SPECIAL ARTICLE

Trends and Patterns of Household Indebtedness

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Based on the data from the All-India Debt and Investment Surveys, a re-emergence of non-institutional credit agencies in the incidence of household indebtedness is found since the 1990s, especially in the rural areas, reflecting the inadequate social commitments of the institutional agencies due to their contemporary organisational deficiencies. The data, however, do not seem to capture the extent of urban distress in totality. Yet, given the general dearth of evidence on the status of household indebtedness over time, institutions like the Reserve Bank of India and the National Bank for Agriculture and Rural Development should revisit this information to resurrect their roles in strengthening credit delivery to the general population.

Studies on indebtedness and wealth of households, both in rural and urban areas of the country, have principally used the results of All-India Debt and Investment Surveys (AIDIS).[1] The various correlates by which the AIDIS' results have been reported provide ample opportunity to the research community and policymakers to dissect incidence of indebtedness (IOI) in their varied dimensions (Rajakumar et al 2018). In this paper, the authors present the trends and patterns of indebtedness of the Indian rural and urban households, based on the analysis of these longitudinal data. Data for the overall rural sector are available from 1951 onwards, and since 1961 these are disaggregated into cultivator and non-cultivator households. For the urban sector, data disaggregated by self-employed and other households, are available from 1981. The authors have presented these results in a time series format for the available period.

This paper is broadly divided into three parts. The first part discusses the trends of household indebtedness; the second part provides a comparative analysis of the demand-side results with their corresponding supply-side statistics; and the third part makes a few concluding observations.

Trends in Household Indebtedness

Here the authors refer to the size of cash loans reported by households as on 30 June of the reference year.[2] They have reviewed both the IOI, that is, percentage of households reporting cash loans, and the average amount of debt per household. Further, they have analysed the IOI by the

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source of credit, and the purposes of borrowing and also the rate of interest charged by various credit agencies.

Incidence of indebtedness: In the AIDIS data sets, the series on IoI is consistently available only for rural households and amongst them, for the cultivator segment. At the aggregate level for rural households, the IOI is also reported by both institutional and non-institutional credit agencies. However, prior to 1991 such information is not disaggregated by the cultivator and non-cultivator households (Table 1, p 42).

The trends in IOI of the rural households bring out some interesting results and also raise various intriguing questions. Historically, the rural households were predominately indebted to the non-institutional agencies. An avowed objective of public policies has been to reduce such non-institutional indebtedness of the rural households. The AIDIS results show that these policies have been a notable success. The rural IOI on the whole has experienced a steep decline from about 63% in 1951 to a little over 31% in 2012, largely due to the rapid decline in the number of households indebted to non-institutional credit agencies. However, the movement of the IOI over these seven decades can be split into two distinct phases: a declining phase till 1981, when the IOI declined steadily from 63% in 1951 to 19% in 1981, and a rising phase thereafter when the IOI rose gently to reach 31% in 2012. This trend is observed to be similar for both cultivator and non-cultivator households. The declining IOI till 1981 can be attributed to the bank nationalisation in 1969 marking the concerted attempts by the government to provide institutional credit facilities to the vulnerable sections of the rural community. This potentially weaned them away from moneylenders and other non-institutional agencies, as already mentioned above. The AIDIS results show that even for the non-cultivator households, the decline in IOI was very steep from 75% in 1961 to almost 10% in 1991. But, there was a setback and subsequent reversal of this trend after the economic and financial sector reforms of 1991, with the incidence rising to 19% in 2012.

Comparable trends are observed for the IOI of rural households borrowing from institutional sources. It fell from 16% in 1961 to 12% in 1971 and further to 11% in 1981, but again rose to 16% in 1991 and further to 17% in 2012. The phase between 1991 and 2012 saw major holdups in banks' credit delivery to the vulnerable sections (EPWRF 2014). These results are in contrary to one of the major policy objectives of the bank nationalisation in 1969, which was to expand the credit flows in the rural sector (Table 1).

As far as the rural IOI for non-institutional borrowing is concerned, the rise from the trough of 10% in 1991 to 16% in 2002 and further to 19% in 2012 is probably explained by the inability of the organised banking sector to meet the rising credit needs of the rural community. The IOI due to institutional borrowings, however, fluctuated during the period, but at higher levels than in the preceding period. In the pre-reform period, the IOI from institutional borrowings had risen to 16% in 1991 from 11% in 1981. This happened because in the second half of the 1980s, subject to considerable socio-political pressures to arrest growing poverty and inequality, the banking sector was under the mandatory requirement of increasing the proportion of priority sector advances from 33% to 40% of the outstanding bank credit in 1980. But, immediately after the reforms, pressures were building up on the banking system to clean their books and hence, the institutional IOI slipped back to 13% in 2002. Subsequently, the socio-political focus shifted to the growing financial exclusion of the farm community and hence a policy of doubling of credit flow to agriculture was initiated in June 2005, which resulted in a jump in the institutional rural IOI from 13% in 2005 to 17% by 2012.

Table 1: Trends in Incidence of Indebtedness of Households, 1951 to 2012 (%)

	1951	1961	1971	1981	1991	2002	2012
Percent of indebted rural households	63	63	41	19	23	27	31
Percent of rural households indebted to							
Institutional credit agencies		16	12	11	16	13	17
Non-institutional credit agencies		75	40	11	10	16	19
Percent of indebted cultivator households	69	67	44	22	26	30	35
(Percent of cultivator households' debt in total rural household debt)		*(85)*	*(88)*	*(93)*	*(80)*	*(73)*	*(74)*
Percent of cultivator households indebted to							
Institutional credit agencies					18	17	21
Non-institutional credit agencies					10	16	20
Percent of indebted non-cultivator households		52	33	12	19	22	26
(Percent of non-cultivator households' debt in total rural household debt)		*(15)*	*(12)*	*(7)*	*(21)*	*(27)*	*(26)*
Percent of non-cultivator households indebted to							
Institutional credit agencies					10	8	11
Non-institutional credit agencies					9	15	18
Percent of indebted urban households				17	19	18	22
Percent of urban households indebted to							
Institutional credit agencies				9	12	9	15
Non-institutional credit agencies				11	9	9	10
Percent of indebted self-employed households				17	20	18	25
(Percent of self-employed households' debt in total urban household debt)				*(47)*	*(42)*	*(37)*	*(38)*
Percent of self-employed households indebted to							
Institutional credit agencies					10	8	16
Non-institutional credit agencies					11	11	12
Percent of "other" indebted households				17	19	18	21
(Percent of "other" households' debt in total urban household debt)				*(54)*	*(58)*	*(63)*	*(62)*
Percent of "other" households indebted to							
Institutional credit agencies					13	10	14
Non-institutional credit agencies					9	9	9

The incidence of indebtedness refers to the percentage of households reporting cash loan to total number of households under respective category.

Source: Based on data extracted from NSSO, All-India Debt and Investment Survey Household Assets and Liabilities, NSSO 70th Round (January–December 2013), Report No 570 (70/18.2/1) and its related previous issues.

For the urban households the AIDIS data on the IOI is available from 1981 to 1982 onwards. While IOI of all urban households shows a marginal rise from 17% in 1981 to 19% in 1991, it dipped to 18% in 2002 only to rise to 22% in 2012. Within the urban sector, the phenomenon of self-employed households becoming relatively more indebted than other households has emerged lately. Both the self-employed and the other urban households generally rely more on institutional agencies and, thus, the reliance of urban households, in general, on this source of credit is found to be high.

A comparison between the IOI of the rural and the urban households reveals certain noteworthy tendencies. The level of rise of the IOI of the rural households is estimated to be higher than their urban counterparts during the last two decades starting from 1991. Such a rise in the IOI of rural households can be attributed to the resumption of their increasing indebtedness to non-institutional agencies, in general, and especially of the cultivator households as compared to the other household categories. In contrast, the marginal rise in the IOI of the urban households, in general, is due to their increased indebtedness to the institutional agencies. It, thus, appears that institutional borrowing is increasingly substituted by non-institutional agencies insofar as the rural credit is concerned; the rate of increase in the proportion of rural population relying on non-institutional sources is alarming, reminiscent of the early post-independence era.

Aggregate debt: Attempts have been made to build estimates of aggregate debt of households since All-India Rural Debt and Investment Survey (AIRDIS) 1961–62, although these are available only for the rural households for the first two decades ending 1971. The authors have worked out the compound annual growth rate (CAGR) of outstanding debt for different household categories depending upon the available data and compared them with the CAGR of the aggregate national income and the agriculture income, all in nominal terms (Table 2).

Further, interesting results are discernible from Table 2. First, rural indebtedness dominated the scenario of household indebtedness in India until the end of the last century, with the share of rural debt ranging between 67% and 63% of the aggregate household debt between 1981 and 2002, as compared to 33% and 37% comprised by the urban debt during this period. But, by 2012, the share of rural debt dropped to 42% with a corresponding rise in the share of urban debt to 58%—a gap of as much as 16 percentage points. This trend is in line with the declining trend noticed in the ratio of rural households to total households, which suggests growing urbanisation in the country. Second, within the rural sector, the indebtedness of cultivator households has largely dominated, though in recent decades non-cultivator household indebtedness has escalated from 20% in 1991 to 26% in 2012. And, the share of cultivator households' debt in the total rural debt is higher than their share in the total number of rural households, implying that a smaller number of indebted households carry a disproportionately

Table 2: Aggregate Outstanding Debt of Households, 1961 to 2012 (Rs. Crore)

Household Categories	1961	1971	1981	1991	2002	2012
A Aggregate debt of rural households						
Overall debt of all rural households (1+2) (Rs crore)	1,956	3,848	6,193	22,211	1,11,468	5,07,796
Percent of rural households' debt in total debt			*67*	*60*	*63*	*42*
Percent of indebted rural households in total number of indebted households (rural and urban combined)			*76*	*74*	*73*	*65*
1 Overall debt of cultivator households (Rs crore)	1,670	3,374	5,737	17,668	81,709	3,73,893
Percent of cultivator households' debt in total rural household debt	*85*	*88*	*93*	*80*	*73*	*74*
Percent of indebted cultivator households in total number of indebted rural households		*72*	*76*	*66*	*60*	*62*
2 Overall debt of non-cultivator households (Rs crore)	286	474	456	4,543	29,759	1,33,903
B Aggregate debt of urban household						
Overall debt of all urban households (3+4) (Rs crore)			3,023	15,111	65,318	7,08,524
Percent of urban households' debt in total debt			*33*	*41*	*37*	*58*
3 Overall debt of self-employed households (Rs crore)			1,406	6,306	24,341	2,69,115
Percent of self-employed households' debt in total urban household debt			*47*	*42*	*37*	*38*
Percent of indebted self-employed households in total number of indebted urban households			*33*	*34*	*36*	*31*
4. Others (Rs crore)			1,617	8,805	40,977	4,39,409
C Total outstanding debt of rural and urban households (A+B) (Rs crore)			9,216	37,343	1,76,795	12,16,320
CAGR (in %) of aggregate debt of:						
All rural households		7	5	14	16	16
1. Cultivators		7	6	12	15	16
2. Non-cultivators		5	-0.4	26	19	16
All urban households				18	14	27
3. Self-employed				16	13	27
4. Others				19	15	27
Total outstanding debt of rural and urban households				15	15	21
CAGR (in %) of income (2004–05 series, at current price):						
Gross domestic product (GDP) at factor cost	5	10	13	14	13	15
Agriculture and allied activities GDP	3	10	10	12	11	13

CAGR is the compound annual growth rate and based on nominal values; hhs is households.
Source: For Household Debt, same as Table 1.
GDP data were extracted from EPWRF India Times Series (www.epwrfits.in).

larger burden of debt, though, this gap has narrowed down over time. Third, in the expansion of urban debt in the decade ending 2012, it is the share of urban households other than those characterised as self-employed that has made the largest contribution (62%), while the contribution of the debt of self-employed has remained broadly unchanged at 37% to 38%. This is largely explained by the housing loans. The percentage share of self-employed in total number of urban households remained disproportionately low (ranging from 31% to 36%) compared to their share in total debt (37% to 47%) throughout. In 2012, there was a steep jump in the number of self-employed households. The broad implication of this is that in 2012, the proportion of self-employed in urban areas has shot up potentially due to the absence of direct employment opportunities.

GDP versus debt growth: What stands out in the results of this analysis is that the growth in household debt has distinctly outpaced the growth in relevant economic indicators such as the gross domestic product (GDP) and agriculture production. In particular, the CAGR of the total household debt has been at 21% between 2002 and 2012, when the national economy reported an annual growth of almost 15%; or CAGR of rural debt has been 16% when the agriculture sector registered a growth rate of nearly 13%.

While the growth of rural household debt (at 16.4%), particularly that of cultivator households (at 16.2%), has been quite significant, the debt accumulation by urban households has been unprecedented (at 26.9%), which has in fact been responsible for the observed higher growth of overall household debt at the all-India level (at 21.3%). Thus, the higher order of growth in key economic indicators has been accompanied by an unprecedented growth in household debt, which signifies greater commercialisation of the economic system.

Debt per household: The average amount of debt (AOD) per household has been presented in all AIDIS reports throughout for the rural sector and from 1981 onwards for the urban sector (Table 3). As expected, the AOD of cultivator households has remained higher than that of non-cultivator households throughout the period. However, the ratio of AODs for cultivator to non-cultivator households, which rose between 1951 and 1981, has consistently slipped thereafter, touching the lowest level of 1.72 in 2012 as against 3.92 in 1981. This implies that in the past three decades, the increases in the AOD of non-cultivator households have overtaken those of cultivator households, as shown below.

Table 3: Debt per Household from 1951 to 2012

(Rs)

Household Categories	1951	1961	1971	1981	1991	2002	2012
Average amount of debt (AOD) per household (Rs) for:							
All rural households	283	406	500	661	1,906	7,539	32,522
1.Cultivators	364	473	605	803	2,294	9,261	38,655
2.Non-cultivators	129	224	223	205	1,151	4,991	22,538
All urban households				1,030	3,618	11,771	84,625
1.Self-employed				1,473	4,434	12,134	1,02,508
2.Others				816	3,198	11,577	76,456
Actual Ratios of AOD of							
Cultivators to non-cultivators	2.82	2.11	2.71	3.92	1.99	1.86	1.72
Self-employed to others				1.81	1.39	1.05	1.34
All rural to all urban households				0.64	0.53	0.64	0.38
CAGR (in %) of AOD of							
All rural households		3.7	2.1	2.8	11.2	13.3	15.7
1.Cultivators		4.1	2.5	2.9	11.1	13.5	15.4
2.Non-cultivators		5.7	0.0	-0.8	18.8	14.3	16.3
All urban households					13.4	11.3	21.8
1.Self-employed					11.7	9.6	23.8
2.Others					14.6	12.4	20.8

AoD refers to average amount of debt per household.
Source: Same as Table 1.

In the urban sector, the AOD of self-employed households has remained higher than that of other households. The real ratio of AOD of self-employed households to that of others fell from 1.81 in 1981 to 1.05 in 2002 but rose to 1.34 in 2012. This observed trend is in line with our earlier observation that debt of self-employed households has increased steeply in 2012.

The actual ratio of AOD of rural to urban households showed a fall from 0.64 in 1981 to 0.53 in 1991; and further to 0.38 in 2012. This implies that not only the share of urban households in total debt evidenced a sharp rise in 2012, but the AOD per urban household had also increased between 1991 and 2012 compared to their rural counterparts.

The estimates of the CAGR of AOD for all categories of households confirm the aforesaid results. First, the debt of all categories of households has grown sharply since 1991, which outperform the rate at which the overall economy has grown, particularly between 2002 and 2012. Second, in the rural segment, non-cultivator households have tended to accumulate more debt compared to the cultivator counterparts since the early 1990s. Third, in the urban areas, the self-employed households have tended to accumulate more debt than other households in 2002–12.

Household Debt by Type of Credit Agencies

One of the major findings of the All India Rural Credit Survey (AIRCS), 1951–52 was that the rural credit market was dominated by various non-institutional agencies such as moneylenders, traders, input suppliers and so on. These findings had generated considerable social as well as public policy pressures to wean the rural households away from the non-institutional agencies, especially the moneylenders. The various financial system/sector policy initiatives undertaken since should have ideally increased the role of institutional agencies in providing financial support to the households. In this respect, commercial banks have played a major role, but subsequently after the economic and financial sector reforms of the 1990s, these banks have faced internal challenges in dovetailing the demands of house-keeping with those of social banking; hence they faltered on credit delivery to the rural sector and other weaker sections. The rural households appear to have been pushed to the private credit market for their borrowing needs. Thus, the proportions of rural households borrowing from non-institutional agencies have shot up from 10% in 1991 to 16% in 2002 and further to 19% in 2012 (Table 1).

Data on the distribution of outstanding debt holdings by credit agencies, since 1951 till the 1990s, reveal the emergence of the institutional credit agencies as dominant holders of household debt, by replacing the traditional non-institutional sources (Table 4, p 45).

The bulk of the household debt (roughly about three-fourth in 2012) from institutional sources has come from cooperative societies and commercial banks. The relative share of cooperative societies in the total rural household debt rose significantly from 3% in 1951 to 28% in 1981, but slipped somewhat thereafter and fluctuated in all the subsequent survey periods. The

Table 4: Distribution of Household Cash Loans by Credit Agencies/Sources, 1951 to 2012 (%)

Types of Credit Agencies/Sources	1951	1961	1971	1981	1991	2002	2012	1981	1991	2002	2012
	Rural							Urban			
	All Households							All Households			
Institutional agencies	7	17	29	61	64	57	56	60	70	75	84
Government	4	7	7	4	6	2	1	15	11	8	2
Cooperative society/bank	3	10	20	28	21	27	24	18	17	21	18
Commercial bank, including regional rural bank		0.3	2	28	34	24	25	23	22	30	57
Insurance			0.1	0.3	0.3	0.3	0.2	2	1	4	2
Provident fund			0.1	0.3	1	0.3	0.1	3	3	2	0.3
Financial corporation/institution						1.1	1			7	2
Financial company						1	1			2	2
Self-help group-bank linked							2				1
Self-help group-NBFC							0.3				0.2
Other Institutions			0		2	1	1		16	3	1
Non-institutional agencies	93	83	71	39	36	43	44	40	30	25	16
Landlord	4	1	8	4	4	1	1	1	0.6	0.2	0.1
Agricultural moneylender	25	47	23	9	7	10	5	3	1	1	0.1
Professional moneylender	46	14	14	8	11	20	28	9	9	13	11
Traders/input supplier	5	7	9	3	2	3	0.1	5	2	1	0
Relatives and friends	12	6	14	9	6	7	8	15	10	8	4
Doctors, lawyers, etc					0.2	0.3	1		0.3	0.1	0.1
Others sources		8		5	3	2	1	6	4	2	1
Sources not specified	1		3	1	3			1	3		
	Cultivator Households							Self-employed Households			
Institutional agencies		18	32	64	66	61	59	58	67	67	79
Government		7	7	4	6	2	1	9	3	2	1
Cooperative society/bank		11	22	30	24	30	25	16	15	22	18
Commercial bank, including regional rural bank		0.3	3	29	35	26	28	31	25	33	54
Insurance			0.1	0.4	0.2	0.3	0.2	2	1	2	0.4
Provident fund			0.1	0.3	0.5	0.2	0.1	0.1	0.3	0.2	0
Financial corporation/institution						1	0.5			4	1
Financial company						1	1			2	3
Self-help group-bank linked							2				0.4
Self-help group-NBFC							0.2				0.3
Other Institutions					1	1	1		23	2	0.5
Non-Institutional Agencies		82	68	36	34	39	41	42	33	33	21
Landlord		1	8	4	4	1	1	1	1	0.4	0.1
Agricultural moneylender		48	23	8	7	10	5	6	1	2	0.3
Professional moneylender		14	13	8	11	17	26	9	10	17	15
Traders/input supplier		7	8	3	2	3	0.1	6	4	2	0.1
Relatives and friends		5	13	8	5	6	8	14	10	9	5
Doctors, lawyers, etc					0.2	0.4	0.4		0.3	0.3	0.1
Others sources		7	3	4	2	2	1	5	4	2	0.4
Sources not specified				1	3			1	3		
	Non-cultivator Households							Other Households			
Institutional Agencies		10	11	37	55	46	49	62	71	79	88
Government		5	3	5	8	4	1	20	17	11	2
Cooperative society/bank		5	6	14	14	20	24	19	19	19	18
Commercial bank, including regional rural bank		0.2	1	17	28	20	17	15	19	28	59
Insurance			0.2	-	1	0.2	0.1	2	1	4	2
Provident fund			0.4	1	2	0.5	0.2	6	5	3	0.4
Financial corporation/institution						1	1			9	3

Financial company					0.2	1			2	1
Self-help group-bank linked						3				1
Self-help group-NBFC						0.3				0.1
Other Institutions		0.0		3	1	1		10	3	1
Non-Institutional Agencies/Sources	90	89	63	45	53	51	38	29	21	12
Landlord	2	12	9	5	1	1	1	1	0.0	0.1
Agricultural moneylender	41	24	11	8	10	4	1	1	0.2	0.1
Professional moneylender	15	19	13	10	27	34	9	9	11	8
Traders/input supplier	10	11	6	4	2	0.2	4	1	1	0
Relatives and friends	9	19	14	9	10	9	16	10	7	3
Doctors, lawyers, etc				0.1	0.2	1		0.2	0.1	0.1
Others sources	13	4	9	5	3	2	7	4	2	0.5
Sources not specified			1	4			0.4	3		

Source: Same as Table 1

role of commercial banks appears commendable with their share in total rural credit rising from a meagre 0.3% in 1961, that is, before bank nationalisation, to 2% in 1971, and with the subsequent formulation of policies for priority sectors further rose to 34% in 1991, and also remained the single most important source of credit until. In the following decades, the relative importance of commercial banks has gone down with their share falling to 25% in 2012. Thus, the observed reduction in the overall share of institutional credit agencies in total rural debt from 64% in 1991 to 56% in 2012 can be largely attributed to the dwindling role of the commercial banks proportionately.

Amongst the non-institutional credit agencies serving the rural households, professional moneylenders used to be a major source prior to the independence and until the 1950s (RBI 1955), while their share in the total rural lending fell from 46% in 1951 to 8% in 1981, but again gradually rose to 28% in 2012. On the other hand, the share of the agricultural moneylenders fell over the years from a whopping 47% in 1961 to 5% in 2002. It is disconcerting to record that “professional moneylenders” have re-emerged as the single most important source of rural finance by 2012, even outperforming the relative share of the commercial banks in rural debt.

In the case of the urban sector, however, a different pattern is discernible. The relative share of institutional agencies in total urban debt has gone up from 60% in 1981 to 84% in 2012, largely because of the increasing share of the commercial banks. While the reduction in the share of non-institutional credit agencies is across the board, the relative importance of professional moneylenders continues to remain high even for the urban household debt.

Re-emergence of professional moneylenders: Though the co-operative banks/societies and the commercial banks have emerged as important sources of institutional credit for both the rural and urban households, yet in the recent decades they have faced competition from the professional moneylenders, who have re-emerged as relatively more important than the commercial banks for rural households by 2012. Notwithstanding the relatively important role of the institutional credit agencies among the cultivator households vis-à-vis the non-cultivator households, the professional moneylenders have assumed increased importance in the overall rural household lending, resulting in an increased importance of the non-institutional credit agencies in general. This is especially true for the non-cultivator households who have reported of obtaining around 34% of their total loans from professional moneylenders. In the urban sector, the self-employed have relatively less reliance on institutional debt compared to the other urban households. While commercial banks account for the bulk of urban household debt from the institutional sources, amongst the non-institutional categories the professional moneylenders dominate.

Distribution of Loans by Purpose

An analysis of the purposes of household lending shows that, by and large, consumption expenditure dominated households' borrowing needs (Table 5). There is no consistent trend in the lending purposes of rural households. In some benchmark survey years, an overwhelming proportion of the outstanding debt of the rural households has been for productive purposes such as for meeting farm and non-farm business expenditures, while in some other survey years, the same proportion has been for meeting their consumption needs, as brought out in Table 5. Within productive purposes, the share of expenditure on farm business has dominated but the proportion has fluctuated wildly. Under farm business, capital expenditure accounts for the bulk in all the survey years. At the same time, there has been a steady rising trend in the relative share of debt incurred for non-farm purposes as well, which is mostly comprised of capital expenditure. Capital expenditure has, thus, been the major underlying motivation for rural households to incur debt for both farm and non-farm businesses. The break-up of 'Expenditure in Household' shows that repayment of debt as a purpose is rising in the recent survey years. As per the latest survey of 2012, 'other household expenditure' and housing are the dominant purposes followed by medical and education expenditures.

In the case of urban households, a gradual reduction in the share of loans raised for meeting capital expenditure is noticed. The latest data from 2012 shows that housing expenditure has emerged as the dominant purpose for urban household borrowing, followed by education and medical expenditures. As far as the credit for business expenditure is concerned, rural households, as expected, incur debt largely for meeting the capital expenditure in farm business, whereas for the urban households debt for incurring expenditure on non-farm business predominate.

Table 5: Distribution of Household Cash Loans by Purposes, 1951 to 2012 (%)

Purpose of Debt	1951	1961	1971	1981	1991	2002	2012	1981	1991	2002	2012
	Rural							Urban			
1 Expenditure in farm business	37	33	45	60	25	41	28	10	3	5	2
Capital expenditure	28	24	31	42	12	27	13	6	3	3	1
Current expenditure[#]	9	9	14	18	13	14	15	4	0.1	2	1
2 Expenditure in non-farm business	7	6	5	9	13	12	11	32	21	20	16
Capital expenditure	7	2	4	7	6	9	9	23	11	17	8
Current expenditure[#]	-	4	2	2	7	3	2	8	10	3	8
3 Expenditure in household	56	61	50	31	63	47	60	58	76	75	82
Household expenditure	50	51	41	22		35		35		57	
Expenditure on litigation		2	1	0.2		0.3	0.0	0.2		0.1	0.0
Repayment of debt		5	2	1		1	3	1		2	1
Financial investment expenditure		0.2	1	1		1	0.1	2		2	0.4
Education expenditure							3				4
Medical treatment expenditure							6				2
Housing[$]					7		20		38		59
Other household expenditure							23				12
Other purposes*	6	3	6	7	56	10	5	20	38	14	4
4 All (1+2+3)	100	100	100	100	100	100	100	100	100	100	100

[#] includes others reported under the respective categories in 1991; [$] refers to capital expenditure for residential buildings in 1991;
* includes several categories of purposes reported separately in different survey years such as other expenditure (in 1951 survey), more than one purpose (1951, 1961), any other purpose (1961), purpose not specified (1961), other purposes (1971, 1981), unspecified (1971, 1981, 1991), current expenditure (1991), others (1991, 2002 and 2012) and not reported (2002).
Source: Same as Table 1.

The urban households have a sizeable and growing share of "expenditure in households," gradually rising from 58% in 1981 to 82% in 2012, which includes pure consumption expenditures and expenditure for housing as well as health and education. However, rural households incur relatively more debt for medical treatment in comparison with education, in contrast to the urban households who incur more for education and somewhat less for medical treatment.

Distribution of Debt by Rate of Interest

There is no uniformity followed across different surveys regarding the distribution of outstanding household debt by various intervals of interest rate. This has impaired the construction of time series in this respect. The authors have, therefore, constructed weighted average rate of interest (WARI) for all the years (Table 6). A comparison of the WARI over the years shows that average interest rate has persistently risen for both rural and urban households since 1991 compared to previous periods. In fact, there has been a meagre reduction in the overall interest rate during the latest decade.

Table 6: Weighted Average Rate of Interest - 1961 to 2012

(%)

Benchmark Survey Years	Average Interest Rate for Rural	Urban
1961	9.6	
1971	13.6	
1981	9.3	11.8
1991	14.6	12.1
2002	16.9	13.4
2012	15.3	12.8

Source: Same as Table 1.

Interest rate and credit agencies: However, the above proposition does not appear to be valid, if they work out WARI separately for institutional and non-institutional agencies, as in Table 7 (p 47). The institutional agencies have shown a sizeable reduction in the rural WARI between 2002 (14.3%) and 2012 (11.8%). Such a reduction has occurred rather sharply only in the interest range of 15% to 20%. The subsequent interest rate intervals have shown moderate increases or meagre declines.

Table 7: Share of Outstanding Cash Loans by Rate of Interest and Major Credit Agencies, 2002 and 2012

(%)

Rate of Interest	Institutional		Non-institutional		All Credit Agencies	
	2002	2012	2002	2012	2002	2012
	Rural					
Nil	1	1	18	18	8	8
<6	2	7	2	2	2	5
6 to 10	4	26	1	0.4	3	15
10 to 12	9	13	1	1	5	7
12 to 15	48	43	1	4	28	26
15 to 20	34	7	3	6	21	7
20 to 25	1	2	33	34	15	16
25 to 30	0.0	0.1	0.3	1	0.1	0.3
30 and above	0.3	1.0	40	34	17	16
Not reported	1		0.2		0.4	
All	100	100	100	100	100	100
WARI	14.3	11.8	20.5	19.8	16.9	15.3
	Urban					
Nil	3	0.4	33	27	10	5
<6	4	2	1	1	3	1
6 to 10	12	15	1	1	9	12
10 to 12	24	42	1	1	19	35
12 to 15	32	34	4	8	25	30
15 to 20	22	6	9	4	19	6
20 to 25	1	1	18	27	5	5
25 to 30	0.1	0.2	1	0.3	0.4	0
30 and above	1	0.4	32	30	8	5
Not reported	1		0.3		1	
All	100	100	100	100	100	100
WARI	12.5	12.0	16.3	17.3	13.4	12.8

WARI refers to weighted average rate of interest.
Source: Same as Table 1.

The two-way classification of debt, that is, by interest rate and by credit agencies throws up some illuminating results, though only for one year, that is, as on 30 June 2012 (Table 8, p 47). First, for the rural households, only 47% of the total debt fell within the interest rate interval of 12%,[3] while, another 43% of the loans was concentrated in the next interest rate range of 12% to 15%. Second, amongst the institutional sources of credit, the non-banking financial institutions were charging relatively higher rates of interest (with their WARI ranging from 12.9% to 17.6%) than the banking institutions (with an estimated WARI of around 11.3%). Third, in contrary to the general perception that the self-help group (SHG) bank-linked institutions charged much higher WARI than the banking institutions, both in rural and urban areas. Lastly, in tandem with the historical tendency, non-institutional loans exhibited concentration in the high interest rate brackets in contrast to the institutional loans concentration in the lower interest rate brackets.

Table 8: Share of Outstanding Cash Loans by Credit Agency Types and by Rate of Interest as on 30 June 2012

(%)

Credit Agency	Rate of interest (%)								
	<6	6 to 10	10 to 12	12 to 15	15 to 20	20 to 25	25 to 30	>30	WARI
	Rural								
Institutional agencies	8	26	13	43	7	2	0.1	1	11.8
Government and bank	8	31	12	41	7	1	0.1	0.2	11.3
Insurance, provident fund	6	25	35	25	7	0.0	0.0	2	11.3
Financial institutions*	1	10	19	29	30	5	0.3	5	15.0
SHG-bank linked and NBFC	11	10	15	51	5	6	0.2	2	12.9
Other institutional agencies	6	5	9	31	15	15	1	18	17.6
Non-institutional agencies	21	0.4	0.7	4	6	34	0.6	34	20.9
Landlord, agricultural and professional moneylender	18	0.3	0.6	4	6	36	0.6	35	21.5
Input supplier	48	0.6	0.6	4	4	18	0.1	25	15.7
Relatives and friends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Doctors, lawyers etc.	69	0.0	0.1	2	1	6	0.2	22	12.6
Others	40	1	2	13	1	17	1	25	16.3
	Urban								
Institutional agencies	2	14	42	34	6	1	0.2	0.4	12.0
Government and bank	1	15	44	34	6	0.3	0.0	0.0	11.7
Insurance, provident fund	1	25	54	18	1	0.1	0.0	0.0	10.7
Financial institutions*	1	13	29	32	13	8	1	3	13.9
SHG-bank linked and NBFC	5	13	24	46	6	4	1	1	12.6
Other Institutional agencies	4	10	24	27	13	14	1	7	15.0
Non-institutional agencies	28	1	1	8	4	27	0.3	30	19.0
Landlord, agricultural and professional moneylender	23	1	1	8	5	30	0.3	32	20.0
Input supplier	0.0	1	5	24	26	25	1	19	19.9
Relatives and friends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Doctors, lawyers etc.	67	1	4	5	1	5	0.0	17	11.6
Others	63	2	3	6	2	8	0.4	15	11.9

Note: *Financial Corporation and Companies; SHG refers to Self-help group; NBFC refers to Non-Banking Financial Companies; WARI refers to weighted average rate of interest.
Source: Same as Table 1

The Supply Side of Institutional Lending

In its annual publication on the Basic Statistical Returns (BSR) of Scheduled Commercial Banks, the Reserve Bank of India (RBI) provides information on outstanding bank credit by type of organisations even within the household sector. Initially the household sector consisted of the organisations such as partnership and proprietary concerns, joint families, associations, clubs, societies, trust and groups, besides individuals. Later on, the SHGs/joint liability groups and non-governmental organisations were included in the household sector.

However, the definition of a household followed in the AIDIS draws from the concept of common kitchen, that is, a household constitutes "a group of persons normally living together and taking food from a common kitchen" and so this cannot be related to any form of business organisation. Hence, as noted by Subba Rao (2007: 76), quasi-corporations of business households such as proprietary and partnership concerns engaged in different activities do not get covered by the AIDIS. The authors have, therefore, considered outstanding credit from the commercial banks to individual households as representing the supply-side of credit for comparison with the demand-side as represented by the AIDIS statistics.

The extant literature on the supply-side of institutional credit is dominated by studies using BSR data (Rajakumar et al 2018). When these estimates are compared to the demand-side estimates from the AIDIS, underestimation is observed largely due to the difference of coverage in these two sets of data. Gothoskar (1988) used outstanding credit of the entire rural sector, inclusive of non-households entities, and so the degree of underestimation estimated by him is likely to be larger. Rao and Tripathi (2001) in their estimation of the commercial banks' credit to household sector included credit to individuals for different occupational activities, personal loans, professional services and all small borrowal accounts, but excluded credit to partnerships, proprietary concerns, associations, clubs, societies and groups, which are not covered by the AIDIS either. Chavan (2012) used credit outstanding from the rural branches of commercial banks and the regional rural banks (in the case of individuals, joint families, SHG, and proprietorship and partnership firms). Here again, a few categories of households are considered that are not covered by the AIDIS, resulting in underestimation of household debt. For this exercise, the authors have considered individuals, including small borrowal accounts,[4] making their estimates largely consistent with that of Rao and Tripathi (2001). In their supply-side estimates of household credit, the authors have also covered outstanding loans and advance of cooperative societies, in addition to the commercial banks (Table 9).

Further, the results show that the loan outstanding figures as per the books of the cooperative societies (supply-side) have exceeded the estimated household debt from cooperative societies (demand-side) by a sizeable margin. The share of household debts in the total loans and advances of cooperative societies, as per the AIDIS data has been 30% for three decades ending in 2002 but rose considerably to 69.1% in 2012. On the other hand, the share of outstanding commercial bank credit to individuals in the total household loans of commercial banks fluctuated from 39.8% in 1981 to 25.6% in 2002, but was subsequently at 32.7% in 2012. The supply-side of commercial bank credit thus remains about three times higher than the demand-side estimates.

Table 9: A Comparison of Household Debt, AIDIS vs Other Sources (Rs crore)

Sr No	Outstanding Amount	1981	1991	2002	2012
Households debt as per AIDIS (demand-side):					
1	Cooperative bank/society	2,280	7,400	43,823	2,53,364
2	Commercial banks, including RRB	2,394	10,754	46,712	5,31,828
3	Cash loan from cooperatives and banks (1+2)	4,674	18,154	90,534	7,85,192
Credit by financial institutions (supply-side):					
4	Outstanding loan of cooperative societies#	7,431	25,197	1,48,761	3,66,780
5	Commercial bank credit to individuals, as per BSR	6,020	43,171	1,82,193	16,25,778
6	Total of bank credit and cooperatives (4+5)	13,451	68,368	3,30,954	19,92,558
Ratios (in %)					
7	HHs debt to cooperatives to outstanding loan of cooperative societies (1/4)	30.7	29.4	29.5	69.1
8	HHs debt to commercial banks to bank credit to individuals (2/5)	39.8	24.9	25.6	32.7
9	3 as % of 6	34.8	26.6	27.4	39.4

HHS indicates households; # includes primary agricultural credit societies (PACS), state cooperative banks (SCBs) and district cooperative banks (DCBs).
Source: Household Debt: Same as Table 1.
Outstanding bank credit: EPWRF India Time Series (www.epwrfits.in).
Outstanding loans of cooperative societies: NABARD Annual Report (various issues) and Annual Report 2012–13, National Federation of State Cooperative Banks.

However, when the demand side estimates are compared with the supplied estimates combining both the cooperative societies and the commercial bank, the demand-size underestimation is observed to persist at a range of 63% to 73% over the various decades. Given this, it can be argued that the overall household indebtedness may have been grossly underestimated in the nationwide surveys. However, it cannot be dismissed that there can be substantial margins of errors on both the estimates.

Conclusions

A noteworthy revelation coming out from the AIDIS data is the re-emergence of non-institutional credit agencies, the professional moneylenders in particular, for cash loans to households. The declining share of non-institutional agencies in the incidence of rural indebtedness got reversed after 1991 following financial sector reforms largely, because the institutional agencies began facing organisational deficiencies reflected in their inadequate social commitments. Consequently, they not only faltered on their developmental goals, but also faced weak balance sheets. All of these were reflected in the banks' reduced exposure, particularly to the rural borrowers, with both the cultivator and non-cultivator households being pushed to non-institutional sources. The share of non-institutional agencies in the total outstanding debt of cultivator households rose from 34% in 1991 to 42% in 2012, while for non-cultivator households from 45% to 51% during the same period. Again, in this category, the share of loan from professional moneylenders in cultivator households' debt more than doubled from 11% to 26%, and for non-cultivators more than trebled from 10% to 34% from 1991 to 2012.

The ongoing agrarian crisis in the country has already manifested itself in the widespread incidence of farmers' suicides attributable to excessive indebtedness. In depicting the depressing scenario of rural indebtedness, the All-India Rural Credit Survey (AIRCS) report of 1951–52 had aptly used an old French proverb: "Credit supports the farmer as the hangman's rope supports the hanged," which stands relevant even today. In fact, the AIRCS report's descriptions of the rural crisis are as true even after 70 years of independence as it was then:

> The result is that the local landlord who may also be moneylender, the local moneylender who may also be trader, and the educated person who may also be subordinate official, all these through their association with the outside urban world of finance and power wield an influence in the village which at many points is diverted from the good of the village to the benefit of the caste or even of a close circle of relatives. (RBI 1955: 14)

Institutions like the RBI and the National Bank for Agriculture and Rural Development (NABARD) should revisit these reports to resurrect the roles of these institutions in strengthening the credit delivery to the rural population and also, the urban self-employed.

However, the AIDIS reports do not seem to capture the extent of urban distress in totality, particularly of the self-employed. The share of institutional agencies in the total urban household credit has consistently improved in the recent decades, from 70% in 1991 to 84% in 2012, while that of the non-institutional agencies fell from 30% to 15%. But anecdotal evidences intuitively imply that such puny share of non-institutional agencies in urban indebtedness is perhaps an underestimation, especially, with over 90% of the urban self-employed comprising of own-account microenterprises. Their dependence on professional moneylenders is probably much larger than the AIDIS estimates.

NOTES

[1] AIDIS is one of the most exhaustive surveys in the Indian statistical system. It was originally conceived and implemented to aid rural credit planning by the Reserve Bank of India (RBI) which, as the central bank of the country, had the mandate to develop the rural credit delivery structure and to expand the supply of credit to agriculture and other rural activities for their development (RBI 1957). The first survey in 1951–52 covered the rural sector and mostly detailed information on rural households' indebtedness; thus, appropriately called the All-India Rural Credit Survey (AIRCS). In line with one of the major recommendations of the committee of direction which was enjoined with the responsibility of organising the AIRCS, the RBI conducted the next rural survey in 1961–62, extending the surveys to include asset holdings of rural households; and it was known as the All-India Rural Debt and Investment

Survey (AIRDIS). A similar survey was repeated in 1971–72 with the coverage expanded to include the urban sector as well; and so, the survey was renamed as All-India Debt and Investment Survey (AIDIS). Though the results were published only for the rural sector. The National Sample Survey Office (NSSO) was thus given the task of conducting the survey and it carried out the AIDIS as part of the subject programme of its 26th round. The tradition of conducting AIDIS as a decadal programme was thus continued in 1981–82, under the NSSO 37th round; this round covered both rural and urban sectors and the results were published as such. The collaborative arrangement between the RBI and the NSSO for implementing the AIDIS ended with the 1981–82 survey. The next decadal survey was conducted in 1991–92 as part of the NSSO 48th round programme. This was followed by the AIDIS survey in 2002–03 as part of NSSO's 59th round, after a gap of 11 years. While the latest one was conducted in 2012–13 under NSSO's 70th round survey programme. For an overview of these surveys and a review of studies using these surveys, see Rajakumar et al (2018).

[2] Except for 1951, which were derived by the Committee of Direction of AIRCS based on debt-related data such as outstanding debt as on 30 June 1952 and borrowing and repayments during 1951–52.

[3] The authors perceive that 12% is a good yardstick as representing a reasonable rate of interest for rural loans in 2012 because the weighted average rate for agricultural loans was 1.98% as per the RBI's *Basic Statistical Returns for Scheduled Commercial Banks* for the same year.

[4] In the BSR data set, small borrowal accounts are those with a credit amount outstanding of less than ₹ 2 lakh. This criterion has been in force since March 1999. Prior to this, the limit was ₹ 25,000 between December 1983 and June 1998, and ₹ 10,000 between December 1972 and June 1983.

The major chunk of small borrowal is accounted by individuals (over 95% except in 2011–13), both in terms of number of accounts and outstanding credit. The size of small borrowal accounts as percentage to total bank credit has shrank from 23.1% as at end-March 1999 to 8.3% as at end-March 2016. Small borrowal accounts used to constitute nearly three-fourths of the total credit to individuals in 1999 and this has gradually declined to 23.2% in 2016. (Source: Based on data extracted from EPWRF India Time Series. Accessed on 10 July 2017 at www.epwrfits.in)

As noted above, a loan account of ₹ 2 lakh and less is classified under small borrowal accounts since 1999. The criteria is not indexed to inflation and so the value of ₹2 lakh would have diminished over the years as a direct consequence of inflation featuring the economy. This explains why the amount of loan outstanding under this account has reduced over the years, as percentage to total bank loan.

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