microfinance sector is worse. They put pressure by telling others in Self-Help Group that their share would be cut if one person does not pay loans in time. This creates social pressure as well. Many also send goons to the neighbourhood to scare the borrowers."

34. Hence, there should be more humane approach by the banks and the microfinance institutions towards farmers. In case of failure of crops or absence of seasonal rains, the holiday period should be granted to the small and marginal farmers from repaying the loan.

35. When huge loans given to corporate sector are being written-off in the name of "Haircuts", it will be much better if at least "holiday period" is given to the farmers, who face drought or crop failure or absence of seasonal rains or excessive rains. This would enable them to tide over the crisis.

36. Further loans for seeding the crops in the next season/year shall also be granted without hassles by the banks. There should be clear-cut policy guidelines that should be formulated by the Government of India to enable the Public Sector Banks to extend soft loans to farmers, to give them holiday period in case of crop failure and other natural calamities, extend further loan for the next season/year crops etc.

Table VIII

Share of agriculture in GDP, Exports and Employment

Year	Percentage share in Economy		
	GDP	Exports	Employment
1950-51	57.7	NA	69.4
1960-61	53.0	44.3	69.5
1970-71	46.3	31.7	67.8
1980-81	39.7	27.8	60.5
1990-91	32.2	18.5	59.0
2000-01	24.6	17.6	58.4
2015-16	17.4	10	48.9

Source: (Compiled by author from unpublished thesis) Mathew, J. (2006): *The impact of new economic policy on Indian agriculture: A study of selected cash crops.* Department of Economics, Dr. John Matthai Centre , University of Calicut.

37. What is required is the need based credit to the farmers to improve upon the agricultural sector, which is the backbone of the Indian Economy. A constant GDP growth of India could be achieved by targeting improvement in agriculture GDP, which is possible only through channelized and targeted credit to farmers.

Name and Shame the Wilful Corporate Defaulters and recover the loans

38. K.V. Thomas, in July, 2016, while he was heading the Public Accounts Committee, has stated that it is necessary to name and shame the wilful corporate defaulters, who owe to the banks several lakhs of Crores. Instead of writing-off the corporate bad loans, which run into the profitability of the banks, there should be stringent laws enacted by the Government for recovery of the bad loans. Existing laws should be strengthened to enable recovery. Companies Act should be amended to attach the properties of the Directors including their kith and kin if the default is wilful and when there exists diversification of loans availed from the banks. The wilful default of bank loans should be made a criminal offence and that wilful defaulters should be prohibited from contesting in elections and to hold public office. The Government of India should ensure that the public sector banks cater to the development of the economy and not to the few corporates, who wilfully default and get away with their actions. Hence, recovery of huge bad loans is the need of the hour. If such recovery is made, the problem of capital for the banks would be automatically resolved besides the banks would be flush with funds for lending to the developmental activities of the nation including the agriculture and rural sector.

Notes and References:

[All URLs were last accessed on December 22, 2017]

1. “The All-India Rural Credit Survey was conducted in 1951-52 by the Committee of Direction appointed by the Reserve Bank of India. The investigation extended over nearly 1,30,000 families resident in 600 villages and the various types of credit agencies in 75 selected districts spread all over the country. The data collected covered all important aspects of the working of the system of rural credit in the 75 districts. The Report of the Committee has been published in three volumes, namely, Volume I, the Survey Report, containing discussions Oil the results of the Survey, Volume II, the General Report, containing the recommendations of the Committee and Volume III, the Technical Report, containing a description of the technique of the Survey and the various statistical statements prepared from the data.” From a Foreword to a District Monograph, Osmanabad, All-India Rural Credit Survey. This foreword was written

by B.K. Madan, Principal Adviser to the Reserve Bank of India, and the District Monograph on Osmanabad was published in 1957.

2. The Government of India, in 1969, nationalised 14 banks. This was followed by the government taking control of six additional banks in 1980.

3. **Reserve Bank of India. 2017**. Frequently asked Questions: Priority Sector Lending - Targets and Classification, July 24.

4. **Hoda, A and Terway, P. 2015**. Working Paper 302 : *Credit Policy for Agriculture in India - An Evaluation*, *Indian Council for Research on International Economic Relations*, June.

5. **Ministry of Agriculture, Government of India. 2010**. *Report of the Task Force on Credit Related Issues of Farmers*, June.

6. **Reserve Bank of India. 2007**. *Report of the Technical Group Set up to Review Legislations on Money Lending*, July 24.

7. **Ramakumar, R**. **[n.d.]** *Recent Trends in Agricultural Credit Note in India: A Note*

8. **PRS Legislative Research**. *Report Summary Malegam Committee on Microfinance (January 2011)*.

9. **World Bank Group and Bank Negara Malaysia. 2017**. *Revolutionizing Microfinance: Insights from the 2017 Global Symposium on Microfinance*, May 22 and 23.

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11. **Bateman, M. 2017**. *How the World Bank's push for microcredit failed the poor*, Bretton Woods Project, December.

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This article was updated on December 23, 2017, to include the source for Table VIII.

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