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INDIA : FINANCIAL SECTOR REFORM OR IMPLEMENTATION OF WORLD BANK'S DIKTATS

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ABSTRACT

A myth has been loudly propagated in India that its financial sector is not up to international standard and to compete India in a globally competitive market economy, reforms in its financial sector is a must condition. On this very plea the Neo-liberal adherent government has been moving forward to financial sector reforms. But it has much comfortably been forgotten that what India has been introducing in name of financial sector reforms, are attempts on the part of government to implement the diktats of the World Bank given to India in June, 1990 through a 'confidential report' on India's financial system. This paper is an attempt to reveal what has been hidden in this matter.

KEYWORDS: *Sudden Firing Squad, Pseudonym, Amalgamation, Diktat.*

INTRODUCTION

While Independent India endorsed the policy of planned economic development for restructuring a colonially ruined economy with agriculture being the main prop of production, but seething in a dilapidated condition, the question of farm financing appeared as the most agonizing question for the planners. The main sources of finance, the commercial banks, were privately owned, and their shareholders were big business owners who, by exploiting their controlling authorities on banks, used to drive bank's deposited money to their own business and industries. In the all India Rural Credit Survey Report the percentage shares of commercial banks in total farm credit was recorded as 0.9 percent or less than one percent(*All India Rural Credit Survey Report*, 1954, Vol. II, pp. 156-57.). The percentage shares of commercial banks, of their total credit, to agriculture in the year till March, 1956 were 2.0 percent, April, 1961, 3.1 percent, March, 1966, 2.4 percent and March, 1967, 2.1 percent(Lal,1985,p134). Before nationalization of major Commercial Banks in 1969 many attempts, on the part of government, were made to mould the credit policy of privately owned banks but the objective, the government of India aspired to achieve viz. to make privately owned commercial banks' credit policy to be leaned corresponding to the desired need of planned development, was never, achieved. Despite several legislative measures initiated by the Central Government to correct the credit lending policy of banks the commercial banks' private ownership did not respond positively to the planned development growth strategy of India. Consequently, in 1969 the 14 major commercial banks were nationalized. Since nationalization of Commercial banks' the concept of 'priority sector advance' was introduced whereby at least 40 percent of the total credit, advance by banks, was compulsorily to be made in favour of priority sector, of which 18 percent was to be directed to agriculture alone. This policy of government was recognition of importance of agriculture and its allied sectors in the national economy as major employment provider and contributor to national economy. Since onwards, till the adoption by India the neo-liberal policy as Prime Policy for economic restructuring of India, the above mentioned concept of 'priority sector lending' remained the basic crux of banking policy of India. But in the era of neo-liberal growth policy 'priority sector lending' policy has come under severe attach by the adherent of neo-liberal growth policy government— specially agricultural credit has come under its area of severe attack.

In its anti-agricultural credit-policy the government of India has floated numerous arguments of which its supposition to accuse priority sector lending by banks as the sole reason for growing non-performing assets of commercial banks on which account, as the government accuses, the lending capacity and profitability of commercial banks have reduced to detrimental extent. But the government of India never made it public as how much and what percentage of banks' total non-Performing Assets (NPAs) are outstanding against 'priority sectors'. Facts reveal that all such propaganda, raised against'

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priority sector lending is a misnomer and government has been asserting to implement the *diktats* of the World Bank pressuring it restructure the Indian financial sector in pro-corporate direction so as to enable corporate capital to have its full control over banks and their deposited assets, through mechanism of financial sector de-nationalization, gradually phasing out 'priority sector lending' reducing monitoring control of RBI on commercial banks and amalgamation scheme etc.

OBJECTIVE OF THIS PAPER

The objective of this paper is to explain how the government of India has been pressurized by the World Bank to phase out credit, extended by banks to agriculture and its allied sectors. Secondly, to make a survey of bank credit to agriculture in the era of the neo-liberal growth strategy and to substantiate what realities there are and how falsely they are presented to public.

HYPOTHESIS

The main hypothesis, this paper asserts to establish, is to explain, on basis of reliable facts and data, that the hostile and anti-agricultural attitude of government to credit-advance under the scheme of priority sector lending, has been a follow up action on part of the government and RBI to implement a directive of the World Bank, given to the government of India in 1990 through a "Confidential report' on Financial Sector Reforms in India. What all the government of India has been implementing under the pseudonym of financial sector reforms, under which priority sector lending has been targeted to be phased out, are nothing but to implement the *diktats* of World Bank, by which agricultural credit has severely been victimized.

METHODOLOGY

The methodology, this paper has adopted to analyze data and facts is simple analytical e.g. to come to an inference by placing the directives embodied in the "Confidential Report of the World Bank" to India in 1990 and the steps taken by the government of India since it received that report. Here, original and secondary data have been analyzed scientifically.

ANALYSIS

Since 1990-91, when India adopted the neo-liberal policy with marketization and globalization as its main ingredient, the Indian agriculture, the prime economic sector of Indian economy, has been thrown into the most embarrassing position. To compete in the globally competitive global market it requires to be modernized, and to accomplish this task it requires finance that can only be procured through channelization of institutional credit to it of which commercial banks will play decisive role. Ironically, the neo-liberal growth strategy, under its policy stance, has been following an inimical attitude to agriculture as the government of India, while executing its economic restructuring programmes, has been following a policy to withdraw all policy-provisions, which have been directed to provide institutional credit to agriculture for mitigating its financial needs for its growth and modernization. All such inimical steps to agricultural credit, taken by the government of India, are willfully directed to achieve certain nefarious objectives rather than caused due to any *force-majeure* condition. The prime objective behind this anti-agricultural attitude of the government of India is the *diktats* of the World Bank and the International Monetary Fund which pressurize the government of India to transform agriculture from peasant agriculture to corporate agriculture by the creation of hardship to peasants so that they could leave their agricultural holdings easily for corporatization of the sector. The analysis of events occurring in India after adoption of neo-liberal growth strategy, as the main guide lines for Indian economic growth, makes it obviously clear as how the World Bank and the IMF have been manoeuvring the government of India to act in direction of their directives and the government of India has increasingly been surrendering itself to those directives.

FACTUAL POSITION

To start with, one can refer the "Confidential Report of World Bank, entitled, "India : Financial Sector Report : Consolidation of the Financial System" June, 1990 (http://www.maoism.org/mise/indi/rupe/aspects-_27/bank_loans. htm). In that Report it was categorically mentioned: "In the near term, re-categorize immediately commercial banks lending to larger borrowers among small scale industrialists and farmers, thus reducing the priority sector lending target to 10 percent in three years(Ibid).

With the receipt of the World Bank's Confidential Report on financial sector of India, the drama of sabotaging institutional credit to agriculture began to be staged in India by the appointment of the M. Narasimham Committee on 22nd April, 1991, and his last opus was submitted in June, 1991. The Report recommended that in the near term the priority sector be re-defined to include only weaker section and the credit targets for this re-defined priority sector should be fixed at just 10 percent. The Narasimham committee (1991) in its report went a step farther than the World Bank's Report, as the Bank Report said" that in the medium term the government should eliminate the priority sector lending target. "But Narasimham went ahead and recommended that priority sector lending should be phased out" and said that a review should be carried out at the end of three years to see of such a programme needed to be continued. The World Bank called for the reduction and medium term elimination of concessional interest rate for priority sector, but Narasimham recommended that concessional interest rate should be phased out.

INCREASING HARDSHIPS OF PEASANTS

Since the receipt of Narasimham Committee's report (1991) the government hurriedly came out to implement its recommendation in name of financial sector reform. The net result of the financial sector reform on line of the World Bank's Confidential Report was so much harassing that-only after 5 to 6 years of its implementation in April, 1998 the report of the suicide of indepeted peasants in Andhra Pradesh had crossed the figure of 250 and even fresh tragedies were reported from Karnataka. Unruffled by all these calamities the government remained complete insensitive to the fact that in the period between 1991 and 1998 the share of agriculture in net bank lending had declined to 15 percent and more, in March, 1991, and to 11.7 percent in March 1998, as given in the table below :

Table 1: Bank Credit to agriculture as a Proportion of net bank credit Percentage outstanding as on

23 Mar 1990	22 Mar 1991	20 Mar 1992	19 Mar 1993	18 Mar 1994	31 Mar 1995	29 Mar 1996	28 Mar 1997	27 Mar 1998
17.4	15.3	15.5	14.1	13.9	12.5	11.9	12.8	11.7

Source : *RBI Annual Report various Issues* .

The above cited table is a depiction of an aura of gradual decrease in institutional credit to agriculture in the years between 1990 and 1998. In this gruesome economic condition the RBI appointed in December, 1997, R.V. Gupta Committee "to give impetus to the flow of credit to this sector". The main task of the Committee was to suggest measures for improving the delivery system and simplification of the procedure for agriculture credit. The Committee's overall mandate was to ascertain the constraints, faced by commercial banks in raising the flow of their credit to agriculture introducing new products and services as well as simplifying the procedure and methods of working with a view to enabling rural barrowers to access adequate and timely credit from banking system. But the real purpose of the Committee was not to give impetus to agricultural credit but reverse, or to justify what Narasimham Committee (first) had recommended on agricultural credit. The significant recommendations, the committee gave, were:

1. Doing away with agricultural credit by bank decided as 18 percent of banks total credit,

2. allowing the Commercial banks to freely fix their rate of interest for all amount, even for the smallest, that is doing away with subsidy on agricultural credit. 3. doing away with the system of compulsory posting of bank staff to rural centres.(*RBI, Bulletin*, June, 1998)

After receipt of the World Banks Confidential Report on the Indian Financial System, government of India hurriedly moved to implement the *diktats*, embodied in that report. But the government of India was aware of the fact that a sudden firing squad approach would agonise peasants who will come out on roads to protest against any follow up action, taken by government to implement the directives of World Bank. To create an amicable environment was required for government and to achieve this objective, the first Narasimham Committee was appointed in 1991, which, following the directives of the World Bank, had recommended to phase out priority sector lending by public sector banks. Gupta Committee was the second one in that corollary, appointed by RBI to give recommendations in such manner as could create an environment among people supportive to the steps taken by government for implementing the directives of World Bank's "Confidential Report". The R.V.Gupta Committee recommended that the earlier target, to extend 18 percent of commercial banks' total lending should go to agriculture, had no relevance in that time. The argument, it advanced, was that the lending funds of banks had increased so much extensively within the past five years that "banks have had to more than double their lending to agriculture during a period when agricultural production was growing at 2.1 percent per annum"(*R. V. Gupta CommitteeReport*,1997).While the committee recommended to phase out agricultural credit is said that the credit to agriculture had grown heavily. However, fact and data, available, told an another story. In the period between 1991 and 1998 agricultural credit had shown a decrease from 15.3 percent in March, 1991 to 11.7 percent in 1998. The annual decrease in agricultural credit had recorded decrease.

Secondly, the committee, while argued for doubling agricultural credit in an era when the growth of agriculture increased by 2.1 percent per annum, did not take into account the pace of inflation. If the growth of agricultural credit and 2.1 percent growth in agriculture, both are examined in terms of current prices and 1980-81 prices, the growth in agricultural credit is found to be not increasing with 2.1 percent in those years. The table given below shows it.

Table 2 : Bank credit to agriculture in Current Rs. and 1980-81 Rupees (Rs. in crore)

23 Mar 1990	22 Mar 1991	20 Mar 1992	19 Mar 1993	18 Mar 1994	31 Mar 1995	29 Mar 1996	28 Mar 1997	27 Mar 1998
16526	16760	18167	19963	21208	23983	27044	31442	34869
In 1980-81 Rs.								
8147	7437	7027	7127	8914	7123	7140	8119	-------

Source :RBI Annual Report Various years, for converting to 1980-81Rs. GDP defaulter calculated from *Economic Survey*.

However, the increase in agricultural credit in years from 1991 to 1997, as depicted by Gupta Committee, was credit not given to agriculture, but its allied sectors. Under a calculated propaganda gimmick to convince public that the agricultural credit had increased leaps and bounds the RBI instructed all public sector banks to assimilate all short term advances to traditional plantation, irrespective of their size, to direct agricultural credit. Again, the credit, advanced to dealers in agricultural apparatuses was also treated as indirect credit to agriculture. Furthermore, on 28 May, 1997 banks were directed that finance, provided to state Electricity Boards for system improvement scheme should be treated as indirect finance to agriculture. All these steps, taken by RBI in regard to agricultural credit, had a nefarious mission e.g. to increase agricultural sector credit to substantiate that the prime responsibility for bank's non-performing assets is of priority sector. Because many big planter companies and agricultural input dears, who were defaulters in repaying their bank loans, now, came in the ambit of agriculture. Naturally the indirect advances to agriculture in total credit of banks increased as given below :

Table 3:The share of indirect advances in total agricultural credit (outstanding percentage)

Jun 1991	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997
6.4	7.8	7.3	9.2	11.5	13.1	16.7

Source: *IBI, on Trend and progress, of Banking in India, various issues*)

With all these manipulations and manoeuvrings again the second Narasimham Committee was appointed in 1998 in pseudonym of financial sector reforms. In its recommendations the committee suggested to phase out priority sector lending, and to mould financial sector in pro-corporate direction gave its other suggestions of which important are :

1.To reduce government equity in banks to 33 percent, meaning thereby the privatization of financial sector,

2.To reduce RBI's monitoring and controlling power upon banks meaning thereby to allows banks to work freely in all respect

3.To reduce the existing limit of SLR and CRR to considerable extent which means equipping banks with more money for floating as credit.

4. To implement amalgamation scheme and to restructure banking system in three tier system with one bank of international standard, a few of then of national standard and at lowest ebb some state and local standard

CONCLUSION

The above illustrated facts reveal what hidden agenda of govern policy, behind financial sector reforms is and how it has been presented to the people. Since the receipt of the "Confidential Report of World Bank" in June, 1990, the financial sector reforms have been placed on the agenda of government and the *diktats* of the World Bank are gradually being implemented, even by defying the opposition of a major section of people of India. Shares of banks have been sold to corporate capital on throw away prices, priority sector lending by banks has been shrinking day by day and amalgamation scheme has been implemented. The net result of such financial reforms, as the government has been implementing, have finally to be realized in complete control of financial sector by corporate capital and elimination of small borrowers from the ambit of banking credit. Under such financial reforms priority sector has to suffer gravely, that will destroy the rural economy, specially agriculture. This reform has in view to corporatize agriculture and eliminate peasants from their land. The only remedy to escape this apprehended calamity is to defeat the policy through mass mobilization:

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