Financial inclusion: A long way to go

The All India Rural Financial Inclusion Survey by Nabard shows while rural India is no longer predominantly agricultural, access to financial services remains weak

Prasanth Regy, **Vijay Mahajan** & **Jagmeet Singh**
Rajiv Gandhi Institute for Contemporary Studies

Last Updated at September 27, 2018 17:26 IST

ALSO READ

Number of banking outlets in villages drops amid financial inclusion push

Investors bet on small finance banks as financial inclusion makes way

All you need to know about NABARD's 'agriculture household' survey

Nabard has recently released the results of the All India Rural Financial Inclusion Survey. The survey, which was for 2016-17, covered 40,327 rural households. The survey defined agricultural households as those where at least one member was self-employed in agriculture in the past year, and which derived at least Rs 5,000 from agricultural produce. It found that the average annual income of an agricultural household was Rs 107,172 versus Rs 87,228 for non-agricultural households. An analysis of the findings throws up several insights about rural India.

Rural India is no longer predominantly agricultural: Only about 48 per cent of all rural households are agricultural — a majority of rural Indian households are not agricultural households. But that is not all. Even among agricultural households, just 43 per cent of the income was from agriculture. Overall, only 23 per cent of rural income is agricultural. In other words, agriculture (crop cultivation plus livestock rearing) does not yield even a quarter of overall rural income. Further, agricultural households are aggressively diversifying — about 88 per cent of them had two or more sources of income. Clearly, farmers are not just farmers any more.

Among the other sources of income, the most important was wage labour, including public works, which accounted for more than a third of the income of agricultural households. It provides an important source of supplementary income to farmers, especially when cultivation on their own account can be risky and unremunerative.

The data shows that the income of agricultural households possessing less than 0.4 hectares (one acre) is lower than both those who have more land, and those who have no land (see figure 1). These households might well be better off if they were to either sell off their land, or if they were to buy or lease in more land. This illustrates the importance of well-functioning land markets. It also highlights the need to liberalise tenancy laws, so as to enable the recording of leasing for the purposes of inputs, credit, insurance and marketing support.

Access to financial services remains weak: While 88 per cent of the rural households reported having a bank account, with average savings of Rs 18,007 per annum per saver household, the overall situation regarding financial savings is grim. Only half of all rural households saved in the last year. Even in the top 10 per cent of the households by consumption, only about 61 per cent were able to save. Further, of the saver households, only half saved in a formal institution. This is in agreement with other reports that many of the savings accounts opened over the past few years under the Jan Dhan Yojana are dormant.

The survey also enquired about the “indebtedness” of rural households. It found that 47 per cent of all rural households were “indebted” and of this 70 per cent had borrowed from formal sources. Thus, formal institutions account for only about a third of the households reached. Any household which had an outstanding loan at the time of the survey is dubbed “indebted”. The borrowing households had borrowed about Rs 92,000 on an average from all sources, 70 per cent from formal and 30 per cent from informal.

The survey also offers evidence about the coverage of the central government’s agricultural insurance scheme meant to provide crop insurance against natural calamities, pest attacks, and diseases. Even though the scheme offers high subsidies, the survey found that only 6.9 per cent of the households that had an agricultural loan had crop insurance, in the agricultural year 2015-16. More recent figures indicate that 57 mn (over 50 per cent) farmers were covered in the year 2016-17 under the Pradhan Mantri Fasal Bima Yojana.

Need for better and annual surveys: While this survey provides valuable insights, it could be even more useful if it was better designed. To begin with, the survey designers should ensure comparability with other major surveys covering the same sector. This survey differs from the well-established National Sample Survey Office (NSSO) surveys slightly in its definitions of basic concepts such as “rural” and “agricultural household”. If these definitions had been the same, the figures produced by this survey could be more easily compared with the figures produced by the NSSO.

Second, the survey should be useful from a policy perspective. For instance, knowing whether a rural household is “indebted” or not is not very useful. By this logic, anyone who has taken a housing loan is indebted, even though they own an asset usually in excess of the value of the loan. The term “indebtedness” conveys a negative image, notwithstanding the fact that state policy in India has been aimed at increasing formal indebtedness. The authors feel the correct phrase should be “accessed credit”. The term “indebted” should be used for those households whose liabilities exceed their assets or whose debt servicing obligations exceed, say, 30 per cent of their income.

For some households, credit helps increase their net earnings. Other households might find themselves in a debt trap, compelled to borrow more to repay previous loans. The survey would be much more useful in the design and evaluation of policy if it could dig deeper and attempt to distinguish between these two kinds of households, rather than group them all under the rubric “indebtedness”

Third, the survey might be better if it were shorter. Most readers of this article would not be forthcoming if a stranger started asked intimate questions about their financial situation. Any residual willingness to help will quickly evaporate when faced with an interminably long questionnaire. These factors can lead to a systematic bias, which could be reduced if the survey were made shorter, and the questions spread across more households.

The authors are with the Rajiv Gandhi Institute for Contemporary Studies

First Published: Tue, September 25 2018. 22:16 IST

https://www.business-standard.com/article/opinion/financial-inclusion-a-long-way-to-go-118092501300_1.html#