WP-2014-003

Reading the Tea Leaves on Financial Inclusion: The Case of Rural Labour Households

S Chandrasekhar

Indira Gandhi Institute of Development Research, Mumbai
January 2014
http://www.igidr.ac.in/pdf/publication/WP-2014-003.pdf

Reading the Tea Leaves on Financial Inclusion: The Case of Rural Labour Households

S Chandrasekhar

Indira Gandhi Institute of Development Research (IGIDR)
General Arun Kumar Vaidya Marg
Goregaon (E), Mumbai- 400065, INDIA
Email (corresponding author): chandra@igidr.ac.in

Abstract

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 NSSO as part survey 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 outstanding debt of rural labour households increased from 29 percent to 37 percent while the share of money lender decreased from 44 percent to 33 percent during this period. There has been a near doubling of loans sourced from cooperative societies and a 77 percent increase in loans sourced from banks. In contrast, outstanding debt on account of borrowing from money lender increased by a meagre 1.7 percent. One does not have a ready explanation for the miniscule growth in outstanding loans from money lenders. What is promising is that the reliance on institutional sources among rural labour households without cultivable land increased from 20.6 percent to 26 percent. The aggregate picture however masks large variations across the states of India and one does not observe any structural change in geographical distribution of flow of credit and share of outstanding advances to the landless.

Keywords: Financial Inclusion, Rural Labour Household, Formal Credit Markets

JEL Code: G21, O16, O17

Acknowledgements:

I am indebted to Nirupam Mehrotra for his valuable insights and extensive discussions on the issue of financial inclusion. I am grateful to S Mahendra Dev, Sripad Motiram, Andaleeb Rahman for their detailed comments on an earlier draft of this paper. This paper is written as part of the initiative to Strengthen and Harmonize Research and Action on Migration in the Indian Context. The initiative is supported by Sir Dorabji Tata Trust and Allied Trusts. It is anchored by IGIDR and is in collaboration with CPR, NIUA, IRIS-KF and the Migration Program Partners of Tata Trust.

Reading the Tea Leaves on Financial Inclusion: The Case of Rural Labour Households

Introduction: 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 next round of All India Debt and Investment and Survey (AIDIS) and Situation Assessment Survey of Farmers (SAS) is completed in 2013 and data 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 who 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 household collected as part of National Sample Survey Organisation's (NSSO) two recent 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, 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 percent to 24.6 percent. The proportion of agricultural labourers increased from 26.5 percent to 30 percent. 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 the size, in 2009-10, the total outstanding borrowing by rural labour households stood at Rs 36,372 crores. The quantum of borrowings by rural labour households from the different sources is as follows: Rs 13,311 crores from formal institutions, Rs 12,026 crores from money lenders, and Rs 11,035 crores from other non-institutional sources (Table 1). 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 money lender declined. The share of formal institutions (government, banks, and cooperative societies) increased from 29 percent to 37 percent while the share of money lender decreased from 44 percent to 33 percent (Table 1).

It should also be noted that, if one used 1999-00 (1983) as the reference year, the share of funds borrowed by rural labour households from the money lender has not declined since in 1999-00 (1983) the share of the money lender was 31.7 (21.3) percent. 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 money lender in outstanding debt was at its lowest. The increase in the share of the money lender 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 the money lender. It should also be noted that the increase in the quantum of funds borrowed from the money lender 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.

Plausible reasons for the decline in reliance on money lender since 2004-05 are the supply side initiatives including measures to strengthen the cooperative system[1]. While this decline is the good news, on the flip side a cause for concern is that the share of other non-institutional sources (i.e. other than money lender) increased by 3 percentage points from 27 percent to 30 percent 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 percent to 26 percent. 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 National Sample Survey Organisation's (NSSO) 59th round All India Debt and Investment and Survey (AIDIS) conducted in 2003. The findings from this survey indicated that the share of institutional credit agencies in the outstanding debt of the rural households, decreased over the period 1991 and 2002, from 64 percent to 57 per cent. The findings based on AIDIS data also established that the money lender 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 money lender. 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

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

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" (p 13 Government of India 2007)[2]. Dev (2006) highlighted the challenges in reducing reliance on non-institutions sources and delivering credit from the 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 the Indian policy makers and the objective was to work towards making the banking system inclusive without compromising the profitability of banks. In the meanwhile the policy makers could see the importance of financial inclusion in promoting inclusive growth. Both the Government of India and Reserve Bank of India 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 characterized 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 percent of households in rural India. Yet, in the context of their financial inclusion, beyond advocating the development of 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 Reserve Bank of India 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*"

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

(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 focussed on flow of credit to rural labour households.

In a sense, what ever has been the progress in the context of rural labour households over the period 2004-05 and 2009-10 is possibly on account of 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 the 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 as on the date of survey. It is to be noted that borrowing from micro finance 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 percent or more of its total income. Similarly 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 other. These estimates are from the employment and unemployment survey and these are similar to those based on the 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 households classified as other labour 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 .

[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 orchard and plantation) during the agricultural year 2008-2009, 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)

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 head count ratio of poverty in case of agricultural labour is over 50 percent and is equally high in case of households classified as other labour (Figure 1).

- **Figure 1 here -**

The press note on poverty estimates for 2009-10 also points out that even in the agriculturally prosperous states of Haryana and Punjab, 55.9 percent and 35.6 percent of agricultural labourers respectively in these states are poor (Government of India 2012). Since poverty is indeed concentrated among rural labour households, 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 inclusions 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 crores in 2004-05 to Rs 36,372 crores in 2009-10, i.e. an increase of 36 percent over this five year period (Table 1).

- **Table 1 here -**

The average debt per rural labour household increased from Rs 4852 to Rs 5533 over this period while the average debt per indebted rural labour household increased from Rs 10259 to Rs 16314 (Table 2).

- **Table 2 here -**

The proportion of indebted rural labour households has declined from 47.3 percent in 2004-05 to 33.9 percent in 2009-10. Does this mean that financial exclusion has increased? 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 NSSO does not ask questions on whether the households sought to borrow and reasons why it 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, Chattisgarh and

Maharashtra (Table 1). If this decline implies exclusion 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 who do 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 are involuntary excluded are 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 percent 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 percent.

- Table 3 here -

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 tribe (27 percent), scheduled caste (35 percent), other backward class (34 percent) and other (38 percent). What is apparent is that the average debt outstanding is lowest among scheduled tribe households followed by scheduled caste, other backward class and other households (Table 4). Based on the AIDIS data Kamath et.al (2010) found that households from scheduled tribe, scheduled caste, and other backward class are less likely to be able to avail finance from institutional sources. Data limitations do not permit an analysis of factors that determine the differences across social groups in the extent of involuntary exclusion from credit markets.

- Table 4 here -

Table 5 provide 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.

- Table 5 here -

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 percent), Karnataka (5.9 percent), Kerala (20.5 percent), and Tamil Nadu (10.5 percent) (Table 1). While these states accounted for 59.4 percent of the outstanding debt (Table 1), they however account for 29 percent 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 percent of the outstanding debt (Table 1). In contrast the states of Bihar, Uttar Pradesh and West Bengal account for nearly 31 percent of rural labour households (Table 5) and their share in total outstanding debt is only 13 percent (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 percent over the period 2004-05 to 2009-10 from Rs 26,734 crores to Rs 36,372 crores (Table 6). 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 percent increase in loans sourced from banks. In contrast, outstanding debt on account of borrowing from money lender increased by a meagre 1.7 percent. Now, one does not have a ready explanation for the miniscule growth in outstanding loans from money lenders. It is on account of the differential growth across the sources that the share of money lender has declined from 44 percent to 33 percent (Table 7). However, note that the share of money lender is still higher than in the year 1993-94 or 1999-00. The share of outstanding loans from banks increased from 16.5 percent to 21.4 percent over the period 2004-05 to 2009-10.

- **Table 6 here –**

- **Table 7 here –**

There are many ways to benchmark the progress made by the 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 296,849 (94,635) crores respectively, i.e. it grew by 3.15 times over the period March 2005 and 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 percent and this declined to a meagre 2.6 percent 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 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 the rural labour households from the four southern states and Maharashtra account for 65.9 percent of the outstanding debt. The share of these five states in outstanding debt from banks remained at 74 percent[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 co-operative societies increased from 9.3 percent to 13.6 percent. Rural labourers from the following states account for bulk of the loans from cooperative societies: Kerala (51.9 percent), Maharashtra (14.8 percent), Karnataka (7.9 percent), Andhra Pradesh (6.7 percent) and Tamil Nadu (3.1 percent). Thus, these states account for 84.4 percent of loans from cooperative societies. In 2004-05, the share of these states in loans from cooperative societies was as follows: Kerala (45.4 percent), Maharashtra (21.7 percent), Karnataka (6.1 percent), Andhra Pradesh (6.3 percent) and Tamil Nadu (5.4 percent), i.e. these states accounted for 84.9 percent 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 12th 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 are 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 co-operative institution. Yet, it is Kerala that has the highest share in flow of credit from cooperative societies to rural labour households.

---

[4] As on March 31 2008 these five states accounted for nearly 54 percent 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 lakhs (Reserve Bank of India 2011).

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, Orissa, 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 focussed on the southern states and Andhra Pradesh in particular. In 2009-10 (2004-05), the four southern states account for 65.5 (67.1) percent of the outstanding debt of the rural labour households from the money lender.

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

It is an irony that the southern states which have a good penetration of banks and micro finance institutions account for such a large proportion of borrowing from the money lenders. It was assumed that the growth of micro finance institutions will reduce the reliance on money lenders. On the contrary, the share of rural labour households from Andhra Pradesh in loans outstanding debt from money lender increased from 31.3 percent to 33.5 percent. In addition, Andhra Pradesh has been the epicentre of the micro finance crisis. Hence it is an open question on whether the micro finance 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 micro finance institutions (Nair 2012). Nair also expresses doubt over whether the decision to permit micro finance 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 the micro finance institutions. This is an important issue that needs to be addressed in greater depth with an appropriate and comprehensive dataset. Till such evidence is available policy cannot be formulated on the assumption that the growth of micro finance 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 percent and the share of households with cultivable land was 47 percent. These averages are very similar to the shares based on the 2004-05 survey data.

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

- Table 8 here –

- Table 9 here –

However, when we examine the share of households without cultivable land in outstanding debt from banks it was unchanged at 39 percent. 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 society, bank and money lender (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 money lender (cooperative) is markedly higher in Andhra Pradesh (Kerala) compared to the all India average. In Maharashtra, the average loan size from cooperative society 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 money lender or the bank. Second, the average loan per indebted household from the money lender 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 money lender. 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 the 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 household will be able to offer the comfort of having an asset to the lender.

Looking Ahead: The extent to which the role of the money lender 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 ten 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 Reserve Bank of India could also do its two 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 worth for the Reserve Bank of India to consider a more focussed 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 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 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 & hygiene and services, when it sought detailed information on access and utilisation of financial services. Second, these surveys need to capture flow of funds from micro finance 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 a vis the micro finance 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. The fact that we find reduction in share of money lender in case of rural labour households it has to be true that 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 money lender. It is reasonable to expect that there will continue to be large variations in reliance on non institutional sources across the states of India. The story could well 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 fruits – 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 one looks beyond the low hanging fruits, i.e. bring about a structural change in geographical distribution of flow of credit, and increasing the shares of outstanding advances to the landless, the small and marginal cultivators.

References:

Conroy, John (2010): "Microcredit as a Variant form of Sub-Prime Lending", FDC Briefing Note No 10, The Foundation for Development Cooperation, Queensland, May.

Dev Mahendra S (2006) Financial Inclusion: Issues and Challenges, Economic and Political Weekly, Vol 41 No. 41 October 14 - October 20, 2006 p. 4310-4313

Government of India (2012) Press Note on Poverty Estimates, 2009-10, Available: http://planningcommission.nic.in/news/press_pov1903.pdf

Government of India (2010) Rural Labour Enquiry Report on Indebtedness among Rural Labour Households (61st Round of N.S.S. 2004-05), Government of India, Ministry of Labour and Employment, Labour Bureau, Shimla / Chandigarh

Government of India (2008) Report of the Committee on Financial Inclusion

Government of India (2007) Report of the Expert Group on Agricultural Indebtedness, Ministry of Finance, Government of India, July 2007

Kamath Rajalaxmi, Arnab Mukherji , Maria Sandstrom (2010) Accessing Institutional Finance: A Demand Side Story for Rural India, Economic and Political Weekly, Vol 45 No. 37 September 11 - September 17, 2010 p. 56-62

Mehrotra Nirupam (2011) Agriculture Credit: The Truth behind the Aggregate Numbers, Economic and Political Weekly, Vol 46 No. 42 October 15 - October 21, 2011 p. 22-26

Nair Tara S (2012) Financing of Indian Microfinance: Evidence and Implications, Economic and Political Weekly, Vol No. 25 June 23 - June 29, 2012 p. 33-40

Planning Commission (2011) Working group on Outreach of Institutional Finance, Cooperatives and Risk management for the 12th Five Year Plan

Reserve Bank of India (2011) Survey of Small Borrowal Accounts : 2008, RBI Monthly Bulletin May 2011

Reserve Bank of India (2007) Report of the Working Group to Examine the Procedures and Processes of Agricultural Loans

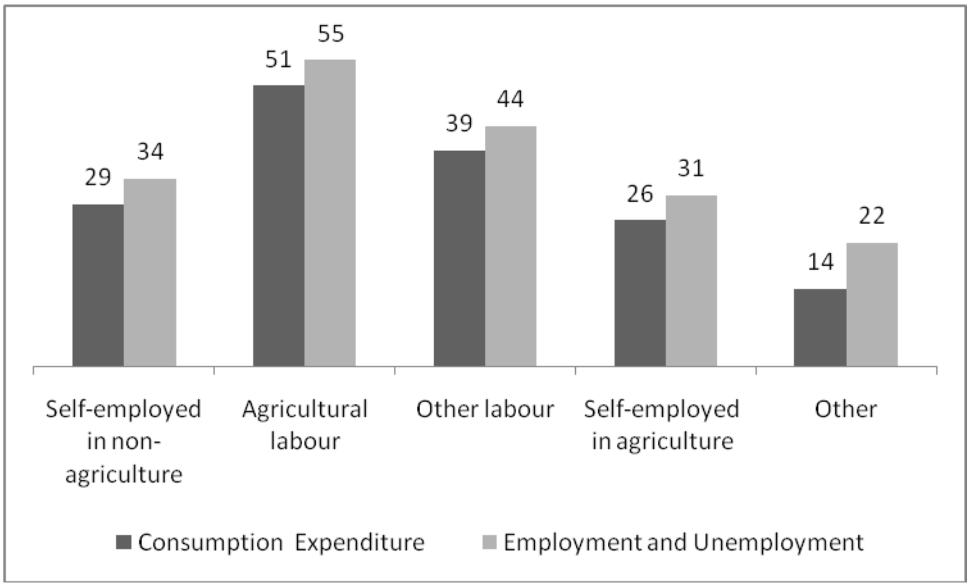

Figure 1: Head Count Ratio of Poverty in 2009-10 based on Consumption Expenditure Survey and Employment and Unemployment Survey

Table 1: Outstanding Debt by Source of Borrowing

	2004-05				2009-10			
	Formal	**Money Lender**	**Other Non-Institutional**	**Total**	**Formal**	**Money Lender**	**Other Non-Institutional**	**Total**
Jammu & Kashmir	0	0	14	14	4	5	33	42
	0	0	100	100	9	13	79	100
	0.00	0.00	0.19	0.05	0.03	0.04	0.30	0.12
Himachal Pradesh	26	5	44	75	101	10	21	132
	35	6	59	100	77	7	16	100
	0.34	0.04	0.61	0.28	0.76	0.08	0.19	0.36
Punjab	161	326	381	868	531	245	738	1515
	19	38	44	100	35	16	49	100
	2.08	2.75	5.31	3.24	3.99	2.04	6.69	4.16
Uttaranchal	10	23	13	47	14	82	120	216
	23	50	27	100	7	38	56	100
	0.14	0.20	0.18	0.17	0.11	0.68	1.08	0.59
Haryana	217	330	286	833	153	512	573	1238
	26	40	34	100	12	41	46	100
	2.81	2.79	3.99	3.12	1.15	4.26	5.19	3.40
Rajasthan	62	581	415	1058	252	1102	475	1828
	6	55	39	100	14	60	26	100
	0.81	4.91	5.78	3.96	1.89	9.16	4.30	5.03
Uttar Pradesh	650	978	626	2254	736	973	1023	2733
	29	43	28	100	27	36	37	100
	8.41	8.27	8.73	8.43	5.53	8.09	9.27	7.51
Bihar	43	222	154	420	19	138	193	349
	10	53	37	100	5	39	55	100
	0.56	1.88	2.15	1.57	0.14	1.14	1.74	0.96
Assam	0	20	40	61	22	11	72	106
	0	33	66	100	21	11	68	100
	0.00	0.17	0.56	0.23	0.17	0.09	0.65	0.29

Table 1: Outstanding Debt by Source of Borrowing

	2004-05				2009-10			
	Formal	**Money Lender**	**Other Non-Institutional**	**Total**	**Formal**	**Money Lender**	**Other Non-Institutional**	**Total**
West Bengal	136	264	522	922	341	410	897	1648
	15	29	57	100	21	25	54	100
	1.76	2.23	7.27	3.45	2.56	3.41	8.13	4.53
Jharkhand	7	10	43	59	11	13	28	52
	11	17	72	100	21	25	53	100
	0.09	0.08	0.60	0.22	0.08	0.11	0.25	0.14
Orissa	106	113	84	303	170	56	220	446
	35	37	28	100	38	13	49	100
	1.37	0.96	1.17	1.13	1.28	0.47	2.00	1.23
Chattisgarh	132	141	165	438	45	49	58	153
	30	32	38	100	30	32	38	100
	1.71	1.19	2.30	1.64	0.34	0.41	0.53	0.42
Madhya Pradesh	148	298	348	793	175	188	470	833
	19	38	44	100	21	23	56	100
	1.91	2.52	4.84	2.97	1.31	1.56	4.26	2.29
Gujarat	125	177	545	847	275	129	556	960
	15	21	64	100	29	13	58	100
	1.61	1.50	7.58	3.17	2.07	1.08	5.04	2.64
Maharashtra	1241	331	816	2388	1346	208	803	2356
	52	14	34	100	57	9	34	100
	16.06	2.80	11.36	8.93	10.11	1.73	7.27	6.48
Andhra Pradesh	847	3703	958	5508	1660	4031	2506	8196
	15	67	17	100	20	49	31	100
	10.96	31.31	13.34	20.60	12.47	33.52	22.71	22.53
Karnataka	344	340	262	946	791	599	752	2141
	36	36	28	100	37	28	35	100
	4.45	2.87	3.65	3.54	5.94	4.98	6.81	5.89

Table 1: Outstanding Debt by Source of Borrowing								
	2004-05				2009-10			
	Formal	**Money Lender**	**Other Non-Institutional**	**Total**	**Formal**	**Money Lender**	**Other Non-Institutional**	**Total**
Kerala	2837	2100	1011	5948	5908	937	603	7449
	48	35	17	100	79	13	8	100
	36.71	17.75	14.09	22.25	44.39	7.79	5.47	20.48
Tamil Nadu	589	1804	411	2804	702	2314	814	3830
	21	64	15	100	18	60	21	100
	7.62	15.26	5.72	10.49	5.27	19.24	7.38	10.53
Other States	46	62	42	151	56	13	81	151
	31	41	28	100	37	9	54	100
	0.60	0.52	0.59	0.56	0.42	0.11	0.74	0.41
Total	7728	11827	7180	26735	13311	12026	11035	36372
	29	44	27	100	37	33	30	100
	100	100	100	100	100	100	100	100

Note: 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:

Table 2: Indebtedness of Rural Labour Households

	1983	1993-94	1999-00	2004-05	2009-10
Percentage of Indebted Households	50.4	35.1	25	47.3	33.9
Average Debt Per Household (Rs)	806	1113	1515	4852	5533
Average Debt Per Indebted Household (Rs)	1598	3169	6049	10259	16314

Source: For the year 1983, 1993-94, 1999-00 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.

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

	Indebted	Not Indebted	Total
Bottom 10 percent	2,469,179	7,200,898	9,670,077
	26	74	100
	11	17	15
10 - 20 percent	2,961,123	6,055,810	9,016,933
	33	67	100
	13	14	14
20 - 30 percent	2,553,513	5,339,233	7,892,746
	32	68	100
	11	12	12
30 - 40 percent	2,757,839	4,695,849	7,453,688
	37	63	100
	12	11	11
40 - 50 percent	2,626,275	4,500,285	7,126,560
	37	63	100
	12	10	11
50 - 60 percent	2,249,213	3,740,190	5,989,403
	38	62	100
	10	9	9
60 - 70 percent	2,103,626	3,723,186	5,826,812
	36	64	100
	9	9	9
70 - 80 percent	1,745,831	3,510,076	5,255,907
	33	67	100
	8	8	8
80 - 90 percent	1,688,547	2,998,683	4,687,230
	36	64	100
	8	7	7
Top 10 percent	1,140,373	1,682,563	2,822,936
	40	60	100
	5	4	4
Total	22,295,519	43,446,773	65,742,292
	34	66	100
	100	100	100

Note: 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 (Rs) by Social Groups and Source of Borrowing (2009-10)

	All Households			
	Formal	**Money Lender**	**Other Non-institutional**	**All Sources**
Scheduled Tribe	386	583	833	1802
Scheduled Caste	1046	1928	1753	4727
Other Backward Class	2616	2406	1690	6712
Others	3855	1207	2161	7223
All	2025	1829	1679	5533
	Indebted Households			
	Formal	**Money Lender**	**Other Non-institutional**	**All Sources**
Scheduled Tribe	1413	2131	3046	6589
Scheduled Caste	3025	5579	5072	13676
Other Backward Class	7762	7139	5012	19913
Others	10088	3158	5655	18901
All	5970	5394	4950	16314

Source: Author's Calculations

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

	Not Indebted	Indebted	Total
Jammu & Kashmir	107,477	110,319	217,796
	49.35	50.65	100
	0.25	0.49	0.33
Himachal Pradesh	314,980	57,068	372,048
	84.66	15.34	100
	0.72	0.26	0.57
Punjab	767,586	535,663	1,303,249
	58.9	41.1	100
	1.77	2.4	1.98
Chandigarh	12,111	9,366	21,477
	56.39	43.61	100
	0.03	0.04	0.03
Uttaranchal	198,723	127,445	326,168
	60.93	39.07	100
	0.46	0.57	0.5
Haryana	639,477	311,504	950,981
	67.24	32.76	100
	1.47	1.4	1.45
Delhi	30,217	29,765	59,982
	50.38	49.62	100
	0.07	0.13	0.09
Rajasthan	1,632,586	791,881	2,424,467
	67.34	32.66	100
	3.76	3.55	3.69
Uttar Pradesh	5,806,386	1,633,447	7,439,833
	78.04	21.96	100
	13.36	7.33	11.32
Bihar	4,794,606	1,179,170	5,973,776
	80.26	19.74	100
	11.04	5.29	9.09
Sikkim	18,805	11,171	29,976
	62.73	37.27	100
	0.04	0.05	0.05
Arunachal Pradesh	4,017	728	4,745
	84.66	15.34	100
	0.01	0	0.01
Nagaland	209	774	983
	21.26	78.74	100
	0	0	0
Manipur	8,741	3,917	12,658
	69.06	30.94	100
	0.02	0.02	0.02
Mizoram	4,496	2,209	6,705
	67.05	32.95	100
	0.01	0.01	0.01

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

	Not Indebted	Indebted	Total
Tripura	217,784	46,573	264,357
	82.38	17.62	100
	0.5	0.21	0.4
Meghalaya	105,271	9,050	114,321
	92.08	7.92	100
	0.24	0.04	0.17
Assam	512,826	602,579	1,115,405
	45.98	54.02	100
	1.18	2.7	1.7
West Bengal	3,712,424	3,167,047	6,879,471
	53.96	46.04	100
	8.54	14.2	10.46
Jharkhand	1,202,026	166,653	1,368,679
	87.82	12.18	100
	2.77	0.75	2.08
Orissa	1,885,602	777,267	2,662,869
	70.81	29.19	100
	4.34	3.49	4.05
Chattisgarh	1,890,615	334,865	2,225,480
	84.95	15.05	100
	4.35	1.5	3.39
Madhya Pradesh	3,476,558	886,385	4,362,943
	79.68	20.32	100
	8	3.98	6.64
Gujarat	1,614,013	1,091,326	2,705,339
	59.66	40.34	100
	3.71	4.89	4.12
Daman & Diu	8,986	3,201	12,187
	73.73	26.27	100
	0.02	0.01	0.02
Dadra & Nagar Haveli	16,503	699	17,202
	95.94	4.06	100
	0.04	0	0.03
Maharashtra	4,282,672	1,276,092	5,558,764
	77.04	22.96	100
	9.86	5.72	8.46
Andhra Pradesh	3,468,342	3,880,370	7,348,712
	47.2	52.8	100
	7.98	17.4	11.18
Karnataka	2,144,462	1,543,070	3,687,532
	58.15	41.85	100
	4.94	6.92	5.61
Goa	39,693	900	40,593
	97.78	2.22	100
	0.09	0	0.06

Table 5: Distribution of Rural Labour Households across States (2009-10)			
	Not Indebted	Indebted	Total
Lakshadweep	794	822	1,616
	49.13	50.87	100
	0	0	0
Kerala	1,080,826	1,367,783	2,448,609
	44.14	55.86	100
	2.49	6.13	3.72
Tamil Nadu	3,422,823	2,289,444	5,712,267
	59.92	40.08	100
	7.88	10.27	8.69
Pondicherry	16,669	37,653	54,322
	30.69	69.31	100
	0.04	0.17	0.08
Andaman & Nicobar Islands	7,467	9,313	16,780
	44.5	55.5	100
	0.02	0.04	0.03
Total	43,446,773	22,295,519	65,742,292
	66.09	33.91	100
	100	100	100

Note: 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 Crores)

	2004-05	2009-10
Government	846.81	573.42
Cooperative Society	2477.83	4950.12
Bank	4403.38	7787.52
Institutional Sources	7728.02	13311.06
Employer / Landlord	1431.75	2568.06
Agricultural / Professional Money Lender	11827.00	12025.99
Shopkeeper / Trader	1620.43	1460.59
Relatives / Friends	3416.26	5970.26
Others	711.47	1036.40
Non-Institutional Sources	19006.91	23061.3
Total	**26734.93**	**36372.38**

Table 7: Share of Various Sources in Outstanding Debt

	1993-94	1999-00	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 Money Lender	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, 1999-00 and 2004-05 (Government of India 2010)
For the year 2009-10 author's calculations from unit level data

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 Money Lender	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)			
	Cooperative Society	Bank	Money Lender
All India		**All India**	
Without Cultivable Land	1210	2126	5192
With Cultivable Land	3994	5894	5749
		Kerala	
Without Cultivable Land	14639	16458	7235
With Cultivable Land	21772	27036	6568
		Maharashtra	
Without Cultivable Land	5550	5347	1119
With Cultivable Land	5908	3752	2025
		Andhra Pradesh	
Without Cultivable Land	931	2102	9238
With Cultivable Land	646	5393	13562

Note: 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