Household Indebtedness across Major Social Groups

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The differences in the patterns of indebtedness across social groups in India are examined based on the All India Debt and Investment Survey. The relatively adverse terms of access to credit among lower-caste households leading to high debt vulnerability are underscored.

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Among the various interventions aimed at promoting egalitarian development, efforts at promoting financial inclusion rank high. A number of policy initiatives seek to incorporate socially and economically marginal households into the formal financial system. This is particularly visible in the promotion of microcredit aimed at women from poor households. While the outcomes of such measures have been debated, there is a body of literature that highlights how social institutions like caste and gender erect barriers to access in various markets, including credit markets. Further, there is evidence to suggest that the asset distribution across social groups has been unequal, with upper castes holding a disproportionately higher share of assets in relation to their population share (Bharti 2018). Socially determined endowments and entitlements continue to play a role in shaping wealth generation. In this context, an examination of households' access to formal credit, the terms of access, and their debt burden (that is, household liabilities in relation to assets) across social groups becomes important.

Using the published results of the last four All India Debt and Investment Survey (AIDIS) (1991, 2002, 2012, and 2018), this article examines some crucial aspects of indebtedness of households belonging to social groups such as Scheduled Tribes (STs), Scheduled Castes (SCs), Other Backward Classes (OBCs), and Others (OTH, corresponding to upper-caste groups).[1] Given the growing rural–urban divide in terms of income, the article also examines the differences across these social groups in both rural and urban India.

Rising Household Indebtedness

In the AIDIS, the percentage of indebted households (HHs) is measured by the incidence of indebtedness (IOI), expressed as a ratio of the "estimated number of HHs reporting cash loans" on a particular date to the "estimated total number of HHs." In the early 1960s, the rural HHs were more indebted with IOI being as high as 63% in 1961, but gradually declined till the early 1990s (Rajakumar et al 2019). Since then, the trend has reversed (Table 1). In 1991, as much as 23.4% of rural households had cash loans, which increased to 26.5% in 2002, further to 31.4% in 2012 and 35% in 2018. In contrast, the IOI of urban households declined to 17.8% in 2002 from 19.3% recorded in 1991, but it shot up to 22.4% in 2012 with no change afterwards. The gap in the IOI between rural and urban HHs has therefore widened significantly since the early 1990s; the IOI of rural HHs exceeded that of the urban by 4.1 percentage points in 1991 but further increased to 12.6 percentage points in 2018. Thus, rural HHs have become more indebted not only over the years but also compared to their urban counterparts. This is striking as during this period, the income disparity between those dependent on agriculture and those dependent on non-agricultural sources of income has widened. This suggests that indebtedness may not be due to a higher ability to borrow on account of better incomes, but due to distress.

This broad trend is also reflected in the IOI across all social groups, though the order of increase varied across the groups. The extent of indebtedness

Table 1: Incidence of Indebtedness of Households by Social Group, All India (%)

Reference Year	Rural					Urban				
	ST	SC	OBC	Others	All	ST	SC	OBC	Others	All
1991	17.4	25.9		23.6	23.4	13.5	24.2		18.8	19.3
2002	17.9	27.1	28.9	25.7	26.5	12.2	19.2	21.2	15.3	17.8
2012	16.9	30.9	35.7	31.4	31.4	16.4	23.5	26.0	18.9	22.4
2018	24.7	34.7	38.3	34.7	35.0	17.3	23.4	25.3	19.3	22.4

Source: Authors' estimates based on data extracted from "Household Assets and Liabilities Statistics" module of *EPWRF India Time Series* (www.epwrfits.in).

among OBC HHs is higher than any other social group in both rural and urban areas. The relatively higher indebtedness is true across all time points. The IOI of SC HHs too is higher compared to upper-caste households in both rural and urban India.

Average Amount of Debt per Household

The AIDIS provides information on the average outstanding amount of cash loans per household or average outstanding debt (AOD) for all social groups. To ensure comparability over time, we have deflated AOD using the gross domestic product (GDP) deflator (2011–12=100) (Table 2).

Unlike the IOI, the urban households on average borrowed a higher amount than rural households indicative of the capacity to borrow. While the rate of the rise in AOD has been steadier in rural areas, it is phenomenally more between 2002 and 2012[2] in urban areas but has slowed down in 2018. The HHs belonging to all social groups witnessed a rise in their respective AOD. However, the average loan of upper-caste HHs (OTH) remained higher throughout, followed by OBC, SC, and ST HHs in both rural and urban areas. Relating the average amount borrowed by households from specific social groups to the overall average, we observe that the OTH HHs borrowed more in relation to the average over time. The OTH HHs had AOD 1.2 times of all rural HHs in 1991, 1.4 times during 2002–12 and 1.5 times in 2018. In the case of OBC HHs, it was around 1.1 times of all rural HHs across all time points. The AOD of SCs in rural areas remained lower than all HHs, but has fluctuated over time.

As per the AIDIS data for the urban sector, the AOD increased for all social groups during the entire period analysed, but especially during 2002–12. Again, the ratio of average loans of OTH HHs to that of all HHs was higher than that for other social groups, and has increased but to a lesser extent compared to rural India. It was about 115% in 2002 and 126% in 2012 and 2018. The amount for OBC HHs was about 95%, but in the case of SC HHs, though remaining much lower, has fallen over time to about 58% in 2018.

Table 2: Average Outstanding Amount of Cash Loans per Household by Social Group, All India (000₹ and 2011–12 Prices)

Reference Year	Rural					Urban				
	ST	SC	OBC	Others	All	ST	SC	OBC	Others	All
1991	3.2	5.3		8.6	7.3	6.0	9.6		14.8	13.9
2002	6.3	9.1	16.2	20.4	14.8	18.1	15.2	21.9	26.6	23.1
2012	9.6	24.5	36.1	44.6	32.5	48.0	48.6	77.8	107.0	84.6
2018	17.5	27.3	49.2	66.7	44.2	59.4	51.3	85.0	112.4	89.1

Source: Authors' estimates based on data extracted from "Household Assets and Liabilities Statistics" module of *EPWRF India Time Series* (www.epwrfits.in).

Table 3: Incidence of Indebtedness by Major Credit Agency and by Social Group, All India (%)

Reference Year	Rural					Urban				
	ST	SC	OBC	Others	All	ST	SC	OBC	Others	All
All institutional agencies										
1991	12.0	17.1		15.8	15.6	9.1	12.6		11.8	11.8
2002	10.9	11.9	13.4	15.7	13.4	6.7	8.8	9.6	9.5	9.3
2012	8.9	14.9	18.8	20.2	17.2	9.7	13.5	16.1	14.4	14.8
Cooperative society/bank										
1991	3.9	5.5		7.6	6.7	4.8	5.1		4.9	4.9
2002	4.8	4.6	7.3	9.1	6.9	2.5	3.6	4.2	3.3	3.6
2012	3.1	5.2	7.6	9.1	6.9	2.8	3.6	5.3	3.9	4.4
Commercial bank, including RRB										
1991	6.4	9.1		7.3	7.5	1.2	4.4		3.6	3.7
2002	5.1	5.9	5.5	6.1	5.7	2.1	2.7	3.0	3.5	3.2
2012	3.7	4.9	7.5	7.8	6.6	3.9	5.3	7.0	8.2	7.1
All non-institutional agencies										
1991	6.6	11.2		9.9	9.8	4.9	14.6		8.8	9.4
2002	8.1	17.0	18.3	12.6	15.5	5.8	11.3	12.9	6.5	9.4
2012	9.7	20.4	22.4	16.2	19.0	8.4	12.9	13.7	6.2	10.3

RRB refers to regional rural banks.
Source: Authors' estimates based on data extracted from "Household Assets and Liabilities Statistics" module of *EPWRF India Time Series* (www.epwrfits.in).

The rising IOI and the higher average amount borrowed over time may possibly suggest that financial institutions are becoming more inclusive, but there is more to it. A structural feature of the credit market in India is the coexistence of formal and informal credit agencies, and so, an analysis of the dependency of various social groups on these agencies would indicate whether formal institutional credit agencies have truly become inclusive.

More households depend upon non-institutional credit agencies: Access to formal credit depends upon a host of factors, of which credibility, capital and capacity have an overriding influence. Credibility is mostly shaped by the background of a borrower, and this is often acquired through memberships in certain kinds of social networks that signal such credibility. Capital and capacity to repay directly depend upon the economic well-being of borrowers—those with better assets or income endowments would have an advantage in accessing formal credit market, and conversely, those lacking them would have to take recourse to informal credit market unless there is policy intervention to facilitate their access to formal credit market.

In the published volumes of AIDIS, the IOI by credit agency is available for 1991, 2002, and 2012 at the all-India level. The credit agencies are broadly classified into institutional and non-institutional agencies. Institutional agencies include government, commercial and cooperative banks, other financial corporations, microfinance institutions, self-help groups, and other institutions. Non-institutional agencies include professional moneylenders, friends and relatives, landlords, input suppliers, and so on. Institutional lenders would charge relatively lower interest rates; however, they may insist on collateral and securities, which erect access barriers for the vulnerable.

IoI of institutional agencies declining: We find that the percentage of HHs (IOI) relying on institutional sources of credit fell during 1991–2002 but rose in 2012 (Table 3). This is in contrast to the broad trend observed between 1971 and 1991, when the HHs' dependence on institutional agencies went up remarkably, largely because of the implementation of several public policies aimed to wean away the HHs from professional moneylenders (Rajakumar et al 2019). Since the early 1990s, SC HHs and then OBC HHs in rural areas have relied on non-institutional sources, whereas more OTH HHs have relied on institutional credit. The percentage of SC HHs who had taken institutional credit in 1991 was 17.1% and only 11.2% had non-institutional credit. This was reversed in 2012; only 14.9% of them had institutional credit and 20.4% had to opt for non-institutional credit, that is, the increased indebtedness of SC HHs is more owing to non-institutional agencies. Though the percentage of OBC HHs who took institutional credit increased between 2002 and 2012, still a higher percentage of them continued to rely on non-institutional credit in 2012. In contrast, the percentage of upper-caste households relying on both sources of credit shows an increase, but a large number of them depend more on institutional agencies.

In urban areas too, the percentage of HHs having access to institutional agencies varied across social groups. More OBC and SC HHs increasingly depend upon non-institutional agencies, compared to the marginal decline in the case of OTH HHs. In 2012, only 6.2% of OTH HHs took recourse to non-institutional credit agencies compared to 13.7% of OBC HHs and 12.9% of SC HHs in the urban sector. This indicates the persistence of barriers to formal credit markets for lower-caste households.

Cash loans from non-institutional credit agencies on the rise: The analysis of the distribution of cash loans by agencies reveals that HHs in rural and urban areas predominantly rely on institutional agencies, but the dependence of rural HHs on non-institutional agencies is on the rise. There are, however, striking differences across social groups (Table 4).

In rural areas, institutional agencies generally meet nearly two-thirds of the credit needs of OTH HHs, but only half of the loans of SC and OBC HHs. The reduction in the share of institutional agencies in the total cash loans of all HHs between 2002 and 2012 has been accompanied by a reduction in the institutional loan share of OTH HHs from 67.7% in 2002 to 64.9% in 2012. The share of institutional loans of SC and OBC HHs has increased to an extent during the same period. On the contrary, the institutional agencies' share in urban HHs' cash loans had gradually gone up between 1992 and 2012 for all social categories, except in the case of SC HHs when it dropped by a small margin in 2012 compared to 2002. In terms of magnitude, about 71.2% of cash loans of urban OTH HHs were from institutional agencies in 1992, which increased to 92.3% in 2012. The formal credit system therefore appears to cater to almost the entire credit needs of urban upper-caste households. During 2002–12, a greater share of urban OBC households too managed to access institutional agencies (from about two-thirds to three-fourths in 2012), while that of SC households stagnated.

Among institutional agencies, cooperative banks and commercial banks account for a bulk of HHs' cash loans. While cooperative banks meet over one-fourth of the credit needs of rural HHs, it is lesser in the urban areas. Commercial banks generally meet the credit needs of HHs more than cooperative banks in both rural and urban areas. The SC HHs in rural areas reduced their reliance on commercial banks over the years while simultaneously depending more on cooperative banks; whereas in urban areas, their reliance on commercial banks has gone up. Though all social categories have increasingly taken recourse to commercial banks for cash loans over the survey years, these banks meet more of the demand from upper-caste households. For instance, in 2012, commercial banks in the urban areas provided over 90% of the total credit loans of OTH HHs but about three-fourths of SC and OBC HHs. This again suggests that OTH HHs are better placed to access formal credit systems, especially commercial banks.

Table 4: Percentage Distribution of Cash Loans by Type of Credit Agency and by Social Group, All India

(%)

Reference Year	Rural					Urban				
	ST	SC	OBC	Others	All	ST	SC	OBC	Others	All
All institutional agencies										
1991	64.9	61.1		64.6	64.0	60.9	59.2		71.2	70.0
2002	68.5	44.8	51.0	67.7	57.1	78.8	71.2	64.6	82.0	75.1
2012	58.5	47.8	52.4	64.9	56.0	83.2	70.8	76.6	92.3	84.5
Cooperative society/bank										
1991	17.0	15.0		23.3	21.6	34.7	21.7		16.5	17.2
2002	29.4	18.3	23.7	34.9	27.3	11.0	21.3	19.2	21.5	20.5
2012	15.4	25.7	23.5	27.4	24.8	12.8	14.6	19.8	17.4	18.0
Commercial bank, including RRB										
1991	37.8	34.6		33.3	33.7	6.4	19.0		22.1	21.6
2002	33.8	21.6	22.3	27.3	24.5	15.5	28.0	28.2	31.6	29.7
2012	3.7	4.9	7.5	7.8	6.6	3.9	5.3	7.0	8.2	7.1
All non-institutional agencies										
1991	33.7	36.6		31.8	32.7	32.7	37.5		25.7	26.8
2002	31.5	55.2	49.0	32.3	42.9	21.2	28.7	35.4	18.0	24.9
2012	41.5	52.2	47.6	35.1	44.0	16.8	29.2	23.4	7.7	15.5

RRB refers to regional rural banks.
Source: Authors' estimates based on data extracted from "Household Assets and Liabilities Statistics" module of *EPWRF India Time Series* (www.epwrfits.in).

Higher interest rates for SC and OBC households: The AIDIS provide data on the distribution of cash loans by interest rate intervals, and using this, we have worked out the weighted average rates of interest (WARI) for all social groups (Table 5, p 16).

Of all the survey years considered, the WARI peaked in 2002 at 16.9% in rural areas and 13.4% in urban areas. It remained higher in rural areas than in urban areas throughout. Among social groups, OTH HHs have the least WARI in both rural and urban areas. The OBC HHs in urban areas faced the highest WARI followed by SC and ST HHs. The cost of funds of OBC HHs is 2.4 percentage points more than OTH HHs in urban areas. The WARI of SC and OBC HHs remained higher than the average of all HHs in both rural and urban areas.

The agency-wise WARI could be gauged only for 2002 and 2012 from the published AIDIS results. The following observations are in order. First, the WARI of institutional and non-institutional agencies are higher for rural HHs than urban, except in 2012. Second, the WARI of non-institutional agencies remained higher than institutional agencies. In fact, the margin of differences had increased in 2012 compared to 2002—for instance, the WARI of non-institutional agencies exceeded that of institutional agencies by 6.2 percentage points for all HHs in rural areas and 3.8 percentage points for all HHs in urban areas in 2002 and by 8.0 and 5.3 percentage points, respectively, in 2012. Third, insofar as the WARI of institutional agencies is concerned, although it did not significantly differ across social groups and among them, the upper-caste HHs in rural India have paid the least interest. Finally, interest rates charged by non-institutional agencies on the cash loans of OTH HHs in rural areas were 3.4 percentage points more than what institutional agencies charged in 2002, and 6.4 percentage points more in 2012; whereas in urban areas, the rates were hardly 1.6 percentage points more. In contrast, other groups paid far more to non-institutional agencies compared to what they paid to institutional agencies. For instance, OBC HHs paid 6.9 percentage points more in 2002 and 8.8 percentage points more in 2012 in rural areas, and 4.7 and 6.3 percentage points, respectively, more in 2002 and 2012 in urban areas. Thus, the higher WARI for ST, SC, and OBC HHs is because of the huge interest rate differential between non-institutional agencies and institutional agencies and the higher dependence of lower-caste households on non-institutional agencies for credit.

Rising debt burden: In order to discern if HHs generally accumulate more debt in relation to their asset holdings, we examine the debt-to-asset ratio (DAR) of different social groups that they belong to (Table 6). The DAR also reflects the debt burden of HHs or their debt intensity. The urban HHs have more debt burden than their rural counterparts, and this is true of all social groups. The DAR is on the increasing trend in both rural and urban areas, though the rate of increase varied across social groups. Between 2002 and 2018, the urban OBC HHs recorded a higher rate of increase in the DAR by 2 percentage points from 3.4% to 5.4%, against a 1.6 percentage point rise from 2.8% to 4.4% recorded by all urban HHs. The ST HHs had the least DAR in rural areas, whereas OTH HHs had the lowest in urban areas. The SC HHs have a persistently higher DAR (debt burden) than other groups, except in 2018 when urban OBC HHs had a relatively higher DAR with their AOD stubbornly rising. Except for this, SC HHs have the highest DAR, followed by OBC HHs, and then OTH HHs. This phenomenon is obverse to the pattern of asset holdings—OTH HHs had the highest share of assets, followed by OBC HHs and SC HHs.

Table 5: Weighted Average Rate of Interest by Social Group, All India (%)

Reference Year	Agencies	Rural					Urban				
		ST	SC	OBC	Others	All	ST	SC	OBC	Others	All
1991	All agencies	13.0	12.6		13.2	13.1	9.2	12.0		10.9	11.0
2002	All agencies	16.1	18.5	17.9	15.4	16.9	12.7	13.7	14.9	12.5	13.4
	Institutional	14.4	13.3	14.5	14.3	14.3	11.3	11.9	13.3	12.2	12.5
	Non-institutional	19.7	22.7	21.4	17.7	20.5	18.0	18.1	18.0	13.8	16.3
2012	All agencies	14.9	16.7	16.1	13.4	15.3	12.1	13.6	14.1	11.7	12.8
	Institutional	11.2	13.0	11.9	11.2	11.8	10.0	11.7	12.6	11.7	12.0
	Non-institutional	20.0	20.1	20.7	17.6	19.8	22.1	18.3	18.9	12.9	17.3

Source: Authors' estimates based on data extracted from "Household Assets and Liabilities Statistics" module of *EPWRF India Time Series* (www.epwrfits.in).

Table 6: Debt–Asset Ratio by Social Group, All India (%)

Reference Year	Rural					Urban				
	ST	SC	OBC	Others	All	ST	SC	OBC	Others	All
1991	1.6	2.8		1.7	1.8	2.3	4.3		2.4	2.5
2002	2.3	3.7	3.1	2.4	2.8	3.8	4.2	3.4	2.4	2.8
2012	1.9	4.9	3.5	2.7	3.2	4.0	5.8	4.8	3.0	3.7
2018	2.7	4.2	4.0	3.5	3.8	4.2	5.3	5.4	3.7	4.4

Source: Extracted from "Household Assets and Liabilities Statistics" module of *EPWRF India Time Series* (www.epwrfits.in).

Summing Up

The analysis reveals the following tendencies with regard to the indebtedness of HHs in recent decades. (i) More and more HHs borrow as evinced by the rising IOI since the early 1990s, and especially so among OBC HHs, followed by SC HHs. This is an interesting development, as more HHs are able to access the credit market. (ii) The relative share of institutional agencies in HHs' cash loans has gone up in all social groups. However, over 90% of cash loans of OTH HHs in urban areas are on account of borrowing from institutional credit agencies. Such formal loans accounted for only about three-fourths of the total cash loans of OBC and SC HHs. (iii) The interest rates peaked in 2002. Though it has marginally come down by 2012, it is still higher than in 1991. As expected, the interest rate of non-institutional agencies is higher than institutional agencies. Overall, SC and OBC HHs are charged considerably higher interest rates compared to what OTH HHs are charged. (iv) The HHs' debt in relation to their assets (debt burden) has risen phenomenally. The debt burden of SC HHs remained generally higher, followed by OBC HHs.

Thus, the analysis reveals that upper-caste households have greater access to the formal credit market, that too at a lower rate of interest compared to other social groups. Although they have a higher average amount of debt, they also have higher asset holdings resulting in a lower debt burden compared to OBC and SC HHs. The pattern of indebtedness of OBC and SC HHs reveals the following: one, more of these HHs are increasingly getting indebted; two, their dependence on informal channels of credit continues to persist; three, they are charged higher rates of interest; and four, their asset acquisition is not commensurate with their debt accumulation resulting in rising debt burden. This begs a few questions. While the institutional credit agencies could meet more than 90% of the credit requirements of OTH HHs in urban areas, why are they able to meet only about three-fourths of the credit needs of SC and OBC HHs? Is it merely a reflection of the creditworthiness of upper-caste households? Or, do institutional agencies lack incentives to meet the credit needs of SC and OBC HHs? Or, are there other sources of exclusion of lower-caste households despite policy interventions? No matter what the questions are that arise from the findings reported here, an inevitable policy inference is a pressing need to make the credit delivery system in the country more equitable. It is not only the SC and ST HHs that face higher interest rates and a higher debt burden, but also those belonging to the OBCs.

NOTES

1 The "Others" group include residuals of other households not belonging to any of the other three categories. In AIDIS 1991, the "Others" included all households other than ST and SC categories thus, OBC as a separate category is available since AIDIS 2002 only. It is important to note that a household is categorised based on self-declaration and NSSO does not verify the social backgrounds of households.

2 Rajakumar et al (2019) found that, between 2002 and 2012, the compounded annual growth rate (CAGR) of debt of rural HHs stood at 16%, urban HHs at 27% and all HHs (rural and urban combined) at 21%, against CAGR of gross domestic product (2004–05 series at factor cost and at current prices) of 15%.

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