FIELD REPORT

Who Has Access to Formal Credit in Rural India? Evidence from Four Villages

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Introduction: Rural Credit Policy in India

If the heavy burden of rural indebtedness is to be lifted, and the grip of moneylenders and the informal sector on the rural poor to be a thing of the past, the formal sector of banking must expand. This is a truth well recognized in the scholarly literature, and in the sphere of policy.

Over the last fifty years, we can identify three phases of rural credit policy. The first phase, from 1969 through the mid-1970s, immediately following nationalisation of 14 major banks, was also the early phase of the "green revolution" in rural India. This phase of rural banking, known as "social and development banking," was one in which the reach and coverage of rural banking was extended in order to "gain access to new liquidity" in the rural areas.[1]

The second phase, which began in the late 1970s and early 1980s, was a period when the major instruments of official anti-poverty policy were credit-based programmes for the creation of employment. This was a phase of "consolidation of the institutional infrastructure of rural banking," and a period of directed credit, during which credit was directed towards "the weaker sections" of society.

The third phase, which began in 1991, is that of liberalisation. In this phase, emphasis shifted from redistributive objectives to profitability of banks. The recommendations of the Narasimham Committee were that interest rates be deregulated, that capital adequacy norms be changed (to "compete with banks globally"), that branch licensing policy be revoked, that a new institutional structure that is "market-driven and based on profitability" be created, and that the part played by private Indian and foreign

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[1] The achievements of this period have been termed "unprecedented in financial history" by a scholar of Indian banking (Shetty 1997).

banks be enlarged (RBI 1991). This was also a period when micro-credit was given a free hand.

The liberalisation phase has not been a uniform period with respect to rural credit. From 2004, there were some new infusions of credit to rural areas as well as loan waivers. Further, from 2005, "financial inclusion" became a declared objective of banking policy. The current approach to financial inclusion is meant to differ from the earlier policy in being oriented towards individuals rather than towards specific sectors (e.g. agriculture or small-scale industry), and in achieving inclusion through a mix of developmental initiatives along with regulatory relaxations. Specific measures taken include "no-frills" deposit accounts with nil or *de minimus* balance, introduction of Kisan Credit Cards ("KCCs") and General Purpose Credit Cards (GCCs), support to microfinance and more recently, the initiation of the Business Correspondent and Facilitator model to provide banking services even in the absence of brick-and-mortar branches.

Financial inclusion has different features and aspects, and has been the subject, in recent years, of some study (see, for example, Mahendra Dev 2006, Mukherjee, Sandstrom and Kamath 2010). Germane to this note is the fact that access to institutions of formal credit must be considered a precondition for financial "inclusion."

Objective

The objective of this short note is to examine the extent to which rural households have gained access to formal credit institutions. This is done by examining the debt profile of households in four villages (two each in the State of Maharashtra and Rajasthan). Specifically, we use detailed household survey data to examine the share of loans and credit from the formal sector in total debt outstanding among rural households from four villages. This reality check is useful, even if limited to a few villages, because the only data available at the household level on patterns of borrowing and access to different source of credit are from the decennial All India Debt and Investment Surveys (AIDIS). The latest AIDIS was conducted in 2002, that is, a decade ago, and before the initiation of the new policy of financial inclusion.[2]

Database and Variables

This paper is based on detailed field surveys conducted by the Foundation for Agrarian Studies in two villages of Maharashtra in 2007 and two villages of Rajasthan (one each in 2007 and 2010).[3]

[2] There are also questions about the reliability of the AIDIS, and it has been argued that AIDIS 2002 underestimates rural indebtedness (Chavan 2012).
[3] For details of the surveys and villages, see Project on Agrarian Relations in India (PARI), www.fas.org.in/pages.asp?menuid=16.

These village surveys collected detailed data on all outstanding loans as well as on all loans (outstanding or repaid) borrowed in the crop year preceding the survey. In other words, we have data on both the stock of outstanding debt as well as on the annual flow of credit. Information was collected, with respect to each loan, on principal borrowed, rate of interest, collateral, principal and interest outstanding, source of credit and purpose of borrowing. We also have separate data on membership in self-help groups and on accounts held by the household in formal financial institutions. Further, these data allow us to examine differences in access to formal-sector credit across caste and class.

All lenders are classified into formal and informal lenders. Commercial banks, regional rural banks, cooperative societies and district cooperative banks, urban banks and Non-Bank Finance Companies (NBFC) comprise the formal sector, and all others (including traders, moneylenders, landlords and other village lenders, self-help groups and chit funds or village funds) comprise the informal sector.

The Survey Villages and Our Findings

We discuss access to formal financial institutions in each village, and then present some general observations at the end. The two main indicators used here are (a) the share of loans from the formal sector in total loans outstanding, and (b) the share of debt from the formal sector in total debt outstanding. Further, we disaggregate and report data on selected household-level indicators by caste and socio-economic class. To get an idea of scale, we have also calculated the average debt per household and the average debt-to-asset ratio. All figures are reported at current prices.

Maharashtra: Warwat Khanderao

In May-June 2007, two villages of Maharashtra were surveyed as part of the Project on Agrarian Relations in India. A census-type survey was conducted in Warwat Khanderao, a village in Sangrampur tehsil, Buldhana district, in the Vidarabha region of Maharashtra. The nearest town is Shegaon, at a distance of 20 kilometres from the village, connected by an all-weather road. Warwat Khanderao was an unirrigated cotton-growing village at the time of survey.

At the time of our survey, there were 250 households in the village with a population of 1,308 persons. The major caste in the village was Kunbi (43 per cent of all households), classified as Other Backward Class (all Other Backward Class households together accounted for 49 per cent of households). There was a small section of Scheduled Castes (10 per cent), Muslims (21 per cent) and Nomadic tribes (20 per cent).

Overall, one-half of all households were indebted, with an average outstanding debt of Rs 63,579, and 84 per cent of this debt was from the formal sector (Table 1). It is worth noting here that the formal sector comprised two distinct types of

Table 1 *Features of household indebtedness, Warwat Khanderao, 2007*

Variable	
Proportion of households with debt outstanding (%)	53
Average debt outstanding per household (Rs)	63,579
Average debt-asset ratio (%)	10
Number of formal-sector loans as a proportion of all loans outstanding (%)	59
Formal sector debt as a proportion of total debt outstanding (%)	
All formal sector lenders (%)	84
Type A lenders (scheduled commercial banks etc.) (%)	62
Type B lenders (urban banks and patsansthas) (%)	22

Source: Survey data 2007.

institutions: first, the scheduled commercial banks, district cooperative banks and Primary Agricultural Credit Societies linked to cooperative banks (termed Type A). The second type of lender, termed Type B, comprised urban banks and *pat sansthas* (village funds or non-agricultural credit society). The latter typically charged higher rates of interest than the former and also gave credit for a variety of purposes, including non-agricultural and consumption loans. Taking all loans outstanding for all households together, Type A formal-sector lenders dominated the formal sector portfolio.

We next turn to a caste-wise disaggregation of households (Table 2). It is interesting that, debt from the formal sector accounted for the major part of total outstanding debt for all households (other than households belonging to the Nomadic tribes).[4] Relative access to the formal sector thus did not vary much across social groups in Warwat Khanderao, although the amount outstanding was much lower among Dalits, Muslims and Nomadic tribe households than among OBC households.

Table 2 *Features of household indebtedness, by social group, Warwat Khanderao, 2007*

Variable	OBC	SC	Muslim	Nomadic tribe
Proportion of households with debt outstanding (%)	60	36	57	40
Average debt outstanding per household (Rs)	88,980	31,164	32,462	32,127
Average debt-asset ratio (%)	11	14	11	4
Number of formal-sector loans as a proportion of all loans outstanding (%)	63	79	40	54
Formal sector debt as a proportion of total debt outstanding (%)	87	97	79	63

Source: Survey data 2007.

[4] Households belonging to Dhangar and Beldar communities were classified as Nomadic tribes.

However, there was variation across socio-economic classes (Table 3). We are not specifying the method of categorisation here; details are available in Ramachandran and Kaur 2011. After identifying landlord households, the categorisation involved a detailed classification of all cultivating households in to three categories, Peasant 1, 2 and 3, in descending order of asset ownership.[5] The most populous socio-economic categories in the village were Peasant 3 (or poor peasant), which covered 37 per cent of all households, followed by hired manual workers (18 per cent) and hired manual workers with cultivation (12 per cent).

There is a clear relationship between class and access to formal sector credit. *All* the loans of the three landlord households were from the formal sector, while only 19 per cent of loans outstanding among hired manual worker households were from the formal sector. The share of formal sector loans in total outstanding loans ranged from 19 per cent among pure hired manual workers to 48 per cent among manual workers also engaged in cultivation to 73 per cent among upper peasant households. Of total outstanding debt, 55 per cent was from the formal sector among hired manual worker households as compared to 80 per cent among poor peasants, 84 per cent among upper peasants and 100 per cent among landlord households. To put it differently, landlords were entirely financed by formal financial institutions.

There was a huge gap in the scale of debt across socioeconomic classes. On average, a landlord had an outstanding debt of Rs 592,840 or 77 times that of the average debt

Table 3 *Features of household indebtedness, by socio-economic class, Warwat Khanderao, 2007*

Variable	Landlord	Peasant 1+2	Peasant 3	Hired manual worker with cultivation	Hired manual worker
Proportion of households with debt outstanding (%)	67	93	49	60	39
Average debt outstanding per household (Rs)	592,840	126,644	36,618	26,920	7,630
Average debt-asset ratio (%)	12	7	10	14	19
Number of formal-sector loans as a proportion of all loans outstanding (%)	100	73	61	48	19
Formal sector debt as a proportion of total debt outstanding (%)	100	84	80	72	55

Note: Only data for selected classes are reported.
Source: Survey data 2007.

[5] The classification of households in Warwat Khanderao included a category of "hired manual workers with significant cultivation," households with small plots of unirrigated land in addition to other categories.

of a manual worker household (Rs 7,630). Access to formal credit raised the level of resources available to a landlord household manifold.

Maharashtra: Nimshirgaon

The second village, Nimshirgaon, is located in Shirol taluk, Kolhapur district, western Maharashtra. Nimshirgaon is connected by an all-weather road to the highway. The number of households in our listing was 768, with a population of 3,515 persons. Given the large size of the village, a stratified sample survey was undertaken.

Agriculture in Kolhapur is relatively modern and dynamic. Sugarcane was the major crop, and soyabean, pulses and millets were also cultivated, as were a variety of vegetables and fruit, including grape and mango. Irrigation was from a water-supply system linked to the Krishna river and from groundwater.

Nimshirgaon was a multi-caste village. In our survey, over one-third of households were Jain (38 per cent) and another one-third of households belonged to Scheduled Castes (33 per cent). Other social groups were Muslims (6 per cent), Other Backward Classes (8 per cent), Other Caste Hindus (10 per cent) (Lingayats, Marathas), and Nomadic tribes (5 per cent).

Taking all households in Nimshirgaon, the average outstanding debt per household was Rs 78,867, and 93 per cent of the outstanding debt was due to formal credit institutions (Table 4). Nimshirgaon is located in Kolhapur district of western Maharashtra, a region that is recognised for its network of functioning cooperative credit institutions (Chavan 2012b). The village has an active Primary Agricultural Credit Cooperative Society (PACS), affiliated to the District Central Cooperative Bank, as well as several non-agricultural cooperative societies and *pat sansthas*.

Nimshirgaon village is somewhat distinct from the other three villages in that households from all social groups borrowed primarily from the formal financial sector (Table 5). Nevertheless, Jain households were markedly better off in terms of access to formal credit: 89 per cent of the number of individual loans due and 98 per cent of outstanding credit of Jain households was from the formal sector. Jain households also

Table 4 *Features of household indebtedness, Nimshirgaon, 2007*

Variable	
Proportion of households with debt outstanding (%)	58
Average debt outstanding per household (Rs)	78,867
Average debt-asset ratio (%)	8
Number of formal sector loans as a proportion of all loans outstanding (%)	72
Formal sector debt as a proportion of total debt outstanding (%)	93

Source: Survey data 2007.

Table 5 *Features of household indebtedness, by social group, Nimshirgaon, 2007*

Variable	Jain	Other Castes	SC	Muslim
Proportion of households with debt outstanding (%)	61	61	49	100
Average debt outstanding per household (Rs)	147,803	56,184	30,471	25,060
Average debt-asset ratio	7	9	15	12
Number of formal sector loans as a proportion of all loans outstanding (%)	89	56	67	43
Formal sector debt as a proportion of total debt outstanding (%)	98	82	81	79

Note: Other castes comprise OBCs and Other Caste Hindus. Ten households from the Nomadic tribes are excluded from this table.
Source: Survey data 2007.

had larger debts, on average, than all other households. Not surprisingly, households from this community controlled the PACS located in the village.

Again, a socio-economic classification of households was undertaken (see Ramachandran and Kaur 2011). While there were variations across socioeconomic classes, with landlord and rich peasant households (Peasant 1) funding all necessary expenditure through the formal sector (PACS and district central cooperative banks, in particular), even households in the poorer Peasant 2 and Peasant 3 categories were mainly indebted to the formal sector. However, a significant proportion (41 per cent among Peasant 2 and 57 per cent among Peasant 3 households) of their formal debt was from Type B lenders. Among manual worker households, 80 per cent of aggregate debt was from the formal sector, but only 7 per cent of this was from Type A lenders and the remaining was from Type B lenders (urban banks and *pat sansthas*). Before April 2007, when the Government introduced some restrictions,

Table 6 *Features of household indebtedness, by socio-economic class, Nimshirgaon, 2007*

Variable	Landlord	Peasant 1	Peasant 2	Peasant 3	Hired manual worker
Proportion of households with debt outstanding (%)	100	67	42	45	69
Average debt outstanding per household (Rs)	1,689,284	277,500	139,721	38,351	31,318
Average debt-asset ratio	7	7	7	14	19
Number of formal sector loans as a proportion of all loans outstanding (%)	100	100	93	89	54
Formal sector debt as a proportion of total debt outstanding (%)	100	100	96	96	80

Note: Only data for selected classes are reported.
Source: Survey data 2007.

interest rates charged by *pat sansthas* ranged from 17 to 20 per cent per annum, as compared to 11-12 per cent charged by PACS.

Further, there was a large difference in the size of debt as between landlord households and hired manual worker households, with the average debt of the latter being only 2 per cent that of the former. One landlord household had taken a loan for the sum of Rs 18 lakhs (1.8 million rupees) from a bank for grape cultivation.

Rajasthan: 25 F Gulabewala

In June 2007, a census survey of 25 F Gulabewala village was undertaken as part of PARI. Gulabewala village belongs to Karanpur tehsil, Sri Ganganagar district, Rajasthan. The village is about 25 km from Sri Ganganagar town and is connected to it by an all-weather road.

In 2007, 204 households lived in 25 F Gulabewala. The main castes in the village were Jat Sikh, Mazhabi (Dalit) Sikh, and Nayak (Dalit).

The village is irrigated by the Gang Canal project. The main crops cultivated in Gulabewala were wheat, cotton, rapeseed, cluster beans, and fodder crops. Agricultural operations in the village were highly mechanised.

Overall, as shown in Table 7, two-thirds of all households were indebted at the time of our survey. While 39 per cent of the total number of outstanding loans was from formal sources of credit, 73 per cent of total outstanding debt was from formal sources. This clearly indicates that the formal sector accounted for fewer but larger loans than the informal sector. Over 90 per cent of the formal sector credit came from commercial banks. The major lenders in the informal sector were traders and landlords and rich peasants.

At an aggregate level, thus, the debt profile of households of Gulabewala village appears to be dominated by formal financial institutions. The picture, however, changes dramatically when we disaggregate the data by caste and class.

Table 7 *Features of household indebtedness, 25 F Gulabewala, 2007*

Variable	
Proportion of households with debt outstanding (%)	66
Average debt outstanding per household (Rs)	120,923
Average debt-asset ratio (%)	3
Number of formal sector loans as a proportion of all loans outstanding (%)	39
Formal sector debt as a proportion of total debt outstanding (%)	73

Source: Survey data 2007.

Table 8 *Features of household indebtedness, by social group, 25 F Gulabewala, 2007*

Variable	Jat Sikh	SC
Proportion of households with debt outstanding (%)	65	67
Average debt outstanding per household (Rs)	315,288	25,830
Average debt-asset ratio (%)	2	33
Number of formal sector loans as a proportion of all loans outstanding (%)	65	16
Formal sector debt as a proportion of total debt outstanding (%)	80	35

Source: Survey data 2007.

Table 8 provides data on the part played by the formal sector separately for the two major caste groups in the village, namely Jat Sikhs (OBCs) and Scheduled Castes or Dalits (Majhabi Sikhs and Nayaks). While 80 per cent of the outstanding debt of Jat Sikh households was from the formal sector, only 35 per cent of the debt of Scheduled Caste households was from the formal sector. This huge gap in relative access to formal credit is reflected in the number of outstanding loans as well as in the average debt per household. On average, the outstanding debt of a Dalit household was less than one-tenth that of Jat Sikh household.

As part of PARI, a detailed socio-economic classification of households has been attempted (Ramachandran and Kaur 2012). The seven major classes identified were landlords and big capitalist farmers (comprising 9 per cent of all households), Farmer 1 and 2 (richer and poorer) classes (13 and 9 per cent of households respectively), manual worker households (56 per cent), business and self employed (6 per cent), salaried (5 per cent) and others (5 per cent).

We have reported data on outstanding debt for four major socio-economic classes in Table 9. The numbers indicate very wide divergence across socio-economic classes

Table 9 *Features of household indebtedness, by socio-economic class, 25 F Gulabewala, 2007*

Variable	Landlords and big capitalist farmers	Farmer 1	Farmer 2	Manual worker
Proportion of households with debt outstanding (%)	70	46	100	69
Average debt outstanding per household (in Rs)	736,003	127,770	103,541	23,401
Average debt-asset ratio	0.4	1	6	35
Number of formal sector loans as a proportion of all loans outstanding (%)	66	56	70	14
Formal sector debt as a proportion of total debt outstanding (%)	77	72	95	36

Note: Only data for selected classes are reported.
Source: Survey data 2007.

in levels of outstanding debt, in the burden of debt as measured by the debt-to-asset ratio, and very critically, in access to formal sector loans. To illustrate, on average a landlord/big capitalist household had outstanding debt of over Rs 7 lakhs; 77 per cent of debt was due to the formal sector; and the debt-to-asset ratio was less than one per cent. By contrast an average manual worker household was indebted to the tune of Rs 23,000; and around 65 per cent of this debt was owed to informal lenders. Further, the burden of debt on household assets was very high: the value of debt was more than one-third the value of assets owned by an average worker household.

Rajasthan: Rewasi

A village census survey of Rewasi village, of Sikar block and Sikar district, was completed in April-May 2010.[6] Rewasi is 31 km from Sikar town. A pucca road connects the main habitational area of the village with the Sikar-Salasar road. The main *kharif* crop was rainfed pearl millet. In the *rabi* season, land irrigated by tubewells was sown with wheat, mustard, onions and fenugreek. As a result of a poor monsoon in 2009, the *kharif* crop had failed in the village. Animal resources were an important source of household incomes, as were remittance from migrants to other cities in India and abroad.

At the time of our survey, there were 222 households resident in the village. Rewasi is a multi-caste village. Jats were economically and politically the dominant caste. In contrast, the Rajputs no longer held the same position of dominance in the village that they once did. There were also Brahman, Meena (Scheduled Tribe) and Meghwal (Dalit) households in Rewasi.

Turning to aggregate features of indebtedness, 75 per cent of households of Rewasi were indebted at the time of the survey with an average outstanding sum of over two lakh rupees (Table 10). The formal sector accounted for just over one-half of outstanding debt (56 per cent) and within the formal sector, around 22 per cent of debt was from private non-bank finance companies (NBFC).[7]

Table 10 *Features of household indebtedness, Rewasi, 2010*

Variable	
Proportion of households with debt outstanding (%)	75
Average debt outstanding per household (Rs)	231,601
Average debt-asset ratio (%)	12
Number of formal sector loans as a proportion of all loans outstanding (%)	17
Formal sector debt as a proportion of total debt outstanding (%)	56

Source: Survey data 2010.

[6] Figures for Rewasi are at 2010 prices whereas the other three villages were at 2007 prices.

[7] Shriram Finance, an NBFC, had given a few large loans for the purchase of trucks.

Table 11 *Features of household indebtedness, by social group, Rewasi, 2010*

Variable	Jat	Rajput	ST	SC
Proportion of households with debt outstanding (%)	66	84	76	71
Average debt outstanding per household (in Rs)	358,247	22,351	183,829	85,537
Average debt-asset ratio (%)	11	17	23	7
Number of formal sector loans as a proportion of all loans outstanding (%)	28	17	9	4
Formal sector debt as a proportion of total debt outstanding (%)	78	48	16	10

Note: Only data for selected castes are reported. Of the total village households Jats comprised 29.7 per cent, Rajputs 39.7 per cent, ST (Meena) households 10 percent and SC households 9.6 percent. Five (2.3 %) Brahmin and 19 OBC (8.7 %) households are excluded from this Table.
Source: Survey data 2010.

Distinct differences emerge in the pattern of indebtedness of households from different caste backgrounds. Jat households had, on average, the highest level of outstanding debt and the biggest share of formal sector in total outstanding debt. For households from all other major caste groups, the informal sector played a bigger role than the formal sector in the debt profile of borrowing households.

A socioeconomic classification of households in Rewasi identified the following categories: rural rich (4 per cent of households), Peasant 1 (6 per cent), Peasant 2 (12 per cent), Peasant 3 (27 per cent) and Peasant 4 (24 per cent) and hired workers (18 per cent).[8] The stratification of the four peasant categories was primarily in terms of levels of asset ownership, with Peasant 1 being the highest asset category and Peasant 4 being the lowest asset category.[9] Using this classification, and with a further simplification for this analysis, we examine the differences in pattern of indebtedness. Again, the findings, shown in Table 12, speak for themselves.

While both the rural rich and upper peasant households owed the major part of their debt to formal credit institutions, they differed in respect of the level of indebtedness. It is clear that the activities of the rural rich were heavily funded by formal financial institutions, with an average outstanding debt of Rs 18 lakhs per household. Better off peasant households had accumulated an average debt of Rs 3 lakhs per household. The poorer categories of peasants (termed lower peasants here) had less debt outstanding and more importantly, the formal sector accounted for only one-third of their debt. Households in these two poorer peasant classes, Peasant 3 and Peasant 4, comprising 51 per cent of resident households, relied heavily on informal lenders (landlords, traders and a variety of other lenders). Lastly, the average outstanding debt of a hired worker household was Rs 1.2 lakhs, but only 5 per cent of this was

[8] See Ramachandran and Kaur (2012). All other households together accounted for 9 per cent of village households.
[9] For a discussion of the categorisation, see Ramachandran and Kaur (2012).

Table 12 *Features of household indebtedness, by socio-economic class, Rewasi, 2010*

Variable	Rural rich	Peasant Upper (1+2)	Peasant lower (3+4)	Hired workers
Proportion of households with debt outstanding (%)	63	73	74	88
Average debt outstanding per household (Rs)	1,810,175	382,307	148,375	124,492
Average debt-asset ratio (%)	17	10	13	18
Number of formal sector loans as a proportion of all loans outstanding (%)	32	30	17	3
Formal sector debt as a proportion of total debt outstanding (%)	88	74	33	5

Note: Households belonging to business/ salaried/ artisan/ pensions categories are not included.
Source: Survey data 2007.

from the formal sector. Hired manual worker households of Rewasi remained mainly outside the reach of formal credit institutions.

Concluding Observations: Financial Inclusion is a Far Way Off

While each of these four villages, surveyed over the last five years, is distinct, these are some recurring features of household indebtedness.

1. The informal sector of credit persists and thrives in all villages. Clearly, the expansion of formal credit has not been adequate to end the reign of informal lenders.
2. All but the richest sections of the village population borrow from informal lenders. The dependence on informal sources of credit is, however, highest among manual worker households and households from relatively oppressed social groups.
3. The differences in access to formal credit across caste and class were acute in the two villages of Rajasthan, Gulabewala and Rewasi. In 25 F Gulabewala, around one-third of the outstanding debt of manual workers households was from the formal sector. In Rewasi, the corresponding proportion was 5 per cent. To put it differently, manual workers comprised 56 per cent of households in Gulabewala village but accounted for only 6 per cent of outstanding formal credit; in Rewasi, manual workers comprised 18 per cent of all households but accounted for merely one per cent of outstanding formal credit.
4. Nimshirgaon, where cooperative credit has a long history, presented a different picture. In Nimshirgaon, even among Scheduled Caste and Muslim households, and manual workers households, around 80 per cent of outstanding debt was from the formal sector. However, it was the newer and more weakly regulated financial institutions, namely the urban cooperative banks and *pat sansthas*,

which were the main source of formal credit for manual labour households. These institutions advance loans at substantially higher rates of interest than scheduled commercial banks.

5. In Warwat Khanderao, as in Nimshirgaon, differences across households in access to formal credit (as measured by our two indicators, share of total loans, and share of outstanding debt) were much larger when disaggregated by class than by caste. Further, there were big differences in the scale of borrowing from the formal sector. Landlords in Warwat Khanderao, for instance, reported an average outstanding debt that was 77 times that of a manual worker household.

The observed inequality in access to formal credit has many implications. Formal and informal sector loans differ not just in size (with the former being much larger than the latter) but in frequency of loans, in the purposes for which loans are advanced, in collateral and in the rate of interest charged. While this paper has not discussed the functioning of the informal credit market and specifically the terms and conditions of loans, with the exception of some borrowing from "friends and relatives" at zero interest, the interest rate on informal loans was invariably much higher than on loans from banks and cooperatives. For example, while a loan from a cooperative society cost between 7 and 12 per cent per annum, a loan from a trader was never less than 24 per cent per annum (or 2 per cent per month). Further, interest rates of between 3 to 5 per cent per month (or 36 to 60 per cent per year) were frequently reported.

In conclusion, the evidence from these four village surveys indicates that access to formal credit is still very unequal across households. In particular, manual workers and persons from traditionally deprived social groups continue to be excluded from access to formal credit, and concomitantly to be dependent on lenders in the informal sector.

Keywords: formal credit, village, Maharashtra, Rajasthan, rural credit, caste, Dalit, class, financial inclusion.

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