

Eradication of Poverty with Rural Banking

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CHAPTER I INTRODUCTION

“The Indian peasant is born in debt, lives in debt and bequeaths in debt," Darling's still remains true for the great majority of working households in the countryside.¹ It is well known that the burden of indebtedness in rural India is very great and that despite major structural changes in credit institutions and forms of rural credit in the post-independence period, exploitation of the rural masses in the credit market is one of the most pervasive and persistent features of rural life in India.²

Rural households need credit for variety of reasons. They need credit to meet short -term requirements of working capital and long-term investment in agriculture and other income-bearing activities. In the Indian text, another important purpose of borrowing is to meet expenses for a variety of social ligations and rituals as well.³ Agricultural and non-agricultural activities in rural areas are typically seasonal and this pushes the households in need of credit to smoothen out seasonal fluctuations in earnings and expenditures and hence rural poor need credit as an insurance against risk.⁴

Poverty in itself is a very subjective term and so identification of poor has always been hard nut to crack. "Poverty is a value judgment".⁵ It seems natural to think of poverty as

¹ N Kavita and A. Ramchandran, “Problems of the rural poor in India – Future perspective, from http://www.indianmba.com/Faculty_Column/FC579/fc579.html, visited on 07-05-2010. Also see Mohan R. (2006). “Agricultural Credit in India- Status, Issues and Future Agenda”, Economic and Political Weekly, Vol. XLI No. 11, March 18-24.

² V. K. Ramachandaran and Mashura Swaminathan, “Financial liberlisation and rural ranking in India”, Indian Statistical Institute, Kolkata. Paper to be presented at the International Conference on 'The Agrarian Constraint and Poverty Reduction: Macroeconomic Lessons Africa.,organised by the International Development Economics Associates.(DEAs), Ethiopian Economic ASSOCIAtION (EEA), and CODESRIA Addis Ababa, December 17 to 19,2004,fromhttp://www.networkideas.org/feathm/dec2004/Conference_Papers/Financial_Liberalisation_Rural_Banking_India_VKR.pdf, visited on 1-03-2010.

³ Ibid.

⁴ Desai B M, "Rural Banking in India - It's Performance and Problems,"IIMA Working Papers 282, Indian Institute of Management Ahmedabad, Research and Publication department, <http://ideas.repec.org/p/iim/iimawp/282.html#download>, visited on 07-05-2010.

⁵ S.R. Osmani, “Conceptual issues in the measurement of poverty: A synopsis note”, Presented in the Rural Studies Workshop, BIDS, 10-11 January, 1981,

something that is disapproved of, the elimination of which is regarded as morally good.⁶ As Mollie Orshanky argues "poverty, like beauty, lies in the eyes of the beholder".⁷ So, the exercise seems to be primarily a subjective one, unleashing one's morals on the statistics of deprivation. Poverty is the root of various social and economic evils and social exclusions.⁸ There cannot be a single proof solution to poverty; rather a multi-faced change is needed.

Impoverishment (as Dr. Upendra Baxi calls it)⁹ is perceived as resource deprivation of individuals and the so called "Poor" are supposed to be persons who do not have sufficient income even to satisfy their basic needs.¹⁰ India being a welfare state, the empowerment of these poor is constitutional obligation¹¹ and so the Govt. aims at satisfying at least the basic needs of every citizen of the country. The poor must be provided with resources to overcome poverty and it is sought to be achieved by different types of welfare schemes, Pensions, benefits, loans, credit, finance etc.

Poverty is perceived as resource deprivation but the question arises that whether it can be eradicated by availing credit to the needy poor.¹² The relation between Rural Banking and poverty cannot be negated but the debate continues that whether Banks and financial institutions reduce poverty. On one hand Rural Banking, Micro finance and Informal credit are argued to be the key tools in poverty alleviation; while on the other hand, some argue that these loans or credits are just adding to the existing debts of the poor.

<http://www.prcpb-bids.org/documents/ArchiveConceptual%20IssuesSROsmaniFinal.PDF>, visited on 09-05-2010.

⁶ Amartya Sen, issues in measurement of poverty, Nuffield College, Oxford, England, Scand journal of economics 1979.

⁷ Essay no. 3 for Paper 14, Philosophy of Economics, Submitted in part-fulfilment of the requirements for the MPhil in Development Studies at the University of Cambridge, 2004 -2005,

http://www.ibiblio.org/philecon/Assignments_files/mrh3.doc, visited on 10-05-2010.

⁸ Further see Arjan de Haan, "Social Exclusion: Towards a Holistic Understanding of Deprovation," in Arjan de Haan and Naila Kabeer, "Social Exclusion: Two Essays, Critical Quest, New Delhi, pp.- 1-18.

⁹ See Upendra Baxi (1982), "Global Development and Impoverishment" in Peter Cane and Mark Tushnet (eds.), The Oxford Handbook of Legal Studies, Oxford University Press, Oxford, pp. – 455-484.

¹⁰ After the report of "Report task force on project of minimum needs and effective consumption demand" 1979, An imaginary poverty line was created and the official definition of the poor says "The poor whose monthly income per capita income lies below the mid- point of monthly per capita consumption expenditure of class satisfying calorie requirement of 2100 cal in urban areas and 2400 cal In rural areas. However, this conception of poverty is severely criticized by many scholars, as See Report of the Expert Group to review the Methodology for Estimation of Poverty, Planning Commission, Govt. of India, Nov. 2009, available at <http://planningcommission.nic.in>.

¹¹ Articles 39, 39A, 45 under DPSP in The Constitution of India.

¹² See Robin Burgess and Rohini Pande, Can Rural Banks Reduce Poverty Evidence From the Indian Social Banking Experiment,

<http://www.docstoc.com/docs/28781238/Can-Rural-Banks-Reduce-Poverty-Evidence-From-the-Indian-Social/>

A poor seldom succeeds in satisfying the terms and conditions to get sanction a loan, and this is a common situation when he is pushed (or can I say thrown) in the fire of money-laundering, where his efforts to repay the money ends with his death, or many a times suicide. Micro-financing and other self help institutions bear the burden of high expectations of the people and they are still to pass the test of time to prove their importance and efficiency.

This paper aims to study and examine the relation between Rural Banking and Poverty and to understand the mutual affect of these two on each-other and also to study and critically analyze the existing rural banking and credit system in India and to identify and discuss other alternative credit institutions in Rural India, like micro financing and other informal credit institutions.

For convenience, the paper is divided into four chapters. First gives an introductory overview of the topic, the second chapter deals with rural banking policy of India and its problems, the third chapter discusses micro-finance as an optional credit institution in rural India and lastly the fourth chapter concludes the paper.

CHAPTER – II

RURAL BANKING IN INDIA

Ever since the establishment of Banks in India, the primary focus of the banks has been the industrialized urban areas. Banks have been less willing to open their branches in rural areas due to variety of problems. Despite India being a country of villages, where still a major portion of GDP comes from agriculture sector¹³, rural banking is left unattended.¹⁴

2.1 Twin challenges of Rural Banking

Banking in rural India is faced with the twin challenges of regulation and distribution. Regulation with respect to banking has been designed for delivery in urban India and distribution

¹³ According to CSO figures -2007-08, The contribution of agriculture in GDP is reduced from 56.5 to 17.6 and Number of people working in agriculture has down from 70% to 59%.

¹⁴ See Kochar, Anjini, 2005, "Social Banking and Poverty: A Micro-empirical Analysis of the Indian Experience," Stanford Center for International Development, Stanford University, mimeo.

required more manpower to be deployed in rural areas.¹⁵ About 500-600 million people in India still do not have bank accounts. A World Bank- NCAER (National Council of Applied Economic Research, India) Survey on rural access to finance (the Rural Finance Access Survey- RFAS, 2003) indicates that 70% of the rural poor do not have a bank account and 87% have no access to credit from a formal source. Informal sector lenders remain a strong presence in rural India, delivering finance to the poor: the RFAS, 2003 finds that 48% of landless and marginal farmers borrowed from an informal source at least once in the past 12 months, at rates averaging 48% per year.¹⁶

Growth is important, but it is also imperative that growth becomes more inclusive because if certain regions, sectors or groups of people are denied economic opportunities for long periods, the spread and sustainability of growth itself is threatened. Hence, growth, to be inclusive, must take into account the betterment of every section of society.¹⁷

One faces great difficulty in getting credit in rural area because of the peculiar nature of agricultural credit. Low return rates and lack of requisite security for the loan make the Banks think twice before sanctioning any loan. Low interest rate, forced credit to weaker section etc are government imposed policies which Banks find difficult to adhere to. Banks do their business for profit and so even these forced government policy fail to divert Bank's inclination towards Rural Banking.

2.2 Existing problems in Rural Credit

Historically, there have been three major problems with respect to the supply of credit to the Indian countryside. First, the supply of formal sector credit to the countryside as a whole has been inadequate and it has been very imperfect and fragmented. According to Dr. Nachiket Mor, Deputy Managing Director, ICICI Bank, "The informal credit segment is about US\$ 82 billion. Yearly demand for credit is estimated at about Rs 1, 50,000 crore, of which Rs 4,000 crore is actually met."¹⁸

¹⁵ Supra 2.

¹⁶ Shashank Shetty, Scaling-up Access to Finance for India's Rural Poor, Welinkar Institute of Management Development and Research, <http://www.oppapers.com/essays/Microfinance/172532>, visited on 07-05-2010.

¹⁷ Muhammad Yunus, Poverty Alleviation: Is Economics Any Help? Lessons from the Grameen Bank Experience. Journal of International Affairs, Vol. 52, 1998, <http://www.questia.com/Index.jsp>, visited on 07-05-2010

¹⁸ Business Today – ICICI Bank's Rural Thrust, 4th June 2006, <http://businesstoday.intoday.in>, visited on 07-05-2010.

Secondly, the distribution of formal sector credit has been unequal, particularly with respect to region and class, caste and gender in the countryside. Radhakrishna Committee¹⁹ on Rural Indebtedness mentioned in its report that there are large regional variations in the disbursal of bank credit.²⁰ For instance the committee said that the southern region accounted for nearly one-third of the total outstanding agricultural credit disbursed nationally although they accounted for less than one-fifth of total farm households in the country.²¹ On the other hand, the eastern region's share in credit is much lower than its share in farmer households. Formal sector credit needs specially to reach backward areas, income-poor households, people of the oppressed castes and tribes, and women. Thirdly, the major source of credit to rural households, particularly income-poor working households, has been the informal sector. Informal sector loans typically are advanced at very high rates of interest and these loans are difficult to be regulated by the law.²²

Further, the terms and conditions attached to these loans have given rise to an elaborate structure of economic and extra-economic coercion in the countryside. Also, as the priority sector loans have been of small amounts, the public sector banks not been able to adequately monitor the distribution, follow-up and recovery of loans, resulting in squeezing of profitability and increase in non-performing assets.²³

The Government of India and RBI have further committed to new innovations, with a view to enabling banks to increasingly involve in the area of rural banking during 11th five year plan. One of the objectives of banking policy after nationalization was to expand the flow of credit to agriculture and small industries, or what were termed 'priority sectors'.

Securing minimum amount of loan is a low priority for banks as banks are geared to serve high-income groups. The relatively increased reliance of households with low income on non-institutional sources could be due to factors such as their requirements generally include

¹⁹ The Radhakrishna Committee was constituted to analyse the neglect of agriculture in the planning process and the agricultural crisis that has resulted thereof. The committee submitted its report in 2007. The report is available at <http://www.igidr.ac.in/pdf/publication/PP-059.pdf>

²⁰ Radhakrishna Committee on Rural Indebtedness, <http://democracyconnect.pbworks.com/Radhakrishna%20Committee%20on%20Rural%20Indebtedness>.

²¹ Ibid.

²² Muhammad Yunus, "Poverty Alleviation: Is Economics Any Help? Lessons from the Grameen Bank Experience", *Journal of International Affairs*, Vol. 52, 1998, <http://www.questia.com/Index.jsp>, visited on 07-05-2010.

²³ Mohan R. (2006). "Agricultural Credit in India- Status, Issues and Future Agenda", *Economic and Political Weekly*, Vol. XLI No. 11, March 18-24.

borrowings for purposes for which loans are not readily available from banks, as well as inability to provide collaterals.

Countries including India have initiated some of the measures, which include [i] nationalizing private banks [ii] interest rate ceilings on credit to low income households and provision of credit at subsidized rates to priority sectors [iii] setting up of empowered and dedicated agencies by Government [iv] running specialized and sponsored schemes including those sponsored by Government and banks themselves using a blend of innovations, reforms in the existing structures of credit delivery and the existing infrastructure like post offices and passport accounts [v] countering the operations of moneylenders and strictly implementing anti money-laundering laws [vi] community based savings and credit societies and mutual savings banks, which in a way can be seen as precursors of the modern micro-finance movement.²⁴

The Reserve Bank of India (RBI) issued specific directives with respect to social and development banking. These included setting targets for the expansion of rural branches, imposing ceilings on interest rates, and setting guidelines for the sectoral allocation of credit. Rural credit was an important component of the 'green revolution' package; the first post-nationalization phase of expansion in rural banking saw a substantial growth in credit advances for agriculture.²⁵

The Integrated Rural Development Programme (IRDP) was launched in 1978. The basic aim of IRDP has been to provide assets to the asset-less target groups (such as small and marginal farmers, agricultural labourers and rural artisans) through income-generating activities that would enable them to break the poverty cycle.²⁶ It provides access to institutional credit for small and marginal farmers and other weaker sections, to enable them to adopt modern technology and improved agricultural practices, has been the major objective of the credit policy.²⁷ The Reserve Bank of India has taken steps towards setting up a Rural Infrastructural

²⁴ V. K. Ramachandaran and Mashura Swaminathan, "Financial liberalisation and rural ranking in India", Indian Statistical Institute, Kolkata. Paper to be presented at the International Conference on 'The Agrarian Constraint and Poverty Reduction: Macroeconomic Lessons Africa', organised by the International Development Economics Associates. (DEAs), Ethiopian Economic ASSOCIATION (EEA), and CODESRIA Addis Ababa, December 17 to 19, 2004, from http://www.networkideas.org/feathm/dec2004/Conference_Papers/Financial_Liberalisation_Rural_Banking_India_VKR.pdf, visited on 1-03-2010.

²⁵ Supra 1.

²⁶ Alok Kumar Sharma (Director, Ministry of Rural Areas and Employment, New Delhi), "Assessment of rural poverty in India", http://www.unescap.org/rural/doc/beijing_march97/india.PDF, visited on 07-05-2010.

²⁷ <http://indiabudget.nic.in/es98-99/chap104.pdf>, visited on 03-05-2010.

development Fund at the National Bank for Agriculture and Rural Development (NABARD).²⁸ The main objective of the Fund is to provide loans to State Governments and State-owned corporations to enable them to complete ongoing rural infrastructure projects.²⁹

2.3 Rural Banking and Poverty

Poverty mostly incorporates instances of resource deprivation but the question arises that can it be eradicated by providing loan or credit facilities to the poor. A loan needs to be repaid and so proper utilization of the loan money is required to ensure the repayment of the loan.

The repercussions of financial exclusion are destructive and may even become suicidal. A person may be said to have access to financial services if he or she is able to use formal or semiformal financial services in an appropriate form at reasonable prices when such services are required. In India, the basic concept of financial inclusion is the percentage of adult population having bank accounts. Again financial exclusion can act as a fundamental source of poverty. This implies that poverty causes low demand for organized financial system and financial exclusion causes poverty. Therefore, there is a bidirectional cause and effect relationship between poverty and financial inclusion. In either ways people needs access to credit and necessary financial services, which are best enable through a bank accounts.

The bank nationalization was marked a paradigm shift in the banking sector. Under this arrangement, at least 40 per cent bank lending had to be extended in the priority section and 25 per cent of these loans had to be extended to weaker sections within priority section.³⁰

As per NSSO survey 2003, financial inclusion was only 49 percent in 18 states. Andhra Pradesh ranked at the top with 75 per cent inclusion. The financial inclusion scenario of the North-Eastern states is very dismal compared to the industrially advanced states. The poorer a state, the greater is the level of financial exclusion.³¹

State level analysis for the period 1961-2000 demonstrates that rural branch expansion in India significantly lowered rural poverty. House- hold analysis shows that rural labor

²⁸ The RIDF was set up by the Government in 1995-96 for financing ongoing rural Infrastructure projects. The Fund is maintained by the National Bank for Agriculture and Rural Development (NABARD).

²⁹ Supra 26.

³⁰ Amit K. Bhandari, Access to Banking Services and Poverty Reduction: A State-wise Assessment in India, Indian Institute of Social Welfare and Business Management and IZA, Discussion Paper No. 4132, April 2009, <http://ftp.iza.org/dp4132.pdf>.

³¹ Rangarajan C. (2007). Financial Inclusion: Some Key Issues, Lecture delivered at Mangalore University, Mangalore, August 10, 2007, - <http://ftp.iza.org/dp4132.pdf>, visited on 09-05-2010.

households, especially SC/ST households, were much less likely to obtain bank loans once the emphasis on social banking was reduced.³²

In an empirical study, Published in Yale University papers, the researchers find that rural branch expansion can explain a 14-17 percent drop in rural headcount. Roughly half the overall fall across the period. To achieve this reduction in poverty the Indian state invested substantial resources into the development of a state banking sector. In 2000 the value of deposits in commercial banks constituted 39 % of GDP and the value of and loans outstanding 21% of GDP. Both saving and borrowing activities of commercial banks entail a significant element of subsidy from the central via interest rate subsidies and the renouncing of loss making branches.³³

It is argued by some that expansion of Bank branches led to reduction in poverty, but the positive link between poverty and expansion of bank branches is questioned on two facets, one that how sustainable it would be if such is the case? And second that if such expansion was not driven by profit then why wasn't the money directly used to alleviate poverty than to distribute through banks?³⁴

2.4 Farmer Suicides

The combination of higher social expectations, generational land fragmentation and low productivity keeps driving the small farmers into cycles of growing indebtedness.³⁵ State-owned banks, either defunct or under pressure from economic reforms to curb risky debts, turned away from small farmers needing crop loans or other casual loans for other purposes. Many a times farmers commit suicide because their loan is rejected on different pretensions may be because no one would guarantee their bank loan.³⁶ Failing to get a loan from Banks or other formal institutions forces the farmers to turn from institutional credit to the moneylenders, despite the usurious interest rates charged by them.

The magnitude of the problem is the heights that for instance in vidarbha a district in Maharashtra alone the cases of farmer suicide, while there are no authentic figures on the exact

³² Robin Burgess, Rohini Pande and Grace Wong, Banking for the Poor: Evidence from India September 22, 2004, <http://www.econ.yale.edu/~rp269/website/papers/jeeabankindia.pdf>, visited on 07-05-2010.

³³ Ibid.

³⁴ Arvind Panagariya, Bank Branch Expansion and Poverty Reduction: A Comment, <http://www.columbia.edu/~ap2231/technical%20papers/Bank%20Branch%20Expansion%20and%20Poverty.pdf>, visited on 07-05-2010.

³⁵ Farmer suicides and electoral populism, http://india_resource.tripod.com/agri-populism.html.

³⁶ Deadly Crop: Difficult Times Drive India's Cotton Farmers To Desperate Actions JONATHAN KARP / Wall Street Journal 18feb98, <http://www.mindfully.org/Farm/Green-Revolution-Desperate-Actions.htm>

number of farm suicides in Vidarbha, Maharashtra government accepts to a figure of 1920 from January 1, 2001 to August 19, 2006. The “Vidarbha Jan Andolan Samiti (VJAS)”, a farmers' movement, puts the toll at 782 from June 1, 2005 to August 26, 2006. And, in the last three months, there has been a suicide every eight hours.³⁷

However, this is just one from their endless list of sorrows and so there are structural problems of agriculture in India at large and they all aid in list of reasons and factors of farmer suicide in the country. Some among them are:

i) Growing expenditure, specially on bought inputs like seeds, fertilizers etc. (ii) Low productivity (iii) Inadequate prices of agriculture produce (iv) Difficulties in marketing and marketing hazards (v) Natural hazards caused by drought (vi) Absence of proper crop planning (vii) Unsatisfactory agriculture credit (viii) Accumulated burden of debt.³⁸

CHAPTER - III

MICRO FINANCE: AN ALTERNATIVE?

In addition to banks and insurance companies, micro-financing institutions have continued to play an important role in giving credit and saving facilities to micro sectors of the economy.³⁹ But, even there are some problems being faced by these institutions which can be improved by incorporating some changes in the system. First, microfinance business should be conducted in accordance with commercial principles, with the business philosophy of "quality service, controllable risk, and sustainable development". Secondly, facing with hard working conditions and environment in rural area, client managers must be passionately involved and spare no efforts in paying visits to villages to make investigations. So, only persons interesting and passionate about the welfare of the poor should be involved in the institution. Thirdly, risk prevention and control must be placed as high priority in the full process of micro finance business. Lastly, a multi-tier rural financial system must be set up, to meet the demand of rural clients from each aspect. For example, differentiated fiscal, taxation, monetary, and regulation

³⁷ Jaideep Hardikar, “One suicide every 8 hours”, http://www.dnaindia.com/india/report_one-suicide-every-8-hours_1049554

³⁸ P R Dubhashi, Book review of Farmers’ Suicides—Facts and Possible Policy Interventions by Meeta and Rajivlochan; published by: Yashwantrao Chavan Academy of Development Administration; first published 2006; first reprint 2007; from <http://www.mainstreamweekly.net/article767.html>, visited on 09-05-2010.

³⁹ Abinet Gebrekidan, The Impact of Micro financing Institutions on the livelihood of the Rural Poor”, from <http://www.oppapers.com/essays/Micro-Finance/93232>, visited on 12-05-2010.

policy should be exercised; establish risk compensation funds and Guarantee Companies, expand rural Insurance coverage; rural financial ecological environment needs to be enhanced to create a sound external *environment*.

For improving the functioning of existing Micro financing system some suggest NGO controlled micro-credit work, but again repayment rates in NGO controlled micro-credit projects are related directly to the level of administrative costs.⁴⁰

Micro financing definitely helps the poor in strengthening their economic position by reducing their dependence on and exploitation by vested interest in rural areas like local moneylenders. It also improves their collective bargaining power.⁴¹ But, Microfinance in rural areas by itself cannot eradicate poverty. Credit may be a trigger for growth, but it requires a context of all-round development to function.⁴²

CHAPTER – IV

SUGGESTION AND CONCLUSION

It is not doubted that villages are in a state of neglect and under-development, with impoverished people, as result of past legacies and defects in our planning process and investment pattern. But the potential in rural India is immense. What if every village in the country is provided with basic amenities, like drinking water, electricity, health care, education, transport etc., with only a smaller population of the village engaged in agriculture and the remaining in other gainful occupations? When this happens India will turn into mighty country. The purchasing power of the rural population throwing enormous demand for goods and services will boost the national economy tremendously and the day will see drastic decrease in migration of people from the villages to urban slums.²⁶ Rural Development is the subject to come to the forefront after the economic reforms and rural banking will serve the backbone of this development.

⁴⁰ Madhura Swaminathan, The Critique: 'No. It (Micro-finance) cannot solve mass poverty, a debate on Can Microfinance Eradicate Poverty In India?', Tehelka Magazine, Vol 5, Issue 46, Dated Nov 22, 2008, http://www.tehelka.com/story_main40.asp?filename=cr221108can_microfinance.asp, visited on 09-05-2010.

⁴¹ Report of The working Group on Rural poverty alleviation programmes for the Tenth Five year plan,(2002-2007), Government of India, Ministry of Rural Development, Planning Commission, Government of India, December - 2001, from http://planningcommission.nic.in/aboutus/committee/wrkgrp/wg_rulpovty.pdf, visited on 09-05-2010.

⁴² Aloysius Fernandez (Padmashree awardee (2000), The Harbinger: Microfinance can play a crucial role, Tehelka Magazine, Vol 5, Issue 46, Dated Nov 22, 2008, http://www.tehelka.com/story_main40.asp?filename=cr221108can_microfinance.asp, visited on 10-05-2010.

The reductions in rural poverty were linked to increased savings mobilization and credit provision in rural areas. In recent years, with the government promulgating a series of policies to support agricultural development, farmers' income has been raised and their living conditions are improving in some areas. However, compared with urban area, per capita income in rural area is still low, per capita credit still small, and there's still a big financial gap. To provide micro finance service can help them get the opportunity of raising income and get rid of poverty.

On the other side of the scene it is also argued by some, what is partly true is that poor households are borrowing beyond their means if loans are easily available. This has been a cause for concern, mainly because most Indian MFIs (with some exceptions) use the Grameen Bank weekly repayment model. However, MFIs are learning quickly and, apart from changing internal policies and incentive structures for field staff, they're also getting together to establish credit-information sharing forums.

Traditionally banks have viewed rural areas as a segment purely in need of upliftment due to underlying philosophy of a social obligation. However, the future lies with those who see the poor as their proficient customers. An impression has been created in the Banking system that poor do not have the ability to make productive use of the credit provided to them and repay as well. A rethinking is necessary to establish an effective and trust-worthy linkage between the rural poor and the Credit delivery system in the country.

It is also suggested that, as far as possible, the staff to be deputed in the rural branches, should be drawn from the villages or semi-urban areas themselves. Crops should also be accepted on a loan of security. Also, the commercial banks should also provide credit to the agriculturists on the basis of 'joint guarantee' given by the village panchayat or by a few well-known farmers of the village. Further, one problem experienced by banks is that, many a time, villagers divert the loans from productive to unproductive uses. This needs to be stopped and it needs to be ensured that the credit is used for the purposes for which it is meant. Banks may think in terms of advancing credit to agriculturists in the form of agricultural inputs.

The functioning of rural credit cooperative societies has deteriorated; social priorities in commercial and regional rural banks are neglected. Targeted and priority lending is under pressure and the consequence of all of these has been the growing dependence on non-institutional sources of credit, especially money-lenders who charge exorbitant rates of interest.

There are some recent institutional innovations that could benefit the farming community. These include federations of farmers' SHGs, agri-clinics and the Bharat Kisan Cards (BKC)s. If nurtured, these institutions will not only lead to expansion of agricultural credit as a whole but also enlarge its flow to marginal and small farmers.

Self employed workers are also relevant to find mention here, they earn a living through their own small business or through selling their own labour. A successful example in this area can be "Self Employed Women's Association (SEWA)" often called by many people "a bank of their own".⁴³ It was just started by its founding members by an investment of 10 rupees each and till now the Bank has then it has been providing banking services to poor, illiterate self-employed women and has become a viable financial venture.⁴⁴

Despite such a miserable plight where they exercise no rights, the government continues its insensitivity towards dying farmers. It seems to be a clear connivance of farmers death by the policy makers, while there is no doubt that it can be eradicated; it can be solved, in such a situation I find Baxi extremely correct when he says "poor are not born poor they are made poor by various Government and public policies."

⁴³ <http://www.sewa.org/>, visited on 13-05-2010.

⁴⁴ Ibid.