Pauperisation of Indian Peasantry: A Peep into the Past

Dr. N K Thingalaya*

The process of papuerisation of Indian peasantry, which began during the British rule, has had devastating impact on the rural economy as recorded in our economic history. Villain of the piece was the village money lender. Though Manu, the Vedic lawgiver, had considered money-lending as a respectable vocation, over the years, money lender has undergone transformation as an exploiter. A Sanskrit saying, which defined the qualities of a good village worth living in, quoted by the Report of the Rural Credit Survey, has accorded importance to the presence of village money lender. According to it an ideal village is one, where there is a perennial river, a priest to administer to the soul, a vaidya to treat at times of sickness and a moneylender from to borrow at times of need. Perhaps, an ideal village of this description vanished over a century ago. The Royal Commission on Indian agriculture had declared in1927 that "The Indian farmer is born in debt, lives in debt and dies in debt". An irony of fate is that farmers in the Independent India are forced to commit suicide, even after all out efforts were made to institutionalize rural credit particularly during the last100 years. Besides the large number of primary cooperative credit societies, more than 35,364 rural branches of public sector banks and regional rural banks have entered the rural scene to replace village money lenders. The impact made by them is not very successful.

Money lenders in India have a history much longer than that of the institutional credit agencies. These all pervading omni-present exploiters had mastered dubious methods of depriving the helpless farmers of their small landholdings. The exploited farmers in Maharashtra had revolted against them during the latter half of the 19th century. Deccan Riots, as it was called, in which violence erupted in 1875 in Poona and Ahmednagar districts against the greedy moneylenders.

Their machination was indirectly supported by a lacuna in the legal system relating to the Law of Limitation. How blatantly this was used by money lenders, is graphically recorded in the Report of the Deccan Riots Commission, 1878. This report, incidentally, has been reproduced in the recent issue of ***Journal on Indian School of Political Economy,*** published by Pune. As it reveals very interesting insights into the modus operandi of pushing gullible farmers into the debt-trap, one case among the many recorded, is taken up for analysis.

Designing the Debt-trap:

"The Limitation Law", the Report has conceded, "a statute of peace, made for the purpose of protecting obligators, is practically an engine of extortion in the hands of the obligees. The short duration (three years) provided for in the Limitation Act, though intended to prevent frauds and difficulty of proving a case when long interval has elapsed between execution of the note and the trial, produces great hardship, and furnishes opportunities for the creditors for cheating their debtors. In the process of swelling his account, the sowkar (moneylender) has received material assistance from the Limitation Act of 1859"

This position is clearly recorded in the notings of sub-judges in different tehsils of the state. An example is given below.

Sub-Judge, Tasgaon, dated 14th August 1875

On the 3rd of Chaitra of Shake 1788, Pandu bin Parji (Patel) executed a bond for Rs.100 to Shankerao Apaji (Gudbole), the interest stipulated for in it being Rs.21 percent per annum. When this bond was about to be time-barred, the creditor sued Pandu on it to recover Rs.176 as follows.

Principal	Rs.100 0 0
Interest	Rs. 96 0 0
Total	Rs.196 0 0
Payment	Rs. 20 0 0
Balance	Rs.176 0 0

and obtained a decree. In this suit, the court expenses amounted to more than Rs.24. The debtor had no money to pay in satisfaction of the decree; he therefore executed a second bond to the creditor for Rs.200 on the 9th Magh Wud Shake 1791. When the second bond

*Professor Emeritus, Justice K.S.Hegde Institute of Management, Nitte

was about to be time-barred, a suit was initiated on it on the 16th April 1873 to recover Rs.200 and interest Rs.200 and a decree was obtained for Rs.400 and costs, which is not yet executed. Court expenses in this suit amounted to Rs.45-14-9.

The following will show at a glance the history of the above debt-.

The principal sum borrowed	Rs.100 0 0
Total of the interest on sum borrowed	Rs.272 00
Total of court expenses	Rs. 69 14 0
Total	Rs.465 14 0
Payment	Rs. 20 0 0
Balance	Rs.445 14 0

Source: East India (Deccan Riots Commission) Report*, London, 1878*, page 418

Poor Pandu, having borrowed Rs.100 six years ago, becomes a debtor for Rs.445 and 14 annas, after repaying Rs.20. He had to incur the court expenses of Rs.69 and 14 annas.

He had also to bear the interest burden of Rs.272, an amount more than double the original sum borrowed. Like him, thousands of famers became paupers during those days, which culminated in riots against moneylenders in different parts of the state. Later, in 1927, a Royal Commission on Indian Agriculture observed in a routine manner that "Indian farmer is born in debt, lives in debt and dies in debt." Generations of poor farmers have lived in poverty for over a century, exploited by moneylenders quietly. The All India Rural Credit Survey (1956), quoting a popular saying, has rightly observed that Credit supports the farmer, like the hangman's rope supports the hanged.

Independent India inherited from the alien rulers, a rural economy throttled by moneylenders. In 1906, the cooperative movement was initiated to extend credit to farmers. While at the political level, the non-cooperation movement against the alien rulers was getting strong, many of the nationalist leaders were actively associated with the cooperative movement with a view to ameliorate the living conditions of farmers. The cooperative sector has not been able to replace moneylenders' credit by cooperative credit to the desired extent. The problem was too deep to be solved by the State in many decades even after the dawn of Planning era in the fifties. Rural poverty remains deep-rooted in India, though different estimations are made periodically. Those living under the ubiquitous poverty-line, notionally move above or below according to these estimations.

Replacing Moneylenders?

Concerted efforts were made since then to replace the moneylender by an institutional credit agency extending credit at reasonable rate of interest. After Independence, commercial banks, which were emerging as important segment of the financial sector, did not evince interest in serving farmers. Nationalising banks in 1969 and 1980, Government of India directed them to enter the rural sector on a large scale. A new breed of rural-oriented banks, namely gramin banks, was also introduced into the rural sector in the 70s. Even after four decades of public sector banking, village moneylenders could not be completely eliminated from the rural scene. Almost all the states have implemented Moneylenders' Act for regulating the activities of moneylenders, but very little impact of its efficacy is visible.

To arrest the growing clout of money lenders, gramin banks were asked to swap money lenders' credit by bank credit on a pilot basis. This would be a highly desirable gesture, as the debtors would be able to reduce their debt-burden considerably through debt swapping. A beginning in this direction was made by many gramin banks, as directed by the NABARD. To arrest the growing clout of money lenders, gramin banks were asked to swap money lenders' credit by bank credit. This would be a highly desirable gesture, as the debtors would be able to reduce their debt-burden considerably through debt swapping. A beginning in this direction was made by many gramin banks, as directed by the NABARD. While some of them have taken up the task seriously, some banks have merely mentioned the number of villages adopted and many others do not mention in their annual reports, the progress made in this direction. Though the available data relate 2009 based on the annual reports of some gramin banks, they are indicative of the immense scope for providing relief to the heavily indebted farmers through gramin banks. Some of the findings are given below:

A gramin bank from Kerala appears to have done some ground work in debt-swapping, as it has stated in its annual report, "Debt swapping is in progress in 184 panchayath wards; 159 panchayath wards are free from the clutches of moneylenders; 5252 farmers were financed and the total amount disbursed is Rs.10.57 crore" (33rd Annual Report-2008-09, North Malabar Gramin Bank).

The other gramin bank from the same state has implemented a novel scheme called Snehagramam, which combines the twin objectives of financial inclusion and freeing the villagers from the clutches of money lenders in 225 villages.

From Tamil Nadu, Pandyan Grama Bank has explained that "Under Debt Swap Scheme, 5216 rural poor were freed from the clutches of money lenders by sanctioning loan of Rs.1343 lacs" (Pandyan Grama Bank, Annual Report 2008-09)

Karnataka-based Cauvery Kalpatharu Grameena Bank has given some details of the debt-swap scheme implemented by it. After surveying 164 villages, "137 villages are declared debt-free during the year by extending financial assistance of Rs.968.06 lakh to 2166 beneficiaries. Cumulative assistance extended is Rs.1211.78 lakh to 3058 beneficiaries" (3rd Annual Report 2008-09, Cauvery Kalpatharu Grameena Bank)

To quote one of the annual reports of a gramin bank from Uttarakhand in this regard, "In its endeavour to emancipate the indebted farmers from the clutches of private money lenders, Bank has introduced Kisan Sathi Yojna. As a part of it, 5 villages each in all 7 districts of its area of operation were identified for implementing the scheme. 35 villages have been declared as debt-free from private money lenders". (4th Annual Report 2008-09 Purvanchal Gramin Bank)

Aryavart Gramin Bank from Uttar Pradesh has made a similar statement; "The Krishak Saathi Scheme for farmers for making them free from debt of moneylenders has been introduced by the Bank in accordance with the scheme floated by NABARD. The Bank has adopted 277 villages for making them free from the debt of moneylenders under the scheme and made 25 villages free from the debt of moneylenders during the year" (Annual Report 2008-09, Aryavart Gramin Bank). No details of the amount involved and the extent of relief in the interest burden are provided.

Prathama Bank reveals, "At the end of March 2009, 353 villages have been freed from moneylenders by providing financial assistance to the tune of Rs.291 lac among 1004 families of these villages" (34th Annual Report 2008-09 Prathama Bank)

Out of the two banks from Haryana, one bank- Haryana Gramin Bank, merely indicates the number of people assisted, "During the year, 272 villages have been adopted by the branches of the bank and 1213 persons have been assisted under the scheme" (Annual Report 2008-09, Haryana Gramin Bank).

Another bank, Gurgaon Gramin Bank, from the same state, reveals that the "advances granted to farmers against their indebtedness to informal sector are Rs.10.33 crore and the number of accounts is 1083"(33rd Annual Report 2008-09, Gurgaon Gramin Bank)

One of the gramin banks from Madhya Pradesh, merely states "Bank has so far (been) able to free 121 villages from the clutches of the moneylenders as at the end of the year" (Annual Report 2008-09 Narmada Malwa Gramin Bank). Such generalised statements do not appear to be different from old bogey of "village adoption" by banks in the initial years of rural banking

Selecting a single village, Baroda Rajasthan Gramin Bank mentions that " it has freed all the villagers from the clutches of moneylenders through facilitation of farmers' clubs and issuance of Kisan Credit Cards" (4th Annual Report 2008-09 Baroda Rajasthan Gramin Bank).

Bangiya Gramin Vikash Bank from West Bengal provides some details of the financial assistance extended to the indebted farmers. Its Annual Report states, "The Bank has granted credit with an outstanding balance of Rs.850.77 lakh to 7,244 number of farmers to enable them to liquidate their indebtedness to the informal sector" (Annual Report 2008-09 Bangiya Gramin Vikash Bank)

Gramin banks operating in some of the traditionally highly indebted states like Bihar, Odisha, Madhya Pradesh and the north-eastern states have not indicated the progress made by them in debt-swapping. The number of suicides committed by farmers in Maharashtra during the last few years has shaken the nation's conscience. Special relief measures were implemented by the state government. The annual reports of 2008-09 of the three gramin banks operating in the state, however, do not furnish the data relating to replacement of farmers' debts. However, Marathwada Gramin Bank makes a mention of the efforts made by it earlier, stating, " Our Bank was previously implementing Moneylender-Free Villages Scheme. The same is continued under the name of Debt Swap Scheme. So far Bank has adopted 86 villages under various branches to implement the scheme. The survey of these villages is conducted to know the credit needs of the people and accordingly finance is made available to the villages to free from the clutches of money lenders" (Marathwada Gramin Bank, 33rd Annual Report 2008-09).

In its latest annual report Pragathi Gramin Bank from Karnataka has indicated that in its area of operation comprising eight districts, "The total number of money-lender free villages stands at 674 as a March 2012. Number of loan accounts outstanding from indebted farmers stood at 2696, with an amount outstanding at Rs.9302 lakh" (Pragathi Gramin Bank, 7th Annual Report 2011-12).

Replacing moneylenders is not an easy task, because of their omni-presence, easy accessibility and informal procedures. At the field level, gramin banks have found it difficult to dislodge them as they have deep roots. Evaluating this situation, Technical Group appointed by Reserve Bank of India in 2006 to review legislations on money lending, has observed, "In spite of there being a legislation, a 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". It is a sad commentary on our rural credit management that the organized credit agencies could not displace village money lender nor diminish his role as a source of rural credit. Farmers' suicides continue, though they no more appear as headlines in newspapers.

The recent development in the media appears to be the promotion of micro finance institutions (mFIs), not the traditional bankers, as the saviors of the poor in India. Considering the insatiable demand for rural credit, the micro finance institutions perceive a lucrative business proposition in micro credit, provided they are allowed to have a free play. The monetary pundits, who were supporting the interest regimentation during the pre-financial sector reform period, now strongly plead for the interest rates to be decided by the market forces. The risk perception of mFIs' rural lending is very high; their cost of funds and management also is quite high. Therefore, they should be allowed to charge the market-determined interest rate, it is argued.

In classical literature moneylender was totally denounced for the high rate of interest charged by him and the strong arm tactics adopted for recovering his dues. Now a few of the mFIs have been imitating him with impunity. That the interest rate charged by mFI is lower than that charged by moneylender is not a sufficient justification for charging rates much higher than that charged by banks. The rude manner in which some of them have stepped up their recovery rate has created undue hardships to the debt-ridden poor farmers. While the moneylender, crude in his dealings, is despised and disliked universally, the sophisticated mFIs are treated as the saviors of the poor

Alternatively, gramin banks should be fostered as the more suitable rural credit agency. They have built up ready access to low income groups in rural areas, from whom they have mobilsed low cost funds like the savings bank deposits. They have developed the workable strategies to bring to the bank small depositors in the villages. They did not start with zero-balance savings accounts, as the big banks are currently busy with. By providing the facility to save, even small amounts, they have raised their deposit base. In the branchless banking operations, it was observed that the villagers are depositing with the business correspondent even the small amount of bus fare, which they save because of the banking facility available in the village. The creation of facility to save emerges as important as the capacity to save and the willingness to save.

Having over 74 percent of their credit lent to the small borrowers- borrowing less than Rs.25,000 - the gramin banks' comfort level with small borrowers is very high. This is a positive factor in improving their accessibility and acceptability to the people of very small means. From the beginning, the gramin banks were catering to the credit needs of the marginal farmers, agricultural labourers and rural artisans. Their lending apparatus is, therefore, attuned to small borrowers. It has proved to be sustainable during the last 37 years of their existence. It is highly desirable to direct all gramin banks to pursue the programme of replacing the village moneylenders more vigourously.

Action under Financial Inclusion Programmes?

Reducing the debt-burden of farm households should be an important component of financial inclusion programmes in the real sense of the term. Opening no frills accounts is not the ultimate goal. It is only one of the means to bring specially rural masses into the banking fold. Banks are reported to have reached out to large number of them through the 658 Financial Literacy Centres set up by banks in 630 districts. It is also reported that 1.5 million people have been trained during April to December 2012.

The Reserve Bank of India appears to be solely relying upon the data furnished by banks about the progress made by them in reaching out to the hitherto unreached population. While the veracity of the data cannot be questioned, it may be added that there is another set of authentic data on banking penetration readily available.

For the first time, the 2001 Census has enumerated the number of households, both in rural and urban areas, availing banking services all over the country. State-wise and taluk-wise data on the number of households having bank accounts were generated by the Census operations. This was repeated in Census 2011 also. The enumeration was made for all households and not for individuals. The definition adopted was very simple: "A household was considered to be availing banking services, if the head and/or any other member in the household was availing services, provided by a bank or post office as a holder of any type of account. This covered nationalized banks, private banks, foreign banks and cooperative banks. However, credit and thrift societies were not considered part of the banking system". Since these data are available for every taluk or tehsil in India, banks may be advised to use them as benchmark data for their programmes for financial inclusion. The Rural Planning and Credit Department of Reserve Bank of India may take up case studies of a few taluks or districts using these published data. Lead Banks also may be advised to undertake such studies to assess the extent of banking penetration at taluk-level. At present no such studies are made below the district level.

An important aspect of the ultimate goal of financial inclusion has been highlighted by Dr. Deepali Pant Joshi, Executive Director of Reserve Bank of India, as follows; Step into a bank, Step out of poverty. The very objective of bringing people into the banking fold should be to raise them above the poverty line. Providing them credit at an affordable rate and creating conducive channels for promoting savings are the two pillars of this programme. This is indeed a pious hope and the banks can certainly achieve this if the whole programme of financial inclusion is implemented in its true spirit. Some gramin banks have done it in their own way.

References:

Joshi, Deepali Pant (2013): Indian Rural Banking Sector: Big Challenges and the Road Ahead,

Inaugural address delivered at the National Seminar: Indian Banking Sector: Big Challenges and the Road Ahead, held at Mangalore Institute of Technology and Engineering on May 4, 2013, at Moodabidri, published in Reserve Bank of India Bulletin, June 2013, Mumbai Government of India (2010): Report of the Task Force on Credit Related Issues of Farmers (Chairman: U. C. Sarangi), New Delhi

--------------------------------(2012): Tables on Houses, Household Amenities and Assets, Census of India, 2011, New Delhi

Pradhan, N. C (2013): Persistence of Informal Credit in Rural India: Evidence from 'All India Debt and Investment Surveys' and Beyond, RBI Press Release, May 9, 2013

Reserve Bank of India (1956): Report of the All India Rural Credit Survey, Bombay

------------------------------(2006): Report of the Technical Group to Review Legislations on Money Lending, (Chairman: S. C. Gupta), Mumbai

Thingalaya N K (2000): Manu, Chanakya and the Rate of Interest in The Other side of Rural Banking, published by Bankers Institute of Rural Development, Lucknow.