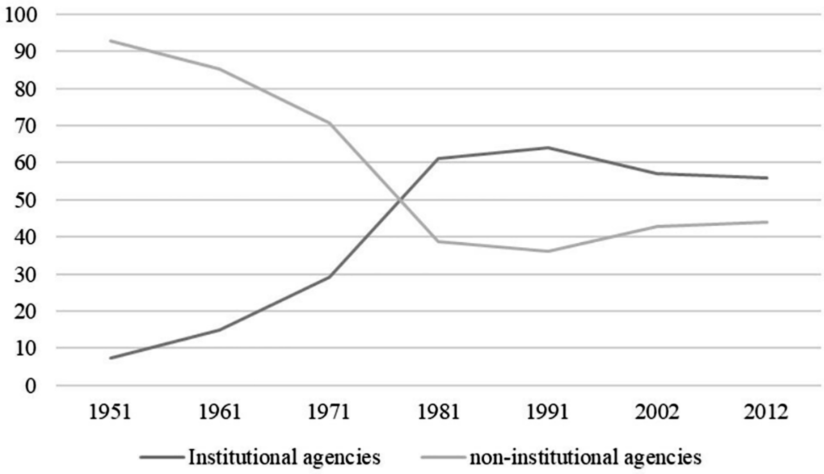
Chapter 10
The State of Financial Inclusion

India's independence in 1947 marked a watershed moment in the country's history and had a significant impact on the broader shifts in the global political economy. However, just like other colonies, independence did not end the struggle for self-rule (Getachew 2019; Hansen and Osterhammel 2013). Of course, there were significant changes, like drafting a new constitution and establishing a parliamentary democracy. Yet, the new rulers of the INC also came to terms with continuities in the centralised administration and bureaucratic apparatus, the military and, in part, the legal system. India's economy had been dominated by metropolitan capital and commodities for over a century. British colonial rule also rested on support from landed property and domestic big business. Transforming the colonial state thus meant engaging with a strategy for a new political economy, including the question of securing support from domestic elites without compromising on popular support.

In this context, the second modern regime of re/productive finance took shape. It sought to address the mass indebtedness and impoverishment of the rural masses through state-led investments in agriculture, improved access to credit and redistributive measures. These efforts were significant and changed the monopolistic power that moneylenders had enjoyed during British colonial rule. In the three decades after independence, the share of non-institutional lenders in rural credit, primarily moneylenders and landlords, has rapidly declined, while the share of institutional sources, mainly credit cooperatives, regional rural banks, and commercial banks, has soared from below 10 per cent in 1951 to more than 60 per cent in 1981 (see Figure 9). Moreover, the share of agricultural credit to agricultural GDP increased from 0.5 to 8.3 per cent in the first three decades after independence (Joshi 2006, 26). This significant success of the state-directed political economy under the leadership of the INC was centred on the promotion of credit cooperatives, particularly in the early years, and the re-structuring of the banking system through nationalisation, restrictions of licensing and quotas for lending to agriculture and other priority sectors. Thus, the state turned into a primary agent for financial inclusion in a broad sense.

Figure 9: Share of Credit Sources in Rural India, 1951 -2012 in %



Source: adapted from Sriram (2018).

Notwithstanding these changes, the new state-directed regime reproduced some of the contradictions of the colonial regime. From the perspective of subaltern classes, this success story is less gloomy. This chapter traces the continuities and changes in India's political economy, the social structure and subsistence crisis of subaltern classes, and how access to credit related to these shifts. It starts out by describing the profound transformation of the political economy, how the promotion of credit cooperatives fit into these developments, and what effects this had for small and marginal peasants as well as landless agricultural labourers. We will then continue to look at the significance of the nationalisation of major banks in the late 1960s, how this was related to a new agricultural policy and the extension of subsidised credit as an anti-poverty measure. Finally, the third section outlines the slow erosion of the developmental regime of re/productive finance, including the formation of alternative credit institutions that would challenge the state-directed approach and pave the way for the rise of specialised microfinance institutions.

The Contradictions of Post-Colonial Development

Debates on the trajectory of post-colonial development had already started prior to independence. In the mid-1930s, the INC set up a National Planning Committee with leading business leaders and other experts, and Jawaharlal Nehru served as the chairperson. The overarching aim of their plan for economic development in independent India was to raise the living standards of the masses by enhancing economic growth through state-directed investments and ensuring redistribution through governance of capital and credit (Bose 2019; Chakravarty 1987; Joshi 2006). Meanwhile, the domestic business elite began to articulate their own ideas for the future of India's political economy. The so-called Bombay Plan of 1944 was a comprehensive intervention of corporate capital in the enfolding debate on how to govern the independent country. It consisted of two documents which influential industrialists, like G. D. Birla, J.R.D Tata, Lala Shri Ram, Purshotamdas Thakurdas and others had drafted. Interestingly, it endorsed the necessity for planning large-scale public investments to accelerate capital accumulation while respecting private property. The initiative was disdainfully regarded as a "capitalist's plan" amongst left-wing critics within and beyond the Congress, and there are continued debates today on the strategic nature of this initiative (Chibber 2006; Kudaisya 2014; Lockwood 2012). On the one hand, the plan confirmed the necessity of a strong state in fostering capital accumulation and the emancipation of domestic from metropolitan capital (Bose 2019; Kudaisya 2014; Sanyal 2007). On the other hand, the degree and scope of state intervention remained a controversial issue throughout the post-colonial era amongst different factions of Indian business, within Congress and its social base, and between capitalist classes, state bureaucracy and leading politicians. In contrast to the 'developmental state' experiences in Southeast Asia, the Indian capitalist class constantly evaded state regulations and lacked the discipline to abide by the state's plans (Chandrasekhar and Ghosh 2002; Chibber 2006).

Nonetheless, the interests of Congress leadership and the industrialists converged on the call for an independent, centralised state which would build public infrastructure, promote (heavy) industries through a mixture of protective measures and cheap credit, and introduce a land reform of the *zamindari* and *ryotwari* system with the aim of promoting a class of peasant proprietors. Gandhi's popular critique of modern technology, commercialisation, and centralised state power as evils of modern civilisation and British colonialism secured widespread nationalist mobilisation in the early twentieth century. Yet, his vision of an independent India centred on self-sufficient village economies and decentralised governance played no significant role in these discussions (Bose 2019; Kudaisya 2014). There was a broad consensus amongst the Congress leadership that bolstering economic growth and import-substituting industrialisation were crucial means to build a sovereign nation and tackle the poverty of the masses.

What came to be known as Nehruvian socialist planning thus aimed at balancing a thin line: On the one hand, it aimed at keeping the market principle in check because the political elites were afraid it would lead to excessive consumption amongst high-income groups and underinvestment in essential sectors, further exacerbating mass poverty and inequality. On the other hand, it built on socialist rhetoric but refrained from redistribution of productive assets and developing institutions to discipline private capital to abide by its plans, fearing this would endanger growth prospects and undermine support from domestic economic elites (Chakravarty 1987; Chibber 2006, 127ff.). As a result, economic planning became the central means for disentangling industrialisation from anti-colonial rhetoric and depoliticising development into a techno-bureaucratic project of India's young democracy. Essentially, planning allowed experts and bureaucrats to determine the "priorities on behalf of the 'nation' […] a modality of political power outside the immediate political process itself" (Chatterjee 2002; Sanyal 2007).[1] Ultimately, this depoliticisation was linked to containing class conflicts in a "fragmented multiclass state" (Kohli 2004, 260) through a mixture of incorporation and demobilisation of various social groups.[2]

One of the few points where Gandhi's emphasis on decentralised self-governance and Nehru's vision of economic development converged was the continuous relevance of credit cooperatives for providing access to the rural masses. As discussed above, India's banking system was dominated by metropolitan capital and entirely geared towards facilitating the drain of wealth with hardly any relevance for the agrarian economy. Upon independence, the share of banks in rural credit was less than one per cent (Shah, Rao, and Shankar 2007, 1353). In the early years, the Congress government nationalised the Reserve Bank of India (RBI) and the Imperial Bank of India, now rechristened as the State Bank of India (SBI), but refrained from larger nationalisation of the banking sector. Instead, the colonial infrastructure of credit cooperatives was revamped as "people's institutions" (Sriram 2018). At the village level, Primary Agriculture Cooperative Societies (PACS) would govern access to credit, while district and state cooperative banks functioned as superordinate entities and clearing houses, providing guidance and state-backed refinancing. Importantly, the cooperative structure was relatively autonomous and did not come under the direct supervision of the RBI.

The promotion of cooperatives led to extended outreach of public credit in rural areas, although occurring geographically unevenly. By the early 1970s, cooperative societies dominated rural areas as a major creditor institutions (Bhende 1986; Shah, Rao, and Shankar 2007). Their share in rural household credit increased from 3 per cent in 1951 to more than 20 per cent in 1971 (Table 2). However, despite significant outreach, the cooperatives had not led to the previously hoped effects on agricultural productivity, rural poverty and unemployment, and socio-economic inequal-

1 The power of the Planning Commission was limited by the relevance of the Planning and Development Department set up under late colonial rule (Bose 2019, 147).

2 For decades, Congress had led a heterogenous mass social movement against British rule. After independence, a significant share of the left-wing section within the party became increasingly absorbed into the politics of planning and navigating the administrative apparatus inherited from the British, becoming ever more estranged from the labouring masses, and thereby manifesting the dominance of conservative party elements more closely aligned with business (Chibber 2006, 111).

ity. To clarify, agricultural production did grow in the 1950s and 1960s, but this was largely a reflection of increased labour input (growing population) and use of additional land facilitated in part by new public investments in irrigation systems (Kohli 2004). Moreover, cooperative banking was not the self-sufficient grassroots movement Nehru and others had aspired to. It was driven mainly by government action, and borrowing was primarily financed through public means, not from member's savings (Vaidyanathan 2013). Perhaps most importantly, the effects of cooperative banking on poverty, unemployment and inequality remained limited because one of the key contradictions of the colonial cooperative banking structure was never seriously tackled. Rather than sites of decentralised democratic decision-making, wealthy peasants, landlords, and political party leaders primarily benefitted from these institutions and used them as an opportunity "for acquiring power and patronage for personal and party gain by managing these funds" (Vaidyanathan 2013, 32).

Table 2: Share of Rural Creditor Institutions, 1951 – 1991

	1951	**1961**	**1971**	**1981**	**1991**
Relatives and friends	14.2	6.8	13.8	9.0	6.7
Moneylenders*	69.7	60.8	36.9	16.9	15.8
Landlords and Traders	7	8.6	17.3	7.4	11.1
Commercial Bank (incl. RRB)	0.8	0.4	2.2	28	29
Cooperative Societies	3.1	9.1	20.1	28.6	18.6
Government	3.3	5.3	6.7	4.0	5.7
Others	1.9	9	3	6.1	12.9

Source: adapted from Sriram (2018). *Moneylenders, incl. professional and agricultural moneylenders.

First and foremost, the power of credit cooperatives centred on dominating small and marginal peasants though a mixture of exclusion and dependency. They resemble the characteristics of usurious capital discussed in Chapter 5 with one important addition. The accumulation of political power and personal enrichment through PACS is a state-sanctioned and publicly subsidised means of exploitation. An NGO representative working on rural development in the late 1970s elaborates on this point:

> "What did I find at the cooperatives? I used to go to the meetings. I talked to people and I found, people you have a president, secretary, but there was not much discussion. Because the three top people were also the biggest farmers, there were also in politics, they were the power. They held political power, they had status, they were upper-caste, and they also had resources. So people used to borrow from them and they depended on them. That's why there was hardly discussion. [...] So then I discovered that this top three chaps were taking loans from 6–7% from the cooperative and lending to everyone else at 40%. And nobody was asking a question. After doing that, they also said: If you want to get a loan, you have to come and work on my farm first" (CSA_7, Pos. 22)

The idea of local democratic institutions providing subsidised credit seemed to provide a perfect match between the Gandhian emphasis on decentralised political and economic governance and the Nehruvian emphasis on modern institutions as drivers for economic growth. However, it ignored the practice that the Indian village and related institutions, like the panchayat or credit cooperatives, were essentially also sites of oppression.[3] Thus, access to public credit did significantly increase, but this access was mediated by the dominant rural classes who used these institutions primarily as vehicles for consolidating their power and wealth (see also Unger 2018).

Moreover, the credit cooperatives did not account for the increasing share of agricultural labourers. The Congress government launched socialist rhetoric of land reform and abolished feudal tenures by paying handsome compensations, but it did not challenge the power of rural landlords significantly (Bagchi 1982, 157; Kohli 2004, 262).[4] In most states, the concentration of land ownership continued despite reforms implementing land ceilings because landlords were able to evade transfer of ownership, for example, by claiming to cultivate the land directly through hired labour or transferring it nominally to friends, relatives and servants (Ahuja and Ganguly 2007; Patnaik 1983, 9). Twenty years after independence, in 1967, unequal land ownership had remained essentially the same, with 5 per cent of rural households owning 40 per cent of the land, while nearly 58 per cent cultivated either no land or less than 2.5 acres (Ahuja and Ganguly 2007, 253).

The relevance of industries and the public sector in general increased considerably, but it did not absorb the labour surpluses in agriculture (Kohli 2004). With no other employment opportunities, the number of agricultural labourers rose. While

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3 This argument draws on Jodhka's (2002) distinction of how independence leaders viewed the Indian village differently as site for authenticity and self-rule (Gandhi), backwardness (Nehru) and oppression (Ambedkar).

4 Sukhamoy Chakravarty, a long-standing member of the Planning Commission, notes: "Unlike the Russian revolution, the Indian independence movement and the subsequent transfer of power did nothing significant to curb the pre-existing power of these groups [e.g. rich landlords and big business]" (Chakravarty 1987, 14).

roughly a quarter of total cultivators and labourers in India worked as agricultural labourers in 1961, their share had increased to 38 per cent ten years later (Patnaik 1983, 14).[5] The agrarian inequalities were also reflected in terms of access to credit, entrenching the power of landlords and traders. According to some estimates, their share in the borrowing of cultivator households increased more than fourfold in the first decade of planning, reaching a high of 14.5 per cent in 1961 (Joshi 2006, 27).[6] The overall relevance of moneylenders may well have declined in this period, but taking the role of landlords and traders into account dilutes the impression that exploitative debt relations have faded (see Table 2). Against this backdrop, the success of institutional vs. non-institutional creditors portrayed in Figure 9 needs further qualification. In spite of significantly extending the outreach of public credit, the relative share of rural credit has a bias towards wealthier households. On average, their loan sizes are much higher, thus adding disproportionately to the statistic. In contrast, small and marginal farmers and landless agricultural labourers usually borrow small amounts with moneylenders, landlords, and traders, adding comparatively less to the overall lending.

Studying the transforming landlord-labour relationships in Gujarat, Jan Breman maintains that "de-patronisation" was underway, where agricultural labourers were paid in monetary wages rather than in kind and labourers were not necessarily bound to one landlord. However, this process, which already began under the colonial regime, left agricultural labourers isolated from protective measures which neither the landlords nor the Indian state filled, and hence became increasingly mediated by (monetary) debts:

> "The living standard of the agricultural laborers, low to begin with, deteriorated further when allowances in kind were replaced by money wages. Most of them are continually indebted, and this is the main reason why, in budget calculations of households of agricultural laborers, expenditure always turns out to exceed income. The debt binds the Dublas [Adivasi tribe] and provides the landlords with a means of pressure. In the long term it is cheaper and safer for the landlords to give a limited loan to a farm servant than to hire day-laborers. Moreover, they select the most industrious and obedient laborers for farm service" (Breman 1974, 225)

5 Although occurring unevenly, this increase occurred across India. It was particularly pronounced in central and south India, including the states of Kerala, Madras, Andhra Pradesh, Mysore, and Maharashtra.

6 This number deviates from Table 2 which draws on the calculations of Sriram (2018), although both are based on various rounds of the All India Debt and Investment Survey. Despite differences in magnitude, both testify to the entrenched power of landlords and traders in the post-Independence era.

Understanding the debt-bondage as a feudal relic thus misses a crucial point. Forms of debt-bondage have certainly shifted. But this does not preclude the modernisation of bonded labour, in which new forms of exploitation and dependency are mediated increasingly, though not exclusively, in monetary terms. The depiction of wages as loans may be a strategic means for controlling and disciplining labour in capitalist relations, whether dominated by individual capitalists (wealth farmers/landlords) or corporate capital (Banaji 2010, 150).[7]

The persisting problem of debt bondage was acknowledged by the Indian government. Under the leadership of Indira Gandhi, it outlawed this practice by passing the *Bonded Labour System (Abolition) Act* of 1976. However, legally abolishing caste discrimination or labour does not necessarily translate into eradication, if there is no appropriate enforcement. A survey of 1000 villages in 10 states from the late 1970s shows that there still were at least 2.6 million bonded labourers in India (primarily in agriculture), of whom 86.6 per cent were Dalit or Adivasi (Srivastava 2005, 4).[8] When understanding the emergence of new forms of bonded labour not as a feudal relic, it may well be that the developmental growth strategy contributed to Dalit and Adivasi labourers' vulnerability and isolation. The complete neglect of basic social provisioning (education, healthcare, etc.), alternative employment opportunities, and continued forms of enclosures preventing them from using common land and resources, ultimately rendering them susceptible to exploitative labour and debt relations (Breman, Guérin, and Prakash 2009; Guérin 2013).

For instance, the four major public-sector-led integrated steel towns which were built in the 1950s and 1960s acquired more than 90,000 acres of rural lands that primarily included agricultural land and forests, displacing a population of roughly 185,000 (Roy 2023, 36). Building on the colonial *Land Acquisition Act* of 1894, involuntary acquisitions and forced displacements were justified for public purposes, frequently without resettlement or adequate compensation (Ahuja and Ganguly 2007; Levien 2012). Although there are no exact figures, it is estimated that the developmental regime dispossessed at least 25 million people in the four decades after independence, primarily for the construction of dams, steel towns, infrastructure and mining (Levien 2018; Roy 2023). Tribal communities (*Adivasis*) and other marginalised social groups living in resource-rich mountain and forest areas were the most affected by these dispossessions (Ahuja and Ganguly 2007, 264). Therefore, rather than resolving the problem of surplus labour through rapid industrialisation and rural employment opportunities, Indian planning has "produced as wasteland of dispossessed" (Sanyal 2007, 166), vulnerable to multiple forms of exploitation.

7 We will return to this aspect in Part IV, when discussing the sourcing of migrant construction workers in the contemporary era.

8 Although most bonded labourers worked in agriculture, the phenomenon was also observable in other sectors, including brick kilns, seaports and prostitution (Srivastava 2005)

Social Banking: Ambitious and Ambiguous

The government's disillusion with cooperative credit societies in the mid-1960s had less to do with their oppressive mode of governance and more with the lack of fostering agricultural productivity. India's apex food security scheme, the Public Distribution System (PDS), was dependent on food imports. Though recurring droughts and crop failure did not lead to the devastating effects of the famines under colonial rule, hunger and malnutrition continued to be major problems. In this context, two significant policies decisively influenced the governance of access to credit. Firstly, the nationalisation of commercial banks and, secondly, the new agricultural policy commonly known as the Green Revolution. Both were connected but had their separate political and economic dynamics.

The 1960s marked a crisis of legitimacy for the Congress party, which had been in power since independence. The party-left pushed for socialist demands like bank nationalisation, effective land ceilings, and collective farming but at first could not universalise their position against the dominant leadership (Sen 2016). After a historic loss of support in the 1967 general elections, prime minister Indira Gandhi picked up the idea of bank nationalisation as a crucial policy to gain popular support and manifest her position within the divided Congress leadership (Sen 2016; Torri 1975). The essential critique centred around commercial banks focusing on large-scale investment in industries while neglecting agriculture and small and medium enterprises. The share of commercial banks in rural credit was marginal in the 1950s and 1960s (see Table 2), and the top three per cent of shareholders owned nearly half the shares of the leading banks (Torri 1975, 1079).

In 1969, the Congress government nationalised 14 major commercial banks, which together accounted for 45 per cent of banking business. Moreover, it controlled both the physical outreach of banking in rural areas and the diversification of their portfolio.[9] The transfer in ownership was followed by introducing Priority Sector Lending (PSL), prescribing banks to lend at least 40 per cent of their portfolio to agriculture and small and medium enterprises. Moreover, the licensing policy was adjusted, requesting banks to open three (later four) new branches in rural areas for every new branch created in cities. In addition, the government introduced Regional Rural Banks (RRB) as new institutions that were more locally rooted than commercial banks, had higher PSL quotas and soon developed an impressive branch network (Chavan 2017; Joshi 2006; Sriram 2018).

There can be no doubt that these policies significantly impacted the structure of rural credit and fostered financial flows between commercial banks and the agrar-

9 The State Bank of India (SBI) which had been nationalised in 1955, controlled roughly 30 per cent and the remaining 25 per cent of small and foreign banks were exempted from nationalisation (Sen 2016, 137).

ian economy. In the two decades after nationalisation, the number of bank offices increased from 1,443 to over 30,585 (Shah, Rao, and Shankar 2007, 1345). Moreover, the share of commercial banks and RRBs in rural credit skyrocketed from 2 per cent in 1971 to 28 per cent in 1981 (see Table 2). Therefore, the post-nationalisation period is commonly referred to as the "social banking era" (Chavan 2017; Joshi 2006; Sriram 2018). However, the massive extension of public banking services in the agrarian economy does not necessarily imply the even distribution of financial resources. To assess how social public-sector banking really was, one needs to understand its ground workings, particularly where most of the credit flowed. This analysis brings us to the intersections between bank nationalisation and the second major policy-shift in the late 1960s, the new agricultural policy.

The shift towards a new agricultural policy can be partly attributed to domestic factors, including the efforts amongst governmental officials and scientists to develop new ways of increasing agricultural productivity. But it also had a geopolitical context: India's dependency on food imports made the country vulnerable to foreign interests. In the early 1960s, the PDS, offering subsidised food grains to the rural masses, was almost entirely dependent on wheat imports, including from the US. The latter used this leverage to advance its interests on the subcontinent by making food aid contingent on recipients for broader US foreign policy goals, including fostering the Green Revolution (Gupta 1998; Patel 2013).

Essentially, the US-driven Green Revolution was an imperialist strategy in the context of the Cold War, keeping the Red Revolution, that is, communism, peasant insurgencies and radical politics in Third World countries in check through technological modernisation and increased agrarian productivity, while opening markets for US agribusiness (Cleaver 1972; McMichael 2017; Patel 2013). It started with experiments of the Rockefeller and Ford Foundation on new grain varieties in Mexico and later the Philippines, which, under heavy use of fertilisers and irrigation, could produce substantially higher yields than traditional varieties. The programme quickly attracted support from the US government, US corporations, UN bodies and the World Bank, and was introduced in numerous Third World countries in the 1960s (Gupta 1998, 52ff.; McMichael 2017, 73ff.). This new agricultural policy required shifting public financing from large irrigation projects to small tube wells and energised pump sets, and offering credit to farmers for increasing the rate of fertilisers, high-yielding seeds, pesticides, fossil energy sources, and machinery (Chakravarty 1987, 24; Joshi 2006). This is where bank nationalisation and the Green Revolution converged.

Overall, development planning, including the new agricultural policy, succeeded in increasing agricultural productivity and output in the post-independence era significantly, especially in wheat, making India food self-sufficient by the mid-1980s (Patnaik 1991). During the two decades following the Green Revolution and bank nationalisation, capital accumulation in agriculture kept pace with capital formation in the rest of the economy (Basole and Basu 2011b, 53). Yet, similar to the case of cooperatives, growth itself is not necessarily social and does not automatically translate into higher living standards for the subaltern classes.

To begin with, the Green Revolution deepened regional inequalities. The high-yielding varieties of wheat and rice required reliable irrigation. However, during this time, only about 20 per cent of cultivated land was under irrigation, and only half of that had assured water supplies (Cleaver 1972, 181). Consequently, the adoption was focused on only 20 out of 300 districts and remained largely confined to the North Indian states of Punjab and Haryana. With massive public support, these regions experienced a rapid rise in food production per head of the total population up to the mid-1980s, whereas per-head food production in the rest of India stagnated or declined. The food surpluses were, however, not distributed evenly. Instead, most of it was accumulated as government stocks and channelled through the PDS, while a minor share went into exports (Patnaik 1991). Yet, the PDS was notoriously famous for a corrupt bureaucracy, hoarding of food grains amongst dominant rural classes, and the sale of food grains on the black market (Ahuja and Ganguly 2007, 254). Moreover, the unequal rates of growth favoured some crops, particularly wheat, over rain-fed crops like "*bajra*, *jowar* or *ragi*, which are the staple diets of the poor in many regions, or pulses, which are the main source of protein for the poor" (Bagchi 1982, 1975).

In addition, the new agricultural policy was not sensitive to the extensive class inequalities that marked the agrarian economy, further entrenching the concentration of land (Bagchi 1982, 176; Ladejinsky 1970; Patnaik 1983). Focusing on high-yielding variety seeds required costly complementary inputs, like fertilisers, diesel/electricity, and machinery. Wealthy farmers could easily access cheap credit, allowing for varied investments (Cleaver 1972, 182). In 1970, the bulk of agrarian producers (including the lower strata of the middle peasantry), that is, roughly 185 million peasants, would earn between Rs. 190 and Rs. 250 annually, and had landholdings of less than 5 acres, making working capital investments of Rs. 10,000 – 12,000 for Green Revolution agriculture practically impossible (Ahuja and Ganguly 2007, 256; Ladejinsky 1970, 763). This problem was further exacerbated by the fact that purchase orders had to be approved by bank officials and was only valid with some dealers, who used their privileged position to sell old seeds and fertilisers to peasants, trapping them in a cycle of debt (Gupta 1998, 196). Unequal land ownership was both a cause and consequence of the uneven agrarian accumulation. For instance, a longitudinal study of two villages in the Mandya district of Karnataka, situated between Mysuru and Bengaluru, revealed that caste-based class inequalities had increased between 1950 and 1977, with upper-caste Lingayats and traditional peasant castes steadily increasing their share of land ownership at the expense of declining land holdings amongst the Dalits (Adikarnataka) (Dhanagare 1988, 139).

Similar trends are also observable for prestigious large-scale infrastructure projects. For instance, India's longest canal, the Indira Gandhi Canal, stretches over 600 kilometres, channelling water from Punjab and Himachal Pradesh into Rajasthan, "greening" the Thar desert and enhancing agricultural productivity in one of India's poverty-ridden states. It was conceived shortly after independence and was approved by the Planning Commission in 1957. However, the mega-project was being built until the early 1970s and attracted foreign funding, including from the World Bank, to create "thousands of private plots irrigated by the canal and supplied with Green Revolution inputs" (Levien 2018). The effects on local people's livelihoods were bleak. While wealthy landowners who settled at the main canal arteries benefitted from producing high-yield crops, the majority of small farmers down the waterway "suffered from an absence of water, sand-choked canals, failed crops, high indebtedness, and government negligence" (Goldman 2005, viii; see also Ramanathan 1991), while semi-nomadic pastoralists who had used the common grazing land were robbed of their livelihoods.[10]

In sum, bank nationalisation and the Green Revolution increased public banks' outreach into the agrarian economy, enhancing productivity and output. However, the accumulation of agrarian capital was highly uneven and did not generally lead to reasonable employment opportunities for the rural masses. On the contrary, it is likely that it entrenched the dynamics of labour attachment for the lowest ranks of the rural population. In 1969, roughly one-fourth of the total rural population of 434 million were landless (Ladejinsky 1970). For these populations, overwhelmingly low-caste, Dalit and Adivasi, the uneven agrarian accumulation intensified the means of wealthy farmers and landlords to uphold labour bondage. Even at the heart of the Green Revolution, in Punjab and Haryana, where the share of agricultural labourers was below average, Utsa Patnaik finds that "indebtedness is built into the wage contract itself and that labourers fail to reach the 'poverty-line' levels of consumption" (Patnaik 1983, 16). The persistence of the severe subsistence crisis of the rural masses and widespread criticism and unrest pushed the Congress government under the leadership of Indira Gandhi to address this issue more seriously.

The rhetoric of land reform was discarded, but after her successful re-election in 1971, Indira Gandhi stressed employment generation, livelihood diversification, and anti-poverty measures as central national policy concerns in the Fifth and Sixth Plan (1974 – 1985). The flagship scheme of this period was the Integrated Rural Development Programme (IRDP). In contrast to the Green Revolution, it explicitly focused on small and marginal farmers, agricultural labourers, rural artisans and all other households with an annual income below the nationally defined poverty line.

10 Moreover, the Green Revolution increased the political ecology of inequality in various other ways (Patel 2013; Shiva 1993; Shrivastava and Kothari 2012).

The government would provide subsidised working capital of Rs. 3,000 per household for three years, primarily through public sector banks, to acquire assets, like milk animals or sewing machines, that would help these populations enhance their household incomes and cross the poverty line (Kurian 1987; Rath 1985). As such, it had striking similarities with other global experiments with income-generating loans in the 1970s and 1980s (see Chapter 2). The magnitude of the programme was significant. It targeted around 15 million poor households in rural areas and earmarked Rs. 15 billion in government grants, while public banks contributed the larger share with Rs. 30 billion (Kurian 1987).

The programme quickly came under scrutiny from critiques, which, similar to most government schemes, pointed out massive leakages, elite capture, mis-targeting, and inefficient bureaucratic processes hampering the effective delivery of these substantial resources (Dreze 1990; Mathur 1995; Rath 1985). Although a minor share of the targeted families seemed to have benefited from the programme through improved livelihood opportunities and increased household incomes, more than half of the credit was not paid on time, and almost one-fourth of all beneficiaries had overdue amounting to more than Rs. 1,000, while inadequate incomes were the primary reason for the inability to pay (Kurian 1987; Rath 1985). More importantly, however, the philosophy of asset-based credit as effective anti-poverty measures entailed at least two major flaws, which foreshadowed the contradictions of current microfinance initiatives.

The first is the naïve assumption that access to working capital will be a sufficient condition for creating enhanced incomes through self-employment, and that this could work on a large scale. There were also parallel schemes that provided public employment for the rural poor during seasons of unemployment. Still, often, these did not provide a minimum livelihood security. Since priority was given to asset-based anti-poverty measures, the employment opportunities only reached a minuscule share of the working-age population amongst poor rural households (Rath 1985, 245; Sanyal 2007, 136).[11] As a result, instead of understanding poverty as a chronic crisis of social reproduction of specific social classes rooted in unequal production relations and a lack of employment opportunities, the IRDP reduced poverty to a lack of access to capital. Yet, most poor households were in desperate need of income to secure their social reproduction, and not for working capital that would expose them to multiple additional risks given the power asymmetries in the agrarian economy. In a scathing critique, Jean Dreze summarised this key contradiction

11 For instance, the National Rural Employment Programme (NREP) and the Rural Landless Employment Guarantee Programme (RLEGP) were launched in the 1980s, and were early predecessors to the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) introduced in 2006.

as follows: "Why a poor entrepreneur vulnerable to the uncertainties of the market, lumbered with a crushing debt to the local bank and exposed to bureaucratic caprices should be considered more 'self-reliant' than a person entitled to employment in times of need is a mystery to me" (Dreze 1990, 96).

The second flaw of the IRDP was the failure to recognise the immediate needs of the rural masses, including the logic of reproductive debts. Although the programme's name suggested otherwise, major dynamics that impacted poor people's livelihoods, like land ownership, access to common property resources, safe drinking water, sanitation, and access to education and health care, were side-lined (Dreze 1990; Rath 1985). But even for entrepreneurial active populations, increased access to credit is not exclusively or primarily used for business activities, especially when households face acute income shortages to safeguard the social reproduction of household members. Everett and Savara (1984) investigated credit form public sector banks for poor women in Mumbai in the early 1980s. One of the women they interviewed expressed how the paradigm of income-generation loans fails to acknowledge the pervasiveness of reproductive debts:

> "The banks do not realize that we need money most often in time of crisis and [...] for purposes of survival. Yes, I understand that banks give money for work [business investment] only, but what happens is something like this. At times of crisis when we need money immediately, we borrow from a moneylender. We have to go there because who knows when the bank loan will come. Then when the bank loan does get sanctioned, we repay the moneylender." (Everett and Savara 1984, 290)

This point can be further substantiated by drawing on Maria Mies' case study of lace makers in Andhra Pradesh. In the 1970s, home-based production of lace for export rapidly expanded in Narsapur, providing a vital source of income for tens of thousands of women in the region. Wages for women workers were chronically low (below Rs. 1/day), with agents, traders and exporters accumulating the bulk of revenue. Even though, on average, lace makers worked 13–15 hours a day, with roughly half of the time spent on lace making and the rest on other work, including housework, the combined household income of women and their husbands – who would usually work as agricultural labourers – was chronically below the expenditure for food and other essentials (Mies 2012, 149ff.).[12] Since patriarchal norms prescribed women as

12 Moreover, the "housewifisation" of women workers associated with home-based work entrenched their oppression through atomisation and disorganisation, limiting prospects to negotiate for better pay. This trend spread across generations because daughters were often integrated early one in home-based production rather than send to school (Mies 2012, 199).

responsible for safeguarding the reproduction of household members, three-quarters of the surveyed lace makers were forced to pawn their jewellery or other assets they had received as dowry and turn to moneylenders, primarily to ensure day-to-day expenses for food, social functions, and health (Mies 2012, 158ff.).

Both cases vividly demonstrate how multiple debt relations converge in the household economy and how power hierarchies in the agrarian economy entrench the demand for credit due to a chronic subsistence crisis and the dependency on moneylenders. A subsidised loan scheme cannot compensate for the lack of decent working conditions, insufficient livelihood opportunities, and unsatisfactory social provisioning. Even with substantial public investments, the strategy of income-generating credit as an anti-poverty measure for the masses "merely provide[s] channels through which new ties of dependence and exploitation are established" (Everett and Savara 1984, 284) if the root causes of the subsistence crisis are not systematically tackled. Arguably, the 1980s marked the period in the post-independence era with the most ambitious attempts on behalf of the state to engage with the crisis of social reproduction amongst subaltern classes, including large-scale subsidised loan schemes and public work schemes for the rural poor. At the same time, this decade also saw the slow erosion of the developmental regime of re/productive finance.

Signs of Erosion and the Expansion of Civil Society

By the 1980s, India's political economy was haunted by its colonial past. The developmental regime had succeeded in fostering economic growth, building a diversified industrial base, expanding the public sector significantly, and overcoming the devastating famines of the colonial era. However, the concentration of land ownership and other assets in the hands of few persisted, and decent employment or livelihood opportunities for the majority of the rural population were virtually non-existent. Poverty and hunger remained the grim reality of a significant share of the population. In macroeconomic terms, this created a problem: domestic demand was overall weak, and the state had to spend to maintain a growth stimulus. Yet, the developmental state had never managed to discipline big business and create sufficient revenue by way of taxation (Chandrasekhar and Ghosh 2002; Chibber 2006). In addition to this fiscal deficit, the current account deficit increased mainly as a result of the demand amongst domestic businesses and the urban middle class for goods from abroad, depleting the country's foreign exchange reserves (Chandrasekhar and Ghosh 2002). Hence, the government started to liberalise imports and significantly increased its external indebtedness to finance the increasing public expenditure (Patnaik and Chandrasekhar 1995, 3007). Eventually, these contradictions would culminate in high inflation and a balance of payment crisis, which would pave the way for the neoliberal restructuring that had already began to spread across the globe.

Moreover, there were also signs of institutional changes in the governance of access to credit. During this time, the RBI increasingly withdrew from its function to plan and refinance agriculture and rural development and instead created specialised institutions, like the National Bank for Agriculture and Rural Development (NABARD), responsible for promoting and facilitating access to credit in the agrarian economy (Sriram 2018). With advice from international development agencies, NABARD started to support the local women's group-lending model (see below).

Meanwhile, the Indian left became ever more divided along strategic questions and organisational forms of how to respond to the persistent subsistence crisis of subaltern classes adequately. In 1967, a section of the Communist Party of India (Marxist) engaged in a peasant rebellion in Naxalbari, a small village in West Bengal. The police quickly crushed the uprising, but in the following decades, the so-called Naxalites, an alliance between revolutionary Marxist intellectuals and impoverished peasants, particularly from tribal communities, gained a foothold in many states (Ahuja and Ganguly 2007; Das 2010; Verghese 2016). They called for a "New Democratic Revolution" and challenged the power of landlords, moneylenders and the post-colonial state through armed attacks and guerrilla warfare. As such, they built on the legacy of anti-colonial peasant insurgencies, giving them more or less a coherent ideological underpinning, disciplinary organisation, and strategic outlook (Parashar 2019; Sundar 2011). Their agitation would be most successful in precisely those regions that were affected worst by skewed landownership, chronic impoverishment, indebtedness, and hunger. Despite extensive state repression, the Naxalites continued to grow. However, another entirely different type of activism would prove to challenge the foundations of the developmental regime of re/productive finance more permanently: the rise of civil society organisations.

Two broader trends favoured this development. First, a new generation of educated middle-class Indians had emerged in cities and was eager to challenge persistent poverty, hunger, and inequalities through new types of organisations and forms of interventions. Disillusioned with the factional conflicts of party politics and traditional trade unions, some of these started to create alternative structures of mobilising women in local groups and experimented with group lending.[13] Second,

13 I'm drawing on the experiences of SEWA and MYRADA in this section as the two most prominent examples. The general arguments put forth also apply to other civil society organisations that experimented with SHGs and group lending, like the Association for Sarva Seva Farms (ASSEFA), the Professional Assistance for Development Action (PRADAN), and later, the South Asia Poverty Alleviation Project (SAPAP) or the Development of Humane Action (DHAN) Foundation (Mahajan 2005; Nair and Gandhe 2015; Singh 2008)

these initiatives were enthusiastically endorsed and supported by Western development institutions, which increasingly discredited state-subsidised targeted lending programmes in the global South as top-down, ineffective and too expensive and endorsed group lending experiments as financial innovation (see Chapter 2). Moreover, they were also backed by new state institutions, like NARBAD. Eventually, these initiatives, which began in the mid-1970s and picked up in the 1980s, signalled the decline of the state-led regime of re/productive finance and provided the basis for the rise of a neoliberal regime.

Interestingly, these civil society initiatives returned to the vision of credit cooperatives as decentralised and democratic institutions owned by the impoverished masses while recognising that the existing cooperative structure oppressed instead of empowered them. For instance, Aloysius Prakash Fernandez, who was a key figure in pioneering the self-help group (SHG) model through an organisation called MYRADA, argues that the village-based cooperative societies "tend to further the oppressive relations in traditional society that prevent the poor from increasing their incomes and diversifying their livelihoods" (Fernandez 2018, 138). Likewise, Ella Bhatt maintains that founding the Self-Employed Women's Association (SEWA), a union for unorganised workers and peasants, was an essential part of the struggle for 'second freedom' (*doosri azadi*), that is, the economic freedom of the masses which had not materialised in independent India despite three decades of freedom from colonial rule:

> "The poor women must have rupees in their own pockets, so they are no longer bound without her will to the local moneylenders, contractors, landlords or social structure. The poor women must also be equipped to shed the sense of inferiority because of gender, caste, illiteracy and poverty by building their organised strength through self-managed, self-owned and viable economic organisations" (Bhatt 1998, 26)

Essentially, these civil society initiatives provided the organisational means through which women's individual savings could be pooled and held in a safe space. Encouraging regular savings would provide the means through which groups could borrow lump sums to members or, as in the case of SEWA, a specialised bank.

Initially, these groups were not limited to facilitating savings and credit management. Rather, they worked on a broad range of issues, including skill-sharing, enabling market linkages for produce, challenging domestic violence, and securing access to public health care or other social infrastructure. SEWA was even founded as a trade union for unorganised workers who were not represented by the traditional unions (Bhatt 1998; Webster 2011). However, the pervasiveness of reproductive debts cutting across these issues soon became apparent, which is why developing an alternative financing mechanism gained momentum quickly. Importantly, the

NGOs recognised the relevance of reproductive debts from the beginning. These women needed loans without collateral and a flexible repayment schedule that they could draw on for day-to-day needs and in times of crisis. As such, they mimicked the moneylenders but removed the exploitative part of high-interest rates and sustained dependency through debt by mobilising savings in solidarity groups and borrowing from each other. Recalling a field experience from the 1980s, Fernandez highlights that women in the villages frequently opted for moneylenders not only because alternatives were lacking but because they offered the type of credit they needed most: "[The moneylender] is on call for any emergency not just financial; he lends for any purpose and the amount of loan is not standardised [...]; he allows us to reschedule repayments if we have a genuine problem and to pay in lump sum when we have the cash; this suits us as our income is not steady" (Fernandez 2018, 109). Thus, the purpose of loans would not be restricted. Even when SEWA created its own bank in 1983, the latter would offer loans not only for business activities but also for home improvement, social functions, health and other emergencies.

This strategy recognised that even for self-employed women, just as in the case of lace makers discussed above, business was generally a supplementary household income, while they were also working as precarious labourers and engaging in cultivation, none of which could sustain the household economy on its own (Duvendack 2015, 188; Webster 2011, 110). So, while the aspect of savings and investment played a crucial role, what precarious women workers, responsible for safeguarding the social reproduction of all household members, needed most, was a source of income – which indebtedness provided temporarily – that would help manage household expenses related to illness, deaths and marriages, housing, and basic needs (Kabeer and Noponen 2005).

The new civil society organisation's intervention in the state-directed regime of re/productive finance was ambiguous. It recognised the oppressive nature of the agrarian political economy, the limits of the social banking approach, and the importance of reproductive debts for subaltern classes, opting for organising grassroots groups as a basis for alternative institutions. Yet, similar to the NGOisation of social movements, this middle-class activism remained primarily "problem-solving" (Harriss 2005). It focussed on providing an alternative savings and borrowing institution, supporting groups in terms of skill development and livelihood diversification, and helping marginalised sections of society to claim their rights within the prevailing norms. However, these initiatives did not have a strategic vision for broader political mobilisation of these local groups that could join with other social forces to challenge the root causes of the entrenched subsistence crisis: unequal distribution of land ownership, lack of employment opportunities, barred access to common resources and insufficient social provisioning related to basic needs.

This dilemma became further exacerbated by the dependency of these initiatives from external donors. It is hardly surprising that the need for reproductive debts exceeded the means these groups could create from their savings (Fernandez 2018; Nair 2015). Thus, scaling up the group-based loans model without collateral was contingent on development agencies supporting and financing these experiments or acquiring support from the state. For instance, SEWA has received vital funds from key institutions that fostered the Green Revolution, like the Rockefeller and Ford Foundation, USAID, the World Bank, and many others (Kerswell and Pratap 2017). MYRADA has scaled up its success with support from NABARD, which encouraged the SHG model in the late 1980s and would adopt it into a vital strategy during the neoliberal transformation. As such, these experiments not only signalled the decline of the developmental regime of re/productive finance, but they also prepared the ground for the emergence of microfinance between state and market capture, a topic we will further engage with in the following chapter.