Reading the Tea Leaves on Financial Inclusion

The Case of Rural Labour Households

S CHANDRASEKHAR

Understanding the extent of financial inclusion of rural labour households is important since in the intercensal period 2001-11, the proportion of agricultural labourers in the workforce increased by 3.5 percentage points. This paper examines progress in financial inclusion using information on indebtedness of rural labour households collected by the National Sample Survey Office as part of the surveys of employment and unemployment conducted in 2004-05 and 2009-10. It is estimated that 22.3 million out of the nearly 66 million rural labour households report being in debt in 2009-10. The share of formal institutions in the outstanding debt of rural labour households increased from 29% to 37% while the share of moneylenders decreased from 44% to 33% during this period. What is promising is that the reliance on institutional sources among rural labour households without cultivable land increased from 20.6% to 26%. The aggregate picture however masks large variations across the states and one does not observe any structural change in geographical distribution of flow of credit and share of outstanding advances to the landless.

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S Chandrasekhar (*chandra@igidr.ac.in*) is at the Indira Gandhi Institute of Development Research, Mumbai.

In the last few years, a plethora of measures have been announced and ushered in to promote financial inclusion, i e, improving access to finance from formal institutions in rural India. The National Rural Financial Inclusion Plan laid out the road map in this regard. One would need to wait till the data from the next round of All India Debt and Investment Survey (AIDIS) and Situation Assessment Survey of Farmers (SAS) are made available before we can understand whether measures to promote financial inclusion are paying off.

In the meanwhile, this paper sheds light on the issue of how far supply-side measures have succeeded in reaching the financially excluded by examining the source of borrowing of rural labour households (i e, households which are classified as agricultural labour or other labour). The focus of this paper is on access to finance from formal institutional sources by analysing information on source of borrowing of rural labour households collected as part of the National Sample Survey Office's (NSSO) two surveys on employment and unemployment conducted in 2004-05 and 2009-10. Rural labour households are a particularly vulnerable and marginalised group since the incidence of poverty among these groups is the highest. Hence, it is not surprising that Kamath et al (2010), based on their analysis of AIDIS 2003 data for 14 major states, established that rural labour households are less likely to borrow from institutional sources. It is precisely for this reason, that the extent of increase in formal sources of borrowing for these households captures progress in financial inclusion. Another reason we need to focus on rural labour households is because of the changing occupation structure in rural India. Over the intercensal period 2001-11, the proportion of cultivators in the workforce declined by 7.1 percentage points: from 31.7% to 24.6%. The proportion of agricultural labourers increased from 26.5% to 30%. The proportion of household workers declined by 0.4 percentage points, while other workers increased by 4 percentage points. Many of the migrants are from rural labour households and the financial inclusion of migrant workers has not been given adequate attention.

So, what is the evidence? In terms of size, in 2009-10 the total outstanding borrowing by rural labour households stood at Rs 36,372 crore. The quantum of borrowings by rural labour households from different sources is as follows: Rs 13,311 crore from formal institutions, Rs 12,026 crore from moneylenders, and Rs 11,035 crore from other non-institutional sources (Table 1, pp 44-45). An aggregate measure of progress in financial inclusion is whether the share of funds borrowed by rural labour households from formal institutions increased while the share of moneylenders declined. The share of formal institutions (government, banks, and cooperative societies) increased from 29% to 37%, while the share of moneylenders decreased from 44% to 33% (Table 1). It should also be noted that if one used 1999-2000 (1983) as the reference year, the share of funds borrowed by rural labour households from moneylenders has not declined, since in 1999-2000 (1983) the share of the moneylender was 31.7% (21.3%). Although there appears to be an improvement post-2004, viewed over the period beginning 1983, the formal sector has not been able to increase its share of credit to the rural labour household. This could be attributed to a host of reasons including dilution of norms for opening rural branches, closure of loss-making rural branches, etc.

Summary statistics are available based on the Rural Labour Enquiry beginning with the survey conducted in 1963-65. It should be noted that 1983 marked the year when the share of moneylenders in outstanding debt was at its lowest. The subsequent increase in the share of the moneylender in outstanding debt also brings to forth the viability of a policy of "formalisation of informal debt". The Expert Group on Agricultural Indebtedness had recommended a one-time measure where banks would provide long-term loans to the farmers so that they can repay moneylenders. It should also be noted that the increase in the quantum of funds borrowed from moneylenders is only one aspect of the story. Among those rural household not in debt, we do not know which ones did not want to borrow and which ones could not borrow. In the absence of such data, one can only conjecture that the number of households desirous but unable to borrow has increased. This point is important from the lens of financial inclusion and is discussed later in this paper. The plausible reasons for the decline in reliance on moneylenders since

Table 1: Outstanding Debt by Source of Borrowing

	2004-05				2009-10			
	Formal	Moneylender	Other Non-Institutional	Total	Formal	Moneylender	Other Non-Institutional	Total
Jammu and Kashmir (in Rs crore)	0	0	14	14	4	5	33	42
(% of all sources)	0	0	100	100	9	13	79	100
(% of all states)	0.00	0.00	0.19	0.05	0.03	0.04	0.30	0.12
Himachal Pradesh (in Rs crore)	26	5	44	75	101	10	21	132
(% of all sources)	35	6	59	100	77	7	16	100
(% of all states)	0.34	0.04	0.61	0.28	0.76	0.08	0.19	0.36
Punjab (in Rs crore)	161	326	381	868	531	245	738	1,515
(% of all sources)	19	38	44	100	35	16	49	100
(% of all states)	2.08	2.75	5.31	3.24	3.99	2.04	6.69	4.16
Uttarakhand (in Rs crore)	10	23	13	47	14	82	120	216
(% of all sources)	23	50	27	100	7	38	56	100
(% of all states)	0.14	0.20	0.18	0.17	0.11	0.68	1.08	0.59
Haryana (in Rs crore)	217	330	286	833	153	512	573	1238
(% of all sources)	26	40	34	100	12	41	46	100
(% of all states)	2.81	2.79	3.99	3.12	1.15	4.26	5.19	3.40
Rajasthan (in Rs crore)	62	581	415	1,058	252	1,102	475	1,828
(% of all sources)	6	55	39	100	14	60	26	100
(% of all states)	0.81	4.91	5.78	3.96	1.89	9.16	4.30	5.03
Uttar Pradesh (in Rs crore)	650	978	626	2,254	736	973	1,023	2,733
(% of all sources)	29	43	28	100	27	36	37	100
(% of all states)	8.41	8.27	8.73	8.43	5.53	8.09	9.27	7.51
Bihar (in Rs crore)	43	222	154	420	19	138	193	349
(% of all sources)	10	53	37	100	5	39	55	100
(% of all states)	0.56	1.88	2.15	1.57	0.14	1.14	1.74	0.96
Assam (in Rs crore)	0	20	40	61	22	11	72	106
(% of all sources)	0	33	66	100	21	11	68	100
(% of all states)	0.00	0.17	0.56	0.23	0.17	0.09	0.65	0.29
West Bengal (in Rs crore)	136	264	522	922	341	410	897	1648
(% of all sources)	15	29	57	100	21	25	54	100
(% of all states)	1.76	2.23	7.27	3.45	2.56	3.41	8.13	4.53
Jharkhand (in Rs crore)	7	10	43	59	11	13	28	52
(% of all sources)	11	17	72	100	21	25	53	100
(% of all states)	0.09	0.08	0.60	0.22	0.08	0.11	0.25	0.14
Odisha (in Rs crore)	106	113	84	303	170	56	220	446
(% of all sources)	35	37	28	100	38	13	49	100
(% of all states)	1.37	0.96	1.17	1.13	1.28	0.47	2.00	1.23
Chhattisgarh (in Rs crore)	132	141	165	438	45	49	58	153
(% of all sources)	30	32	38	100	30	32	38	100
(% of all states)	1.71	1.19	2.30	1.64	0.34	0.41	0.53	0.42
Madhya Pradesh (in Rs crore)	148	298	348	793	175	188	470	833
(% of all sources)	19	38	44	100	21	23	56	100
(% of all states)	1.91	2.52	4.84	2.97	1.31	1.56	4.26	2.29
Gujarat (in Rs crore)	125	177	545	847	275	129	556	960
(% of all sources)	15	21	64	100	29	13	58	100
(% of all states)	1.61	1.50	7.58	3.17	2.07	1.08	5.04	2.64
Maharashtra (in Rs crore)	1,241	331	816	2,388	1,346	208	803	2,356
(% of all sources)	52	14	34	100	57	9	34	100
(% of all states)	16.06	2.80	11.36	8.93	10.11	1.73	7.27	6.48
Andhra Pradesh (in Rs crore)	847	3,703	958	5,508	1,660	4,031	2,506	8,196
(% of all sources)	15	67	17	100	20	49	31	100
(% of all states)	10.96	31.31	13.34	20.60	12.47	33.52	22.71	22.53
Karnataka (in Rs crore)	344	340	262	946	791	599	752	2,141
(% of all sources)	36	36	28	100	37	28	35	100
(% of all states)	4.45	2.87	3.65	3.54	5.94	4.98	6.81	5.89
Kerala (in Rs crore)	2,837	2,100	1,011	5,948	5,908	937	603	7,449
(% of all sources)	48	35	17	100	79	13	8	100
(% of all states)	36.71	17.75	14.09	22.25	44.39	7.79	5.47	20.48

(Continued)

Table 1: Outstanding Debt by Source of Borrowing *(Continued)*

	2004-05				2009-10			
	Formal	Moneylender	Other Non-Institutional	Total	Formal	Moneylender	Other Non-Institutional	Total
Tamil Nadu (in Rs crore)	589	1804	411	2,804	702	2,314	814	3,830
(% of all sources)	21	64	15	100	18	60	21	100
(% of all states)	7.62	15.26	5.72	10.49	5.27	19.24	7.38	10.53
Other states (in Rs crore)	46	62	42	151	56	13	81	151
(% of all sources)	31	41	28	100	37	9	54	100
(% of all states)	0.60	0.52	0.59	0.56	0.42	0.11	0.74	0.41
Total (in Rs crore)	7,728	11,827	7,180	26,735	13,311	12,026	11,035	36,372
(% of all sources)	29	44	27	100	37	33	30	100
(% of all states)	100	100	100	100	100	100	100	100

For each state the first row is the quantum of outstanding debt in Rs crore, the second row is the row percentage and the third row is the column percentage.
Formal: Government, cooperative society, banks.
other non-institutional.

2004-05 are the supply-side initiatives including measures to strengthen the cooperative system.[1] While this decline is good news, on the flip side a cause for concern is that the share of other non-institutional sources (i e, other than moneylenders) increased by 3 percentage points from 27% to 30% between 2004-05 and 2009-10.

What is however promising is that the reliance on institutional sources among rural labour households without cultivable land, i e, the landless, increased from 20.6% to 26%. Lack of collateral, in particular land, is a stumbling block in making credit accessible for large segments of the population who need it the most. Are these numbers suggestive that innovative mechanisms like joint liability groups to overcome the need for collateral are indeed working?

Background

The urgency to formulate policies aimed at improving financial inclusion came to the forefront following the release of the numbers from the NSSO's 59th round AIDIS conducted in 2003. The findings from that survey indicated that the share of institutional credit agencies in the outstanding debt of rural households decreased over the period 1991-2002, from 64% to 57%. The findings based on AIDIS data also established that the moneylender was an important source of finance for rural households. This set the alarm bells ringing and many an explanation was offered to explain the increase in the share of the moneylender. In its report, the Expert Group on Agricultural Indebtedness observed,

> On the credit front, the functioning of the rural cooperative credit institutions has deteriorated in many parts of the country. The emphasis on economic efficiency has led to the neglect of social priorities in lending by the commercial and regional rural banks. Targeted and priority lending are under pressure. The result is growing dependence on non-institutional sources of credit at very high rates of interest (Government of India 2007: 13).[2]

Dev (2006) highlighted the challenges in reducing reliance on non-institutional sources and delivering credit from formal sources to the poor farmer, non-farm enterprises and other vulnerable groups.

During the last decade, many parts of the country were witness to agrarian distress and this phenomenon was attributed to indebtedness of farm households to non-institutional sources of finance. Around this time the multilateral institutions including the World Bank began to recognise the importance of building an inclusive financial system and 2005 was declared as the International Year of Microcredit by the United Nations. These global winds of change did influence Indian policymakers and the objective was to work towards making the banking system inclusive without compromising the profitability of banks. In the meanwhile policymakers could see the importance of financial inclusion in promoting inclusive growth. Both the Government of India and Reserve Bank of India (RBI) took a series of supply-side measures to promote financial inclusion and increase the share of institutional sources in outstanding debt.

An important landmark was the setting up of the Rangarajan Committee on Financial Inclusion. The report laid out a National Rural Financial Inclusion Plan. However, the report that the committee submitted did not have state-wise targets for non-cultivator households, a segment of population characterised by high level of poverty, lack of collateral and hence low levels of access to formal finance. In fact, in the chapter on Demand Side Causes and Solutions for Financial Inclusion, the committee recognises that "mere supply side solutions from the financial sector will not work". There were valid concerns that supply-side solutions might not work for a certain segment of the population, i e, rural households without cultivable land.

There are 65.7 million rural labour households constituting 46% of households in rural India. Yet, in the context of their financial inclusion, beyond advocating the development of the joint liability group model, the issue has not quite got the attention it merits. One recent reference to these households is in the report of the Working Group to Examine Procedures and Processes for Agricultural Loans set up by the RBI which made the following observation.

> Landless labourers, share croppers and oral lessees form the lowest strata of the farming community. Unfortunately, their share in the bank credit is far from adequate. The main problem facing the above category of farmers is the lack of land documents or any other documents verifying their identity and status. As a result, by and large, they remain deprived of bank loan.

The Working Group recommended

> that the banks may consider extending credit to them based on the certificates provided by the local administration/Panchayati Raj Institutions regarding cultivation for a minimum period of three years and overall viability criteria (para 3.15, Reserve Bank of India 2007).

However, the working group did not set any targets in this regard. We are not aware of any other recent working group or committee that explicitly focused on flow of credit to rural labour households.

In a sense, whatever has been the progress for rural labour households over the period 2004-05 to 2009-10 is possibly on account of an overall emphasis on measures to promote financial inclusion rather than any specific measure of the government or the central bank.

Data

We use the NSSO's survey on employment and unemployment which has a section with information on indebtedness of rural labour households. All the estimates reported in this paper are based on analysis of the unit level data. The two most recent rounds were conducted in 2004-05 and 2009-10. As part of this survey, information is sought on indebtedness – number of loans, nature of loans, source of loans, purpose of loan, and amount outstanding including interest as on the date of survey of rural labour household. It is to be noted that borrowing from microfinance institutions is not listed as a category.

Who are rural labour households and why is their access to formal sources of borrowing (government, banks, and cooperative societies) important from the view point of financial inclusion? Rural labour households refer to households who are classified as agricultural labour or other labour. For a household to be classified as "agricultural labour" the share of income from working as an agricultural labourer must be 50% or more of its total income. Using similar criteria, a household is classified as "other labour". As part of the survey, information is also sought on the extent of land cultivated[3] (including orchard and plantation) by rural labour households during July 2008-June 2009. This helps us identify households with and without cultivable land.

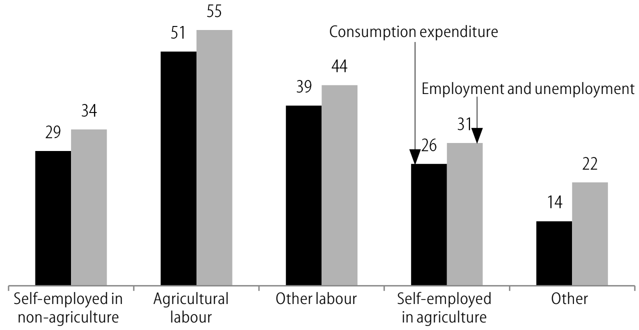
In 2009-10, the estimate of households based on their occupation type was as follows: 25.27 million self-employed in non-agriculture, 41.7 million agricultural labour, 24.05 million other labour, 51.96 million self-employed in agriculture and 19.83 million of others. These estimates are from the NSSO employment and unemployment survey and these are similar to those based on the national sample survey of consumption expenditure.

In the sample we have information on 6,543 agricultural labour households and 10,215 households classified as other labour. Of these 4,204 agricultural labour households and 7,104 other labour households report borrowing. Using the household weights, it is estimated that 22.3 million out of the nearly 66 million rural labour households report being in debt.

It is an empirical fact that incidence of poverty is highest among rural labour households. We calculated the head count ratio of poverty from the survey of consumption expenditure and survey of employment and unemployment using the state specific poverty lines for 2009-10 (Government of India 2012). The official estimates are always based on the survey of consumption expenditure. Note, that whether we use data from the survey of consumption expenditure or the survey on employment and unemployment it is clear that the headcount ratio of poverty among agricultural labour is over 50% and is equally high in case of households classified as other labour (Figure 1).

The press note on poverty estimates for 2009-10 also pointed out that even in the agriculturally prosperous states of Haryana and Punjab, 55.9% and 35.6% of agricultural labourers, respectively, in these states are poor (Government of India 2012). Since poverty is indeed concentrated among rural labour households,

Figure 1: Headcount Ratio of Poverty in 2009-10 Based On Consumption Expenditure Survey and Employment and Unemployment Survey (in %)



their ability to save is limited. Furthermore, they do not have collateral and this constrains their ability to borrow. Given that the premise of measures aimed at financial inclusion is to facilitate non-collateralised lending, the success of these measures can be gauged by the progress in terms of the ability of the nearly 66 million rural labour households to access finance from formal sources.

The Aggregate Picture

The total outstanding borrowing by rural labour households increased from Rs 26,735 crore in 2004-05 to Rs 36,372 crore in 2009-10, i e, an increase of 36% over this five-year period (Table 1).

The average debt per rural labour household increased from Rs 4,852 to Rs 5,533 over this period while the average debt per indebted rural labour household increased from Rs 10,259 to Rs 16,314 (Table 2).

Table 2: Indebtedness of Rural Labour Households

	1983	1993-94	1999-2000	2004-05	2009-10
Percentage of indebted households	50.4	35.1	25	47.3	33.9
Average debt per household (Rs)	806	1,113	1,515	4,852	5,533
Average debt per indebted household (Rs)	1,598	3,169	6,049	10,259	16,314

Source: For the year 1983, 1993-94, 1999-2000 and 2004-05 (Government of India 2010). For the year 2009-10 author's calculations from unit level data. The average debt (Rs) is in nominal and not real terms.

The proportion of indebted rural labour households has declined from 47.3% in 2004-05 to 33.9% in 2009-10. Does this mean that financial exclusion has increased? The outstanding number of accounts can decline in three situations – first, if there is a debt waiver programme, second, if recovery improves because households want to relinquish their debt, third, households decide not to borrow (short-term loans in particular) because it was a drought year. While the decline in the proportion of rural indebted households is a cause of concern, for reasons mentioned above not much can be read into the extent of financial exclusion.

Given that the NSSO does not ask questions on whether the households sought to borrow and the reasons why they did not succeed in borrowing, we cannot offer any explanation for the decline in the proportion of indebted rural labour households. Nor is there information in the data set that would help understand why the size of outstanding debt declined in some of the major states, viz, Bihar, Jharkhand, Chhattisgarh and Maharashtra (Table 1). If this decline implies the inability of rural labour households from being able to borrow then it surely does not signify progress towards financial inclusion.

In 2009-10, of the 43.4 million rural labour households which did not report having any outstanding debt either from the formal or non-institutional sources, there is no information available on which of these households did not want to borrow (voluntary exclusion) or could not borrow (involuntary exclusion). In the absence of such information one can assume that those who were involuntarily excluded were those at the bottom end of the distribution of monthly per capita expenditure (MPCE) and without any outstanding debt. This provides a lower bound estimate of the "involuntary excluded" and this is estimated at 23.3 million. This number can be read off Table 3 by adding up the number on households that are in the bottom 40% of the MPCE distribution and not indebted. One can observe from Table 3 that the proportion of households that are not indebted is highest in the bottom 10%.

It is also an established fact that the socially and historically disadvantaged groups account for a large proportion of households at the bottom end of the distribution of MPCE. The proportion of indebted households by each social group is as follows: scheduled tribes (STs) (27%), scheduled castes (SCs) (35%), Other Backward Classes (OBCs) (34%) and others (38%). What is apparent is that the average debt outstanding is the lowest among ST households followed by SC, OBC and other households (Table 4). Based on the AIDIS data, Kamath et al (2010) found that households from ST, SC and OBC are less likely to be able to avail of finance from institutional sources. Data limitations do not permit an analysis of factors that determine the differences across social groups in the extent of involutary exclusion from credit markets.

Table 3: Distribution of Rural Labour Households across Monthly Per Capita Expenditure Classes (2009-10)

	Indebted	Not Indebted	Total
Bottom 10% (number of households)	24,69,179	72,00,898	96,70,077
% of total households in size class	26	74	100
% of households in category	11	17	15
10%-20% (number of households)	29,61,123	60,55,810	90,16,933
% of total households in size class	33	67	100
% of households in category	13	14	14
20%-30% (number of households)	25,53,513	53,39,233	78,92,746
% of total households in size class	32	68	100
% of households in category	11	12	12
30%-40% (number of households)	27,57,839	46,95,849	74,53,688
% of total households in size class	37	63	100
% of households in category	12	11	11
40%-50% (number of households)	26,26,275	45,00,285	71,26,560
% of total households in size class	37	63	100
% of households in category	12	10	11
50%-60% (number of households)	22,49,213	37,40,190	59,89,403
% of total households in size class	38	62	100
% of households in category	10	9	9
60%-70% (number of households)	21,03,626	37,23,186	58,26,812
% of total households in size class	36	64	100
% of households in category	9	9	9
70%-80% (number of households)	17,45,831	35,10,076	52,55,907
% of total households in size class	33	67	100
% of households in category	8	8	8
80%-90% (number of households)	16,88,547	29,98,683	46,87,230
% of total households in size class	36	64	100
% of households in category	8	7	7
Top 10% (number of households)	11,40,373	16,82,563	28,22,936
% of total households in size class	40	60	100
% of households in category	5	4	4
Total (number of households)	2,22,95,519	4,34,46,773	6,57,42,292
% of total households in size class	34	66	100
% of households in category	100	100	100

The 10 MPCE quintiles have been generated using household weights since the unit of observation is the household.
For each state the first row is the number of households, the second row is the row percentage and the third row is the column percentage.

Table 4: Average Outstanding Debt by Social Groups and Source of Borrowing (2009-10, in Rs)

	Formal	Moneylender	Other Non-institutional	All Sources
All households				
Scheduled tribe	386	583	833	1,802
Scheduled caste	1,046	1,928	1,753	4,727
Other Backward Class	2,616	2,406	1,690	6,712
Others	3,855	1,207	2,161	7,223
All	2,025	1,829	1,679	5,533
Indebted households				
Scheduled tribe	1,413	2,131	3,046	6,589
Scheduled caste	3,025	5,579	5,072	13,676
Other Backward Class	7,762	7,139	5,012	19,913
Others	10,088	3,158	5,655	18,901
All	5,970	5,394	4,950	16,314

Source: Author's calculations.

Table 5 (p 48) provides estimates of the distribution of all rural labour households across the state of India as well as the number of rural labour households borrowing by each state.

In the aggregate, the distribution of rural labour households and indebted rural labour households across the states is similar. However, the share of outstanding debt across the states is not similar to the distribution of rural labour households or rural labour households that report to be indebted. The share of the major southern states in outstanding debt is as follows: Andhra Pradesh (22.5%), Karnataka (5.9%), Kerala (20.5%) and Tamil Nadu (10.5%) (Table 1). While these states accounted for 59.4% of the outstanding debt (Table 1), they however account for 29% of rural labour households (Table 5). If one were to include the share of Maharashtra then the rural labour households from these five states will account for 65.9% of the outstanding debt (Table 1). In contrast, the states of Bihar, Uttar Pradesh and West Bengal account for nearly 31% of rural labour households (Table 5) and their share in total outstanding debt is only 13% (Table 1). These numbers clearly bring out the extent of geographical inequities in distribution of outstanding debt of rural households across the states of India.

The fact that the southern states account for bulk of the credit flow to rural labour households does not come as a surprise since it mirrors the flow of credit to agriculture. An examination of credit flow to agriculture reveals that these states attract credit flows higher than their share in gross cropped area or gross irrigated area (Mehrotra 2011).

Planning for financial inclusion of households at the bottom end of the MPCE distribution, socially disadvantaged groups and addressing geographical inequalities in credit flow has to recognise that these are also probably the most vulnerable households along many a dimension of well-being. Given that the National Rural Financial Inclusion Plan did not have state-wise targets for non-cultivator households, it is important to update the plan in light of the estimates provided in Table 3 and Table 5.

Share of Formal Institutions in Outstanding Debt

The outstanding debt of rural labour households increased by 36% over the period 2004-05 to 2009-10 from Rs 26,734 crore to Rs 36,372 crore (Table 6, p 49). There is marked difference in growth of outstanding loans from the different sources. There has been a near doubling of loans sourced from cooperative societies and a 77% increase in loans sourced from banks. In contrast, outstanding debt on account of borrowing from moneylenders increased by a meagre 1.7%. Now, one does not have a ready explanation for the minuscule growth in outstanding

Table 5: Distribution of Rural Labour Households across States (2009-10)

	Not Indebted	Indebted	Total
Jammu and Kashmir (number of households)	1,07,477	1,10,319	2,17,796
% of households in state	49.35	50.65	100
% of households total in category	0.25	0.49	0.33
Himachal Pradesh (number of households)	3,14,980	57,068	3,72,048
% of households in state	84.66	15.34	100
% of households total in category	0.72	0.26	0.57
Punjab (number of households)	7,67,586	5,35,663	13,03,249
% of households in state	58.9	41.1	100
% of households total in category	1.77	2.4	1.98
Chandigarh (number of households)	12,111	9,366	21,477
% of households in state	56.39	43.61	100
% of households total in category	0.03	0.04	0.03
Uttarakhand (number of households)	1,98,723	1,27,445	3,26,168
% of households in state	60.93	39.07	100
% of households total in category	0.46	0.57	0.5
Haryana (number of households)	6,39,477	3,11,504	9,50,981
% of households in state	67.24	32.76	100
% of households total in category	1.47	1.4	1.45
Delhi (number of households)	30,217	29,765	59,982
% of households in state	50.38	49.62	100
% of households total in category	0.07	0.13	0.09
Rajasthan (number of households)	16,32,586	7,91,881	24,24,467
% of households in state	67.34	32.66	100
% of households total in category	3.76	3.55	3.69
Uttar Pradesh (number of households)	58,06,386	16,33,447	74,39,833
% of households in state	78.04	21.96	100
% of households total in category	13.36	7.33	11.32
Bihar (number of households)	47,94,606	11,79,170	59,73,776
% of households in state	80.26	19.74	100
% of households total in category	11.04	5.29	9.09
Sikkim (number of households)	18,805	11,171	29,976
% of households in state	62.73	37.27	100
% of households total in category	0.04	0.05	0.05
Arunachal Pradesh (number of households)	4,017	728	4,745
% of households in state	84.66	15.34	100
% of households total in category	0.01	0	0.01
Nagaland (number of households)	209	774	983
% of households in state	21.26	78.74	100
% of households total in category	0	0	0
Manipur (number of households)	8,741	3,917	12,658
% of households in state	69.06	30.94	100
% of households total in category	0.02	0.02	0.02
Mizoram (number of households)	4,496	2,209	6,705
% of households in state	67.05	32.95	100
% of households total in category	0.01	0.01	0.01
Tripura (number of households)	2,17,784	46,573	2,64,357
% of households in state	82.38	17.62	100
% of households total in category	0.5	0.21	0.4
Meghalaya (number of households)	1,05,271	9,050	1,14,321
% of households in state	92.08	7.92	100
% of households total in category	0.24	0.04	0.17
Assam (number of households)	5,12,826	6,02,579	11,15,405
% of households in state	45.98	54.02	100
% of households total in category	1.18	2.7	1.7
West Bengal (number of households)	37,12,424	31,67,047	68,79,471
% of households in state	53.96	46.04	100
% of households total in category	8.54	14.2	10.46
Jharkhand (number of households)	12,02,026	1,66,653	13,68,679
% of households in state	87.82	12.18	100
% of households total in category	2.77	0.75	2.08
Odisha (number of households)	18,85,602	7,77,267	26,62,869
% of households in state	70.81	29.19	100
% of households total in category	4.34	3.49	4.05
Chhattisgarh (number of households)	18,90,615	3,34,865	22,25,480
% of households in state	84.95	15.05	100
% of households total in category	4.35	1.5	3.39
Madhya Pradesh (number of households)	34,76,558	8,86,385	43,62,943
% of households in state	79.68	20.32	100
% of households total in category	8	3.98	6.64
Gujarat (number of households)	16,14,013	10,91,326	27,05,339
% of households in state	59.66	40.34	100
% of households total in category	3.71	4.89	4.12
Daman and Diu (number of households)	8,986	3,201	12,187
% of households in state	73.73	26.27	100
% of households total in category	0.02	0.01	0.02
Dadra and Nagar Haveli (number of households)	16,503	699	17,202
% of households in state	95.94	4.06	100
% of households total in category	0.04	0	0.03
Maharashtra (number of households)	42,82,672	12,76,092	55,58,764
% of households in state	77.04	22.96	100
% of households total in category	9.86	5.72	8.46
Andhra Pradesh (number of households)	34,68,342	38,80,370	73,48,712
% of households in state	47.2	52.8	100
% of households total in category	7.98	17.4	11.18
Karnataka (number of households)	21,44,462	15,43,070	36,87,532
% of households in state	58.15	41.85	100
% of households total in category	4.94	6.92	5.61
Goa (number of households)	39,693	900	40,593
% of households in state	97.78	2.22	100
% of households total in category	0.09	0	0.06
Lakshadweep (number of households)	794	822	1,616
% of households in state	49.13	50.87	100
% of households total in category	0	0	0
Kerala (number of households)	10,80,826	13,67,783	24,48,609
% of households in state	44.14	55.86	100
% of households total in category	2.49	6.13	3.72
Tamil Nadu (number of households)	34,22,823	22,89,444	57,12,267
% of households in state	59.92	40.08	100
% of households total in category	7.88	10.27	8.69
Pondicherry (number of households)	16,669	37,653	54,322
% of households in state	30.69	69.31	100
% of households total in category	0.04	0.17	0.08
Andaman and Nicobar Islands (number of households)	7,467	9,313	16,780
% of households in state	44.5	55.5	100
% of households total in category	0.02	0.04	0.03
Total (number of households)	4,34,46,773	2,22,95,519	6,57,42,292
% of households in state	66.09	33.91	100
% of households total in category	100	100	100

For each state the first row is the number of non-indebted and indebted households, the second row is the row percentage and the third row is the column percentage.

Table 6: Volume of Outstanding Debt by Source of Borrowing (Rs crore)

	2004-05	2009-10
Government	846.81	573.42
Cooperative society	2,477.83	4,950.12
Bank	4,403.38	7,787.52
Institutional sources	7,728.02	13,311.06
Employer/landlord	1,431.75	2,568.06
Agricultural/professional moneylender	11,827.00	12,025.99
Shopkeeper/trader	1,620.43	1,460.59
Relatives/friends	3,416.26	5,970.26
Others	711.47	1,036.40
Non-institutional sources	19,006.91	2,3061.3
Total	26,734.93	36,372.38

Table 7: Share of Various Sources in Outstanding Debt (in %)

	1993-94	1999-2000	2004-05	2009-10
Government	8.3	5.4	3.2	1.6
Cooperative society	7.9	13.1	9.3	13.6
Bank	18.9	17.2	16.5	21.4
Institutional sources	35.1	35.7	29	36.6
Employer/landlord	11.4	6.9	5.3	7.1
Agricultural/professional moneylender	27.6	31.7	44.2	33.1
Shopkeeper/trader	7.3	7.1	6	4
Relatives/friends	12.4	15.1	12.8	16.4
Others	6.2	3.5	2.7	2.9
Non-institutional sources	64.9	64.3	71	63.5
Total	100	100	100	100

Source: For the year 1993-94, 1999-2000 and 2004-05 (Government of India 2010).
For the year 2009-10 author's calculations from unit level data.

loans from moneylenders. It is on account of the differential growth across the sources that the share of moneylenders has declined from 44% to 33% (Table 7). However, note that the share of moneylenders is still higher than in 1993-94 or 1999-2000. The share of outstanding loans from banks increased from 16.5% to 21.4% over the period 2004-05 to 2009-10.

There are many ways to benchmark the progress made by formal institutions. One way is to work out the correlation between the change in outstanding debt for each state and the change in outstanding debt from formal institutions for each state. This correlation works out to 0.66. Another way is to examine the growth in direct finance to agriculture from the banking sector at the all-India level. In March 2010 (2005), the outstanding credit of scheduled commercial banks in the form of direct finance to agriculture stood at Rs 2,96,849 crore (94,635), respectively, i e, it grew by 3.15 times over the period March 2005-March 2010. In 2004-05, the total outstanding debt of rural labour households from banks as a proportion of direct finance to agriculture was 28.2% and this declined to a meagre 2.6% in 2009-10. If one were to use this indicator this would suggest no progress on financial inclusion. Much of the increase in direct finance can possibly be attributed to the initiative to improve flow of credit to the farm sector by doubling flow of agricultural credit over the three-year period beginning 2004-05. Even under this initiative there is evidence to suggest that it is the large farmers who benefited the most.

Earlier, we already pointed out that rural labour households from the four southern states and Maharashtra account for 65.9% of the outstanding debt. The share of these five states in outstanding debt from banks remained at 74%.[4] So there has been no reduction in (the geographical) inequality in distribution of credit from banks to rural labour households.

This inequality is also evident when we consider credit flows from cooperative societies. These societies are an important institution for providing credit. It should be noted that in the NSSO data, cooperative banks are clubbed with banks and cooperative societies are listed separately. The share of outstanding loans from cooperative societies increased from 9.3% to 13.6%. Rural labourers from the following states account for bulk of the loans from cooperative societies: Kerala (51.9%), Maharashtra (14.8%), Karnataka (7.9%), Andhra Pradesh (6.7%) and Tamil Nadu (3.1%). Thus, these states account for 84.4% of loans from cooperative societies. In 2004-05, the share of these states in loans from cooperative societies was as follows: Kerala (45.4%), Maharashtra (21.7%), Karnataka (6.1%), Andhra Pradesh (6.3%) and Tamil Nadu (5.4%), i e, these states accounted for 84.9% of loans from cooperative societies. So there has not been any change in the share of these states in outstanding loans from cooperative societies. The issue of revitalising the cooperative system has been discussed ad nauseam. The most recent initiative was the implementation of the Vaidyanathan Task Force on Cooperatives.

The NSSO survey does not have any information that would allow us to quantify the impact of implementation of the report of the Vaidyanathan Task Force on Cooperatives. Some details on action taken based on the recommendations is available in the report of the Working Group on Outreach of Institutional Finance, Cooperatives and Risk Management for the Twelfth Five-Year Plan (Planning Commision 2011). The Cooperative State Acts have been amended in 21 states. The central government has released Rs 9,016 crore for recapitalisation of 52,000 primary agricultural credit societies (PACS) in 16 states. This is important since one of the grass-root organisations that can promote financial inclusion is the PACS. The report of the working group notes the increase in agricultural credit by cooperatives.

It is important to note that Kerala had not signed the agreement with central government on implementation of the recommendations of the Vaidyanathan Committee on matters pertaining to functioning of cooperative institution. Yet, it is Kerala that has the highest share in flow of credit from cooperative societies to rural labour households.

While the share of rural labour households from the non-southern states is low, it is also true that in the poorer states of India, the share of non-institutional sources in outstanding debt did not exhibit a decline or was sticky. These states are Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh (Table 1). The banking infrastructure in these states is relatively poor compared to that of the southern states. However, despite the fact that the southern states have better banking infrastructure, borrowing from non-institutional sources still constitutes an important chunk.

Non-Institutional Borrowing in Southern States

In the context of the non-institutional borrowing, much attention has focused on the southern states and Andhra Pradesh in particular. In 2009-10 (2004-05), the four southern states account for 65.5% (67.1%) of the outstanding debt of the rural labour households from the moneylender.

Among indebted rural labour households in Andhra Pradesh in 2009-10 (2004-05), 80% of the loans were from non-institutional sources. In Tamil Nadu the corresponding figures for 2004-05 and 2009-10 are respectively, 79% and 81% (Table 1). In the case of Tamil Nadu some commentators could attribute the stickiness in the share of non-institutional sources to the system of pawnbrokers which is very prevalent in that state.

It is an irony that the southern states which have a good penetration of banks and microfinance institutions account for such a large proportion of borrowing from moneylenders. It was assumed that the growth of microfinance institutions will reduce the reliance on moneylenders. On the contrary, the share of rural labour households from Andhra Pradesh in outstanding debt from moneylender increased from 31.3% to 33.5%. In addition, Andhra Pradesh has been the epicentre of the microfinance crisis. Hence it is an open question on whether the microfinance institutions did succeed in reaching the financially excluded.

It is an open question whether the introduction of a new player from whom households could borrow did lead to financial inclusion. One fact that has emerged is that banks are more likely to fund the large microfinance institutions (Nair 2012). Nair also expresses doubt over whether the decision to permit microfinance institutions to raise external commercial borrowings under the automatic route will lead to more flow of funds to the financially excluded. In this context she refers to the work of Conroy (2010) and expresses scepticism on whether the financially excluded will be catered to by microfinance institutions. This is an important issue that needs to be addressed in greater depth with an appropriate and comprehensive data set. Till such evidence is available policy cannot be formulated on the assumption that the growth of microfinance institutions will lead to financial inclusion.

Cultivated Land

In 2009-10, of the total outstanding debt, the share of rural labour households without cultivable land was 53% and the share of households with cultivable land was 47%. These averages are very similar to the shares based on the 2004-05 survey data.

The progress in reducing the share of moneylenders in outstanding debt is seen in the case of rural labour households both with and without cultivable land. The share of moneylenders in outstanding debt of those without cultivable land decreased from 50.4% to 38.1% while in the case of cultivators it decreased from 36.9% to 27.4%. The share of banks and cooperative societies in outstanding debt of those without cultivable land increased from 5.7% to 8.9% and from 12.1% to 15.6% respectively over this period (Table 8).

Table 8: Percentage Distribution of Debt by Source of Debt among Indebted Rural Labour Households With and Without Cultivated Land

	2004-05			2009-10		
	Without Cultivated Land	With Cultivated Land	All	Without Cultivated Land	With Cultivated Land	All
Government	2.8	3.6	3.1	1.5	1.7	1.6
Cooperative societies	5.7	13.5	9.2	8.9	19	13.6
Bank	12.1	21.6	16.5	15.6	28	21.4
Institutional sources	20.6	38.7	28.8	26	48.7	36.6
Employer/landlord	6.6	3.9	5.4	8.9	4.9	7.1
Agricultural/ professional moneylender	50.4	36.9	44.2	38.1	27.4	33.1
Shopkeeper/trader	6.1	6.1	6.1	4.9	3	4
Relatives/friends	13	12.6	12.8	18.5	14	16.4
Others	3.3	1.8	2.7	3.6	1.9	2.9
Non-institutional sources	79.4	61.3	71.2	74	51.2	63.5
Total	100	100	10+0	100	100	100

Table 9: Average Debt Per Indebted Household by Source of Borrowing (2009-10, in Rs)

	Cooperative Society	Bank	Moneylender
All India			
Without cultivable land	1,210	2,126	5,192
With cultivable land	3,994	5,894	5,749
Kerala			
Without cultivable land	14,639	16,458	7,235
With cultivable land	21,772	27,036	6,568
Maharashtra			
Without cultivable land	5,550	5,347	1,119
With cultivable land	5,908	3,752	2,025
Andhra Pradesh			
Without cultivable land	931	2,102	9,238
With cultivable land	646	5,393	13,562

These averages have been calculated for indebted households irrespective of which source they borrowed from.The figure in parenthesis is the percentage of households with non-zero borrowing.

However, when we examine the share of households without cultivable land in outstanding debt from banks it was unchanged at 39%. This suggests that banks are indeed hesitant to lend to those without cultivable land since ideally the proportion of loans going to households without cultivable land should have increased. This hesitancy of banks is also evident from when we look at the estimates of the average debt per indebted household by the three important sources of borrowing – cooperative societies, banks and moneylenders (Table 9). These averages have been calculated for all indebted households irrespective of which source they borrowed from, i e, these averages are not calculated for each source separately, based only on households who have non-zero borrowing from that source. Before we discuss the all-India picture, for purposes of highlighting the importance of various institutions we focus on Kerala and Maharashtra, and contrast these two states with Andhra Pradesh (Table 9). Not surprisingly, the average outstanding debt from moneylenders (cooperatives) is markedly higher in Andhra Pradesh (Kerala) compared to the all-India average. In Maharashtra, the average loan size from cooperative societies is similar to that of banks. From the all-India average three facts are apparent. First, the average loan per indebted household with cultivated land is in the same ball park whether it is the moneylender or the bank. Second, the average loan per indebted household from the moneylender is similar whether the household has cultivated land or not. Third, banks and cooperative societies lend lower amounts to those without cultivable land compared to moneylenders. These clearly bring out the importance of possession of cultivable land. It does appear that possession of land by "leasing in" despite "not owning it" facilitates borrowing from formal sources. Beyond this statement, in the absence of survey data, we do not really understand the mechanics of this phenomenon at the moment. If lack of access to land will constrain progress in financial inclusion, then it is a cause for concern since land is scarce and hence not all rural households will be able to offer the comfort of having an asset to the lender.

Looking Ahead

The extent to which the role of the moneylender has declined is a broad indicator of progress in financial inclusion. If the reference point is taken as 1983 then we have made no progress while some progress has indeed been made since 2004-05. Given the renewed emphasis on financial inclusion in the last 10 years, this paper has focused on the changes in the sources of borrowing over the period 2004-05 and 2009-10. Since the NSSO surveys are good for a descriptive story but never prescriptive, we are unable to offer a reason for the improvements since 2004-05. The inability to explain the why part is going to be true even when data from the AIDIS 2013 is released. Given the limitations of the NSSO data, in terms of addressing why changes have happened, we will continue to make what appear to be reasonable statements on progress on financial inclusion that could be true or untrue.

Before we address the improvements required in the NSSO surveys, the RBI could also do its bit in this regard. Although its survey of small borrowal accounts can provide insights, surprisingly, this survey has never been used to address the issue of financial inclusion. Would it be worthwhile for the RBI to consider a more focused survey on lending to rural labour households? Such an exercise should not be difficult since the recent report based on Survey of Small Borrowal Accounts: 2008 mentions that the scheduled commercial banks maintain details of small borrowal accounts in respect of all the branches of (excluding regional rural banks) in their centralised database at their head office. This seems to suggest that conducting a detailed survey of borrowing by rural labour households should not be a difficult exercise. This approach could be used to evaluate the progress towards achieving the targets set as part of National Rural Financial Inclusion Plan.

In addition, we need independent research on the role of joint-liability groups and other arrangements or innovations for non-collateralised lending for facilitating accessing funds by the poor and those without collateral. What framework facilitates financial inclusion? By this we mean what is the nature of the debt contract offered by banks and cooperative societies and do these contracts differ across institutions? We need to collect primary data on the formation and functioning of joint liability groups.

Coming to the issue of NSSO's surveys, the organisation needs to consider making the following additions in the AIDIS and SAS. One, it needs be able to provide an estimate of the financially excluded by including a question on whether the household sought to borrow and the constraints faced while borrowing. This question can be included in the section on indebted rural labour households as part of the employment and unemployment survey. The NSSO did address this aspect in the 54th round (January-June 1998) survey on common property resources, sanitation and hygiene and services, when it sought detailed information on access and utilisation of financial services. Second, these surveys need to capture the flow of funds from microfinance institutions. Only then can we get a handle on the question pertaining to relative importance of banks and the bank self-help group linkage programme in promoting financial inclusion vis-à-vis the microfinance institutions. Third, and this is related to the second point, it will need to collect information on self-help groups.

At the risk of prophesising, what might we expect to find from AIDIS and SAS 2013? It will probably be a mixed report card. From the fact that we find a reduction in the share of moneylenders in the case of rural labour households, it can be speculated that this has to be true for the farmers too one would find a reduction in reliance on non-institutional sources of borrowing. After all, farmers have land, an important determinant of their ability to access funds from institutional sources. More importantly, the initiative to double the flow of credit to agriculture could contribute to the decline in the share of the moneylender. It is reasonable to expect that there will continue to be large variations in the reliance on non-institutional sources across the states. The story could be that the southern states continue to garner a higher share of credit than reflected by their share in the gross cropped area.

It could well be that what has been reaped are the low hanging fruit – improving access to formal sources in the southern states. The government's emphasis on financial inclusion as a means for promoting inclusive growth will succeed only if it looks beyond the low hanging fruit, i e, bring about a structural change in geographical distribution of the flow of credit, and increasing the shares of outstanding advances to the landless, the small and marginal cultivators.

NOTES

1 One important development was the submission of the report by the Task Force on Revival of Rural Cooperative Credit Institutions.

2 The report also provides time trends in terms of source-wise institutional credit flow over the period 1975-76 to 2005-06.

3 Land cultivated is defined as net sown area (areas sown with field crops and area under orchards and plantations counting an area only once in an agricultural year) during the agricultural year 2008-09, i e, July 2008 to June 2009. Land cultivated (including orchards and plantations) during the agricultural year 2008-09, i e, July 2008 to June 2009 will be recorded against this item. Land cultivated may be from the land "owned", "land leased-in" or from "land neither owned nor leased-in" (Source: Chapter 4, Instruction to Field Staff, 66th Round 2009-10, NSSO)

4 As on 31 March 2008 these five states accounted for nearly 54% of the amount outstanding under small borrowal accounts. So the pattern that is evident in NSSO data also plays out in the Survey of Small Borrowal Accounts, i e, accounts with a credit limit of less than Rs 2 lakh (Reserve Bank of India 2011).

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