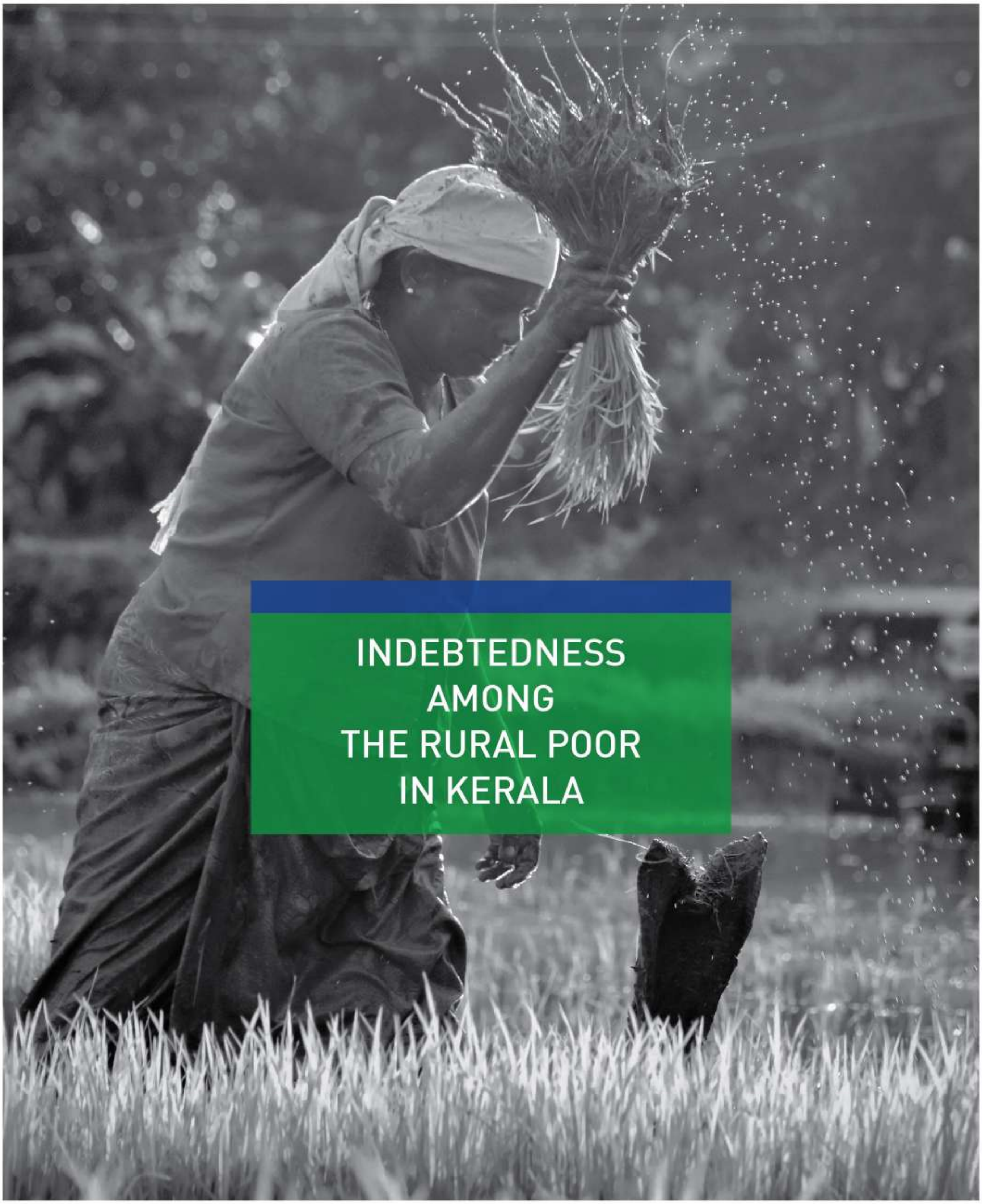

INDEBTEDNESS AMONG THE RURAL POOR IN KERALA

CSES

Indebtedness among the rural poor in Kerala

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Abbreviations and Acronyms

ADS	Area Development Society
AIDIS	All India Debt and Investment Survey
AOD	Average Outstanding Debt
BFIL	Bharat Financial Inclusion Ltd.
CDS	Community Development Society
CGAP	Consultative Group to Assist the Poor
CIC	Credit Information Company
CSES	Centre for Socio-economic and Environmental Studies
DAR	Debt-Asset Ratio
DCCB	District Central Co-operative Bank
DRI	Differential Rate of Interest
EMI	Equated Monthly Instalment
FFC	Farmers' Facilitation Centre
FGD	Focus Group Discussion
IMF	International Monetary Fund
IOI	Incidence of Indebtedness
IRDA	Insurance Regulatory and Development Authority of India
IRDP	Integrated Rural Development Programme
JHS	Jamuna Help Society
JLG	Joint Liability Group
KSFE	Kerala State Financial Enterprises Limited
L&T	Larsen and Toubro Ltd.
MCLR	Marginal Cost of funds based Lending Rate
MFI	Micro Finance Institution
MFIN	Microfinance Institution Network
MSME	Micro, Small and Medium Enterprise
NABARD	National Bank for Agriculture and Rural Development
NAFIS	NABARD All India Rural Financial Inclusion Survey
NAFSCOB	National Federation of State Co-operative Banks Ltd.
NBFC	Non-Banking Financial Company
NBFC-MFI	Non-Banking Finance Company- Micro Finance Institution
NGO	Non-Governmental Organisation
NHG	Neighbourhood Group
NPA	Non-Performing Asset
NRLM	National Rural Livelihood Mission
NSS	Nair Service Society
NSSO	National Sample Survey Office
NULM	National Urban Livelihood Mission
OBC	Other Backward Class

PACS	Primary Agricultural Credit Society
PDS	Public Distribution System
PMJDY	Pradhan Mantri Jan-Dhan Yojana
RBI	Reserve Bank of India
RCS	Registrar of Co-operative Societies
RRB	Regional Rural Bank
SARFAESI	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SBI	State Bank of India
SC	Scheduled Caste
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	State Co-operative Bank
SFB	Small Finance Bank
SHG	Self-Help Group
SIB	South Indian Bank
SLBC	State Level Bankers' Committee
SNDP	Sree Narayana Dharma Paripalana Yogam
SPEM	State Poverty Eradication Mission
SRMS	Self-Employment Scheme for Rehabilitation of Manual Scavengers
SRO	Self-Regulatory Organisation
ST	Scheduled Tribe
VLSS	Vietnam Living Standard Survey

CHAPTER 1

INTRODUCTION

1.1 The Context

This study intends to understand the magnitude and nature of indebtedness among rural poor households in Kerala. For rural poor with irregular income, availability, accessibility and affordability of credit and credit choices they make are critical. It is a well-known fact that many a time, the lack of asset possession limits the poor's institutional credit accessibility. The Nobel laureates Abhijit Banerjee and Esther Duflo along with Raghabendra Chattopadhyay and Jeremy Shapiro through one of their experimental studies find the lack of assets and the inability to use financial intermediation to overcome this limitation, as the prominent factors trapping poor into extreme poverty (Banerjee, Duflo, Chattopadhyay, & Shapiro, 2011).

Despite efforts to increase institutional credit flow, evidence suggests a dominant presence of non-institutional credit sources in India's rural sector, although with significant inter-regional and intra-regional disparities (Reserve Bank of India [RBI], 2017a; National Bank for Agriculture and Rural Development [NABARD], 2010; Rajakumar et al., 2019). Perhaps, due to the same reasons, access to credit has become an integral part of poverty alleviation programmes in several developing countries, including India (Ahluwalia, 1990; Planning Commission, 2002). Of late, microfinance emerged as an important tool to enhance financial inclusion of the rural population. The popularity of women group loan concept and the emergence of private microfinance institutions have added a new dimension to the debates on making credit available and accessible to rural households. In this background, this study examines the magnitude and nature of indebtedness experienced by rural poor households in Kerala and analyses the role played by various sources in meeting the credit requirements of this group. The results emerging from this study would improve understanding on availability, affordability and accessibility of credit and provide policy contours to devise efficient financial instruments suitable to rural poor.

The rest of the Chapter is structured as follows: Section 1.2 sets the background of the study by examining key issues and debates concerning indebtedness among rural poor households. Section 1.3 situates the relevance of the study in the context of Kerala and state objectives, methodology and sampling framework. Section 1.4 discusses the profile of sample households, and Section 1.5 outlines the structure of the report.

1.2 Background of the Study

1.2.1 Credit and Indebtedness among Rural Poor

The most fundamental commonality among poor households is that they cope up with incomes that are not just low, but also irregular and unpredictable (Collins et al., 2009). This scenario forces poor households to resort to borrowing to smooth the expenses and to maintain the consumption level steady over their lives, as suggested by Franco Modigliani's life-cycle theory (Deaton, 2005). The interrelation between indebtedness, credit accessibility and poverty has been explored by researchers worldwide. For instance, Hartfree & Collard, observe that low-income households are at greater risk of experiencing financial difficulties and the problem of debt than higher-income households. The users of high-cost credit are most likely to be households with low incomes since high-cost credit is used when households are unable to access institutionalised credit. High-cost credit is also found to be meeting low-income households' needs for small-sum short-term loans (Hartfree & Collard, 2014). This understanding often leads to the conclusion that if poor households could access better financial tools, their chances of improving lives will be much higher (Collins et al., 2009).

A plethora of literature highlights the role of credit accessibility in developing economies in improving the living standard of poor households and in pulling them out of poverty. Results based on state-level indicators on financial depth, credit disbursal, branch penetration and poverty for the period 1983 to 2005 across 15 Indian states indicated a negative relationship between financial deepening and rural poverty (Ayyagari, Beck, & Hoseini, 2013). Similarly, analysing the Vietnam Living Standard Survey (VLSS) of 2010 and 2012, a 30 per cent increase in income of poor households was noted due to the enhanced credit allocation (Giang, Wang, & Chien, 2015). It is even suggested that finance could help poor to catch up with the rest of the economy as it reduces the concentration of economic power (Basu, 2005). It is perhaps symbolic of this evolutionary thinking that "building inclusive financial systems that work for the poor" became the mantra of the United Nations International Year of Microcredit 2005 (www.yearofmicrocredit.org).

Recent academic studies observe an increase in household debt globally, associated with lower output growth and higher unemployment. Based on this understanding, these studies predict a higher probability of future banking crisis (Alter, Feng, & Valckx, 2018; Zabai, 2017; Bloxham & Kent, 2009). However, it is suggested that this rising household debt burden is not distributed equally across society as the rising household debts are hitting the poorest families the hardest and leading to a debt-poverty trap (Jubilee Debt Campaign, 2018). This understanding prompted International Monetary Fund (IMF) in its Global Financial Stability Report, 2017 to suggest a trade-off between the short-term benefits of rising household debt to poverty eradication and its medium-term costs to macroeconomic and financial stability (IMF, 2017).

1.2.2 Understanding Indebtedness and Over Indebtedness

Level of indebtedness is a concern to financial service providers and regulators alike. Although multiple borrowing is usually seen as a sign of financial development, such practices could easily push households into over-indebtedness, i.e., a situation in which debt repayment becomes a significant financial burden to households. In the case of rural households, they become more vulnerable to shocks (Chichaibelu & Waibel, 2017).

Researchers have come up with different risks associated with multiple borrowing: (a) households increase the amount borrowed and accumulate more debt than they can repay (McIntosh & Wydick, 2005); (b) households are tempted to default on a loan from one lender while borrowing from another lender due to asymmetric information available to lenders (Hoff & Stiglitz, 1998) and; (c) households use loans from one lender to refinance previously unpaid loans of another lender, thus rolling over eventually unpayable debt to the future and sparking a vicious cycle of debt (Arnold & Booker, 2012).

There are contradictory views on the impact of easy availability of credit on the lives of the poor. While credit availability at the right time, quantity and required institutional form continue to remain a critical issue for low income and marginalised groups, there is a growing body of work that examines access to credit and how its easy availability pushes low-income households into a debt trap (Puliyakot & Pradhan, 2017). For instance, it is argued that in rural areas where income opportunities are limited, and markets are quickly saturated, the increased credit availability can do more harm than good by resulting in over-indebtedness (Guerin, D'espallier, & Venkatasubramanian, 2013). It is also noted that the ease at which households could borrow simultaneously from different sources could be one reason for the rising number of over-indebted households (Chichaibelu & Waibel, 2017). There does exist a trade-off between credit access and debt stress, which do not seem to have simple solutions. While it may sound practical to have stringent lending standards to prevent loans to people who have serious repayment problems but at the same time making loans available to those who are desperately in need of money, the problem seems to be in identifying the two groups (Schicks & Rosenberg, 2011). Besides, defining "how much is too much debt for borrowers" has been a longstanding deadlock faced by the researchers across the world. There is a growing body of work intending to determine the methodology and threshold limits to estimate the debt burden experienced by the households (Puliyakot & Pradhan, 2017; Chichaibellu & Waibel, 2017; D'Alessio & Iezzi, 2013; Alam, 2012; Fondeville, Őzdemir & Ward, 2010).

A common element in all the discussions on indebtedness is the purpose for which the loan amount is used. For instance, debt could be either used for 'productive' purpose or 'consumption' purposes. In other words, the extent to which the debt is utilised for productive purpose and the extent of its deviation from the stipulated purpose deserves the attention of all those concerned (Sarangi, 2011). Evidence indicates non-productive loan use increases the risk of over-indebtedness (Schicks, 2014).

However, what constitutes productive and unproductive debt is hard to distinguish. Although theoretically, we can distinguish productive and unproductive investments as those which give financial returns and those which do not, in a practical sense, the distinction becomes quite tricky (Collins, 2008). Different authors adopt different criteria for the classification of expenditures and debts according to the purpose. For instance, Saman defines the concept of productivity based on return on investment (Saman, 2007). According to the author, productive debts are those which yield a direct flow of financial returns, and unproductive debts are those who do not give any direct financial returns. However, a much broader framework to define productive assets is adopted by Weller (Weller, 2007). He suggests that productive spending also covers money spent on education, home improvement and consumptive expenditure as well as money used for purchasing goods, services, as all spending directly or indirectly contributes to financial returns. Jones also puts forth a similar line of thought by arguing that there are certain loans hitherto considered as consumption loans encompass essential productive elements. According to him, a wide range of loans taken for household purposes are productive consumptions (e.g. expenditures for health, house repair, education, even food)—without which labour availability and capacity can suffer (Jones, 2008). While trying to estimate the relation between rural indebtedness and extravagant ceremonial expenditure, Moore concludes that although the ceremonial expenditure is considered as wasteful in the literature, traditional ceremonies constitute a stabilising link of the community and provide an incentive to work (Moore, 1954). Similarly, loan towards medical expenses may avoid a loss of income generating capacity and may, therefore be indirectly productive (Schicks, 2014). Thus, although a loan that does not generate financial returns might leave the borrowers with an unmanageable debt burden, they may yet be beneficial to them at a different level (Hartfree & Collard, 2014).

1.2.3 Evolution of Rural Credit Market in India

Evolution of financial sector in India could be broadly categorised into four major phases—post independence (1947-1969); bank nationalisation (1969-1970s); post nationalisation (1980-1990) and post liberalisation (1991-present). Credit policies adopted in India in the post-independence period aimed to address imperfect and fragmented rural credit market characterised by an inadequate supply of formal sector credit, caste-class-gender inequality in the distribution of credit and the dominance of informal credit sources (Ramachandran & Swaminathan, 2004). Informal sources comprising of moneylenders, pawnbrokers, landowners, traders, and chit funds, often operate with a high rate of interest and stringent conditions exerting economic coercion in the countryside (Sharma & Chamala, 1998; Wiggins, 1992). Addressing rural credit was not considered to be a priority of commercial banks in this phase. Banking was largely an urban/semi urban phenomenon with over 80 per cent of the branch offices confined to the urban/semi urban areas. During this phase, the metropolitan areas of the country, which accounted for less than 20 per cent of the number of branch offices and less than 50 per cent of the deposits, claimed over two-thirds of the total bank credit (Narayana, 2000).

The most significant development during the second phase was the nationalisation of 14 major commercial banks in 1969, with an aim to (i) provide banking services in previously unbanked or under-banked rural areas; (ii) provide substantial credit to specific activities, including agriculture and cottage industries and (iii) provide credit to certain disadvantaged groups such as Dalit and Scheduled Tribe (ST) households. An important impact of the nationalisation policy, often known as "social and development banking", was the directives issued by the RBI for the expansion of rural branches, imposing ceilings on interest rates and setting guidelines for the sectoral allocation of credit. For example, a target of 40 per cent of advances was fixed for priority sector lending. Further, to achieve the objective of bridging the critical gap existed in meeting the credit needs of the rural poor, the Government established a network of regionally oriented rural financial institutions called the Regional Rural Banks (RRBs), following the recommendations by the Working Group on Commercial Credit in 1975 (Narasimham Committee). The RRBs combined the local feel of co-operatives and advantages of the commercial bank's business acumen (Mohan, 2004). The period was marked by an "unparallel expansion of Indian banking system and infrastructure", and the territorial spread of the banks became favourable to the rural areas (Rawal, 2004). However, there were also criticisms that banking expansion in rural areas was unplanned and unsystematic. For instance, Shetty (1978) noted that despite the expansion of the number of branches in rural areas, unnecessary competition in the opening of urban branches has resulted in scarce human resources in the rural branches, which adversely affected their effective functioning.

During the third phase, the dominant narrative of the public policy was to generate employment as a strategy to address poverty. As a result, the government formulated a series of programmes to facilitate credit flows to the weaker sections. An important scheme was the Integrated Rural Development Programme (IRDP), which aimed to create productive income-bearing assets among the poor through the allocation of subsidised credit. This phase also resulted in the expansion and consolidation of the institutional infrastructure of rural banking (Ramachandran & Swaminathan, 2004). Due to these measures, up to the 1990s, the formal financial sector expanded steadily eroding the position of informal lending agents (Jones, 2008). The same period also witnessed a shift in commercial banking from its urban confines to the vast rural stretches. For instance, between 1977 and 1987, an increase in the share of rural credit in total credit was almost ten percentage points (Narayana, 2000).

The fourth phase, which began in 1991, is that of banking liberalisation adopted based on the Narasimham Committee Report. The committee recommended for the phasing out of directed credit programme, deregulation of interest rates, the abolition of interest subsidy, the establishment of an institutional structure based on market-driven profitability and suggested an increasing role for private and foreign banks (Narasimham, 1991). Such policies have had an immediate, direct and dramatic effect on rural credit. Studies observe an erosion in the formal credit system, contraction in rural banking, dilution in the priority sector lending, reduction in the preferential lending to the poor, the decline in the credit share disbursed to the agricultural sector and a sharp drop in the credit-deposit ratio in the rural areas during the post-liberalisation period (Chandrashekhar & Pal, 2006; Jones, 2008; Rajeev, Vani, & Bhattacharjee, 2012). The decline in the credit share distributed to agriculture was noted as a supply side phenomena and not a reflection of any stagnation in demand for formal credit in rural India (Rawal, 2004). During the same period, not only the share of formal credit in total debt of rural households fell but also the share of debt taken for productive purposes declined sharply (Ramachandran & Swaminathan, 2004). Besides, the neo-liberal banking reform implemented post 1991, resulted in a large-scale retreat by the formal sector from the Indian countryside. Of late, microfinance that works on a concept of social banking has emerged as a solution to the credit inaccessibility for large sections of rural poor (Rao & Priyadarshini, 2013). The microcredit approach is expected to rectify the major weaknesses of the banking system itself; most notably "twin problems of non-viability and poor recovery performance" of existing rural credit institutions (ibid).

1.2.4 Disparities in Credit Availability

Studies on credit market in India indicate significant regional divergences in institutionalised credit sources across states as well as between rural and urban areas (Purkayastha, 2001; Mohan, 2004; Basu & Srivastava, 2005; Ghosh, 2012). Apart from the rural-urban disparities in the institutionalised credit availability, in India, there also exists intra-regional imbalances in the credit accessibility. For instance, a vast body of literature has documented inaccessibility of formal credit facilities for the poor and other marginalised sections such as women, those belonging to Scheduled Caste (SC)/Scheduled Tribe (ST), etc. within the rural area.

An analysis based on the unit level data of All India Debt and Investment Survey (AIDIS) conducted by National Sample Survey Office (NSSO) in 2003 proves that weaker sections such as female headed households have much lower access to credit than their male counterpart, even when they are involved in similar economic activities, and consequently face significantly higher rates of interest (cited from Rajeev, Vani & Bhattacharjee, 2012). The results of the AIDIS, 2013 indicates that upper stratum of the rural sector takes away the lion's share of institutional credit while the large mass of the rural poor continues to depend on non-institutionalised credit sources (NSSO, 2014). Further, it is also noted that small and marginal cultivators were adversely affected by the rural credit crunch in the post-1991 period, evident from the declining number of small borrowable accounts (or accounts with a credit limit of Rs. 25,000) in the 1990s (Chandrasekhar & Ray, 2005). The Report of the Committee on Financial Sector Reforms headed by Raghuram Rajan, former Governor of the RBI, went to the extent to opine that the rich-poor divide has replaced the conventional rural-urban divide in access to financial services (Planning Commission, 2009).

The inaccessibility of formal financial institutions by the rural poor is marked by both supply side and demand side bottlenecks (Khan, 2005), as put by different researchers. Building up on the methods suggested by institutional economists, Hermes and Lensink propounded the theory that lending to poor is expensive due to a huge gap in information—i.e., lenders not able to distinguish projects with respect to their risk profiles while allocating credit (adverse selection problem) and borrowers not able to utilise funds as agreed with the lender (moral hazard problem). According to the authors, this prevents the institutional lenders from catering to the poor and marginalised sections of the population (Hermes & Lensink, 2002). From the perspective of rural poor, formal banking networks are unattractive for the following reasons: (a) lack of financial products and services to meet the income and expenditure patterns of small rural borrowers (rural poor prefer to borrow frequently and repay in small instalments, but most banks do not offer such products); (b) transaction costs of dealing with formal banks tend to be high (which stems from distance to the nearest financial institutions) and (c) requirement of collateral security by formal institutions, which poor rural borrowers often find difficult to comply with (Basu & Srivastava, 2005).

1.3 Rural Indebtedness in Kerala

Kerala presents an interesting case to enquire the nature and magnitude of indebtedness among rural poor due to four factors. Firstly, Kerala ranks second among States in average monthly expenditure and income among rural households as per the NABARD All India Rural Financial Inclusion Survey (NAFIS) conducted in 2016-17 (Table 1.1). Interestingly, unlike other states with an income-expenditure surplus above Rs. 3000, the proportion of households indebted in rural Kerala is relatively high, captured by the number of households which availed loans in the previous year of the survey. Further, despite the high average surplus amount, the proportion of households that saves is less than the national average (the figure is 45% in Kerala while 51% is the all India average). In this respect, Kerala stands 19th among the Indian states (NABARD, 2018a). Thus, the current scenario in rural Kerala presents a situation of higher per household income-expenditure surplus combined with low propensity to save and a higher level of indebtedness.

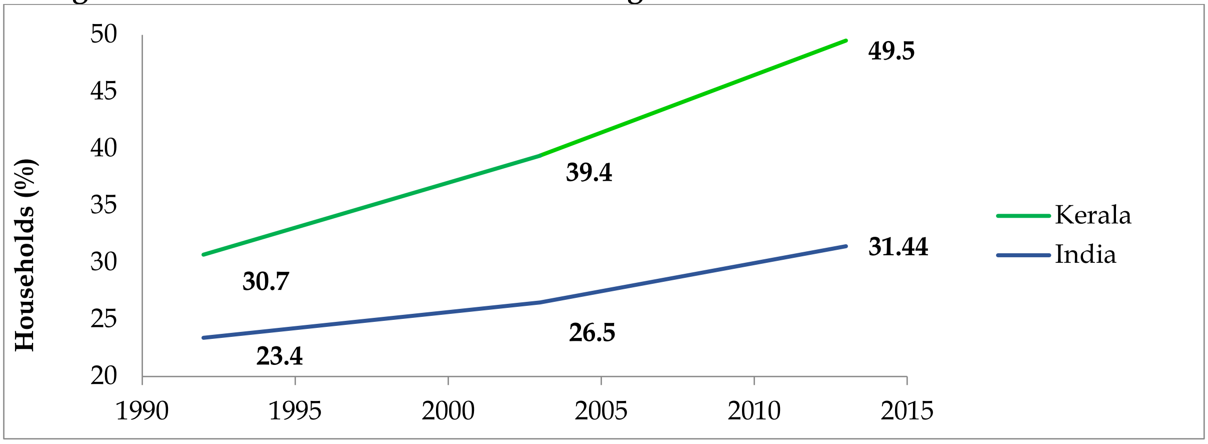
Table 1.1: Income, Expenditure and Indebtedness among Rural Households in India

States	Average Monthly Income per Household	Average Monthly Consumption Expenditure per Household	Surplus (Col. [2]-Col. [3])	Proportion of Households Availed Loan in the Last one year (%)
(1)	**(2)**	**(3)**	**(4)**	**(6)**
Punjab	16,020	11,707	4314	36
Kerala	15,130	11,156	3975	50
Haryana	12,072	8,646	3426	21
Himachal Pradesh	11,702	8,556	3146	23
Gujarat	10,518	7,490	3028	23
All India	**8,059**	**6,646**	**1413**	**40**

Note: Only present selected states, chosen based on similar characteristics on average household income, average household consumption expenditure and average household income-expenditure surplus.
Source: NABARD, 2018a

Secondly, time-series analysis based on NSSO data indicates a rise in the incidence of indebtedness in rural Kerala, which over the last 20 years have grown at a higher rate than the all India rates (Figure 1.1), the reason for which could be ascertained only through an in-depth study in this direction.

Figure 1.1: Incidence of Indebtedness among Rural Households in Kerala and India



Source: NSSO, 1998, 2006 and 2014

Further, NSSO data also suggests variations in the indebtedness level between different classes and occupational groups within rural Kerala. For instance, the data reveals a much higher indebtedness level among cultivator households compared to non-cultivator households (NSSO, 2014). Similarly, the Incidence of Indebtedness (IOI) and Average Outstanding Debt (AOD) in rural Kerala increases as one move from lower to higher asset holding decile classes, as observed in Table 1.2. However, the debt burden reflected from debt-asset ratio (DAR) declines as one moves from bottom to top of the asset holding classes, which suggests a higher level of burden of indebtedness borne by rural poor households.

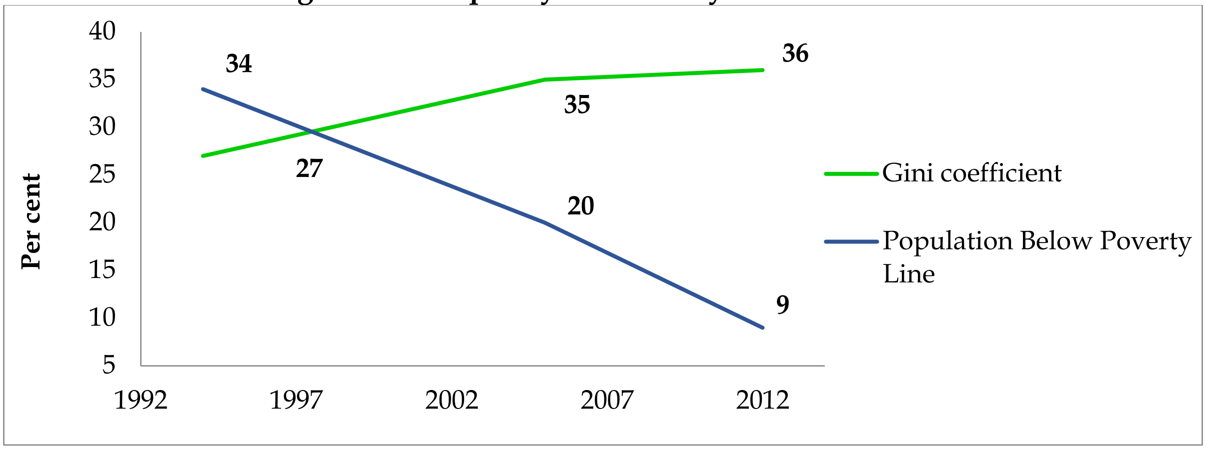
Table 1.2: Indicators of Indebtedness by Decile Class of Household Asset Holding in Rural Kerala

Decile Class of Household Asset Holding	1	2	3	4	5	6	7	8	9	10	All
IOI (%)	29.0	37.7	51.4	42.4	47.4	46.0	56.4	51.5	56.0	48.8	49.5
AOD (Rs.)	22881	25099	53192	48184	71435	88440	129267	177858	131857	178924	92686
DAR (%)	24.5	6.2	7.9	5.0	5.6	5.3	5.8	5.9	2.8	1.3	3.2

Source: NSSO, 2014

Thirdly, although in post 1991, rural areas in Kerala witnessed rising income inequality, as captured through consumption expenditure; among the Indian States, Kerala records the highest rural Gini coefficient (World Bank, 2017). The state attained a sharp decline in rural poverty during the same period (Figure 1.2). Kerala is one of the states with the lowest level of rural poverty in India (ibid).

Figure 1.2: Inequality and Poverty in Rural Kerala



Source: World Bank, 2017

It is also worth mentioning that, despite higher inequality revealed by data, rural Kerala displays better performance in human-development indicators and universal accessibility in health and education. Kerala thus presents a different socio-economic characteristic compared to rural areas in other parts of the country (Centre for Development Studies [CDS], 2005).

Fourthly, Kudumbashree[1] microfinance system, initiated in 1998, has emerged as a significant component influencing and affecting the livelihood of poor households in Kerala. Kerala is considered as the first state in India to have adapted the microfinance programme as a part of the State's decentralisation effort (Das, 2017). Besides, with the increased penetration of private microfinance institutions (MFIs) in Kerala during the last one decade, it is essential to examine the operations of these institutions. Its implications on the rural credit market structure of the state, especially in the context of microfinance crisis occurred in different parts of the world, including the 2010 crisis in Andhra Pradesh (Sarangi, 2011). Thus, this peculiar situation emerging in rural Kerala—high income and high incidence of indebtedness, together with rising inequality and declining poverty and increasing prevalence of MFIs—necessitates an in-depth study to understand the financial life of people, particularly poor segments. Such a study could provide interesting insights into the financial management of a segment of the population, enjoying a remarkably better quality of life and a relatively higher level of debt pressure.

1.3.1 Objectives

The broad objective of the study is to understand indebtedness among rural poor households in Kerala. Specific objectives of the study are as follows:

1. To examine the framework that regulates the operation of financial institutions.
2. To analyse the borrowing pattern and credit choices of rural poor households and to assess the magnitude of their indebtedness.

[1] For detailed explanation refer Chapter 2.

3. To track operational modalities adopted by major credit providers catering to rural poor.
4. To get a glimpse of coping strategies adopted by the rural poor households for debt management.
5. To propose recommendations to address the over-indebtedness among rural poor in Kerala.

1.3.2 Methodology

The study majorly relied on primary data to assess the indebtedness level among rural poor households in Kerala. Apart from data collection through a household survey using a structured pre-tested questionnaire, in-depth interviews, Focus Group Discussions (FGDs) and case studies were conducted for collecting relevant information.

To ensure randomness in sample selection, among 941 Panchayats in Kerala, 12 were selected through systematic random sampling[2] method in the first stage. In the second stage, three wards from each Panchayat were chosen randomly, and from each ward, 15 poor households were chosen by adopting the "right hand rule" method. The household survey covered 36 wards, constituting 45 households in each Panchayat. The total number of sample households covered in the household survey was 540. The surveyed Panchayats and wards are given in Appendix I.

The study has defined the poor households in rural areas based on the colour of the Public Distribution System (PDS) cards.[3] The sample households are selected only among those holding yellow and pink cards. In the report, those households holding yellow cards are defined as 'very poor', and those with pink cards as 'poor'. As per the data provided by the Government of Kerala,[4] yellow and pink cardholders cover roughly 43 per cent of the total households in the state. In this study, for analysis, credit sources are categorised into three: 'individual' borrowings from formal sources (commercial banks, co-operative financial institutions, Non-Banking Financial Companies [NBFCs] and registered chit funds); 'individual' borrowings from informal sources (moneylenders, friends and relatives); 'group' borrowings from formal sources (Kudumbashree, Self Help Groups [SHGs], MFIs).

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[2] Systematic sampling is a type of probability sampling method in which sample members from a larger population are selected according to a random starting point but with a fixed, periodic interval.

[3] Currently there are four types of ration cards in Kerala—yellow, pink, blue and white each with different benefits. Of these, yellow and pink cards are given to the most deprived sections of the society. For instance, yellow cards are provided to the most economically backward sections (referred as Antyodaya Anna Yojana beneficiaries). With this card, they are entitled to 35 kilograms of food grains free of cost per month for a family, while pink card holders/priority card households are entitled to 5 kilograms of food grains at Rs. 2 per kg per each family member per month. Blue and white are non-priority card holders. Blue card holders are provided subsidised food grains by the State Government (2kg rice at Rs. 4 per kg per person for a month), while white card holders could purchase fixed quantity of food grains from ration shops at designated price. For details see *Economic Review 2018,* Kerala State Planning Board, Government of Kerala (GoK), Thiruvananthapuram.

[4] Data is retrieved from https://epos.kerala.gov.in on 4th August 2020.

The household survey captures the following aspects: socio economic and demographic details of households, nature, dimensions and magnitude of household indebtedness, households' experiences with regard to their debt situation and perception of the respondents concerning various credit sources.

Investigators and supervisors who coordinated the household survey were provided two-day training, including field visits before data collection. The supervisory staff monitored the data collection and conducted back checking through phone calls and house visits to ensure the quality of data. Apart from editing the questionnaire in the field by the field supervisor, editing was also done at the CSES office before data entry to reduce errors.

Besides the household survey, FGDs and in-depth interviews with the target population were also attempted in all the selected Panchayats. To get a more detailed understanding of the credit sources and credit availability in the Panchayat, key informant interviews were also held with elected representatives in the Panchayat, Panchayat officials and Community Development Society (CDS) office bearers. It is to be noted that the household survey for the study has been conducted during June and July 2018. The fieldwork was temporarily suspended during the flood period (August-September). After that, informant interviews and FGDs were completed in October and November 2018.

To develop a better understanding of the operational strategies of different credit sources, senior management and officials dealing with daily operation, field staff of different financial institutions such as MFIs and co-operative financial institutions were also interviewed.

1.3.3 Limitations of the Study

The present study suffers shortcomings majorly emerging from the difficulty in collecting accurate financial data from a population segment engaged in informal employment and faces an irregular and uncertain flow of income and expenditure. The study, which is mainly based on primary data, is subject to many of the limitations which are typical of such studies. For instance, information is primarily collected based on the memory of the respondents, which might have resulted in the understatement or overstatement of the actual indebtedness level. The absence of records for the loans from informal sources shuts the possibility for the investigators to confirm the validity of the reported data. Further, the information is chiefly collected from an adult member of the household available at the time of the survey. Although sufficient care has been taken through revisits to ensure the collection of information from an adult member, possessing better knowledge about the household indebtedness situation, still there could be chances of underreporting. For instance, mothers do not possess much idea about the loans taken by their sons; husbands might be unaware of the loans taken by wives secretly to meet children's expenses, husbands taking loans from moneylenders without the knowledge of wives, etc. In some households, the study team even felt the unwillingness of the respondents to reveal the loans taken from moneylenders, which might have contributed to the under-reporting of loans from informal sources. This situation arises in the wake of the tightening of moneylenders' operations in Kerala through the introduction of Operation Kubera.[5] Since many of the moneylenders operate illegally, they instruct borrowers not to reveal about their operations.

The lack of knowledge regarding terms and conditions of loans among the rural population and the consequent errors in reporting of interest rates was another issue the study team had to manage in assessing the level of indebtedness of the sample households. The informal nature and the flexible operation modalities of the credit sources existing in rural Kerala made it difficult for the researchers to report the debt burden of the household precisely. The inability of the respondents to specify a fixed monthly income due to the informality existing in rural employment structure also created difficulties in assessing the debt burden. Similarly, the non-feasibility in calculating the value of household assets authentically within the timeframe of the current study, prevent the researchers from analyzing the indebtedness level based on various economic gradients. However, considering the extra efforts made to ensure the quality of data collection, by revisit and back up calls, it can be assumed that insights from the study would help to uncover some of the major aspects of the credit lives of poor households in rural Kerala.

1.4 Profile of the Sample Households

This section presents a profile of sample households included in the study. Social, economic and demographic features which are critical to understanding the magnitude and nature of indebtedness among rural poor households are described here.

1.4.1 Social and Demographic Characteristics of Sample Households

Table 1.3 presents selected social and demographic characteristics of the sample households. Out of the 540 households included in the sample, three-fourths follow the Hindu religion. Households belonging to Muslim and Christian community together account for one fourth of the total sample. With respect to the caste composition of the households, half of the sample population belongs to Other Backward Class (OBC) and around one-third belongs to SC. Share of General category households in the sample is 11 per cent, and the proportion of ST households is seven per cent. It needs to be noted that, religion and caste of the head of the household, has been considered as representing social characteristics of the household.

The average household size among the surveyed households was 4.32. Majority of households were nuclear families (less than five members). The larger households in the sample were mostly extended families having three generations; i.e. grandparents, parents and children, among which the largest household had 25 members. Only 23 (4%)

[5] The stringent action initiated by Kerala Government against the unauthorised and illegal money lending activities. Money lending activities in Kerala are primarily regulated by two legislations: The Kerala Moneylenders Act, 1958 and The Kerala Prohibition of Charging Exorbitant Interest Act, 2012.

households were single member households. On the other hand, 21 households) had more than ten members.

Among the sample households, 55 per cent are male headed, and 45 per cent are female headed households. Characteristics of the head of the household are regarded to be important determinants of the well-being of the households (George et al., 2013). However, it needs to be noted that during the household survey, the eldest male member of the household or the eldest female member, in cases where the spouse is deceased or separated, was often reported as the head of the household.

Table 1.3: Social and Demographic Characteristics of Sample Households

Category	Sub-Category	Number of Households	Share of Households (%)
Religion	Hindu	396	73.3
	Muslim	84	15.6
	Christian	60	11.1
	Total	**540**	**100.0**
Caste	SC	160	29.6
	ST	39	7.2
	OBC	281	52.0
	General	60	11.2
	Total	**540**	**100.0**
Gender of the household head	Male	298	55.2
	Female	242	44.8
	Total	**540**	**100.0**
Household size	1-4	302	55.9
	5-8	221	40.9
	9 & above	17	3.2
	Total	**540**	**100.0**

Source: Primary Survey

More than half of the head of the households were aged below 60 years, which means that the majority of the head of the households are in the working age population. It has also been observed that more than four-fifths of the household heads received formal education (Table 1.4).

Table 1.4: Age and Education of the Household Head

Age Range	Number of Households	Share of Households (%)	Education Level	Number of Households	Share of Households (%)
20-39	42	7.8	Informal	93	17.2
40-59	268	49.6	Primary	167	30.9
60-79	209	38.7	Secondary	253	46.9
80 & Above	21	3.9	Higher secondary	15	2.8
Total	**540**	**100.0**	Graduate	4	0.7
Average age of the household head of sample households- 57 years			Post graduate	2	0.4
			Others	6	1.1
			Total	**540**	**100.0**

Source: Primary Survey

1.4.2 Composition of Sample Households

Out of 2835 household members covered in the sample survey (from 540 households), 17 per cent is below 15 years of age. In nearly half of the surveyed households, the highest education received by an adult member of the household was secondary school education. At least one member has gone for higher education from 18 per cent of the sample households (above higher secondary. At the same time, the survey came across 13 households, in which none of the household members had any form of formal education (Table 1.5).

Table 1.5: The Highest Level of Education Received by the Sample Households

Education Level	Number of Households	Share of Households (%)
Informal	13	2.4
Primary	35	6.5
Secondary	248	45.9
Higher secondary	149	27.6
Graduate	73	13.5
Post graduate	8	1.5
Professional	14	2.6
Total	**540**	**100.0**

Source: Primary Survey

As per Table 1.6, three-fourths of the sample households had either one or two earning members. There were 40 non-earning households (7%) in the sample.

Table 1.6: Number of Earning Members and Dependents among Sample Households

Number of Earning Members	Number of Households	Share of Households (%)	Number of Dependents	Number of Households	Share of Households (%)
0	40	7.4	0	57	10.6
1	237	43.8	1	89	16.5
2	170	31.5	2	106	19.6
3	76	14.1	3	129	23.9
4	15	2.8	4	85	15.7
5	2	0.4	5	44	8.1
			More than 5	30	5.6
Total	**540**	**100.0.0**	**Total**	**540**	**100.0**
Average Number of Earning Members – 1.6			**Average Number of Dependents – 2.7**		

Source: Primary Survey

Average dependency load, i.e. the number of non-earning members or dependants supported by an earning member in the household, is about two (Table 1.7). In 68 per cent of households, the dependency load is less than two.

Table 1.7: Dependency Load among Sample Households

Dependency Load	Number of Households	Share of Households (%)
No dependency	57	11.4
Less than or equal to one	155	31.0
1-2	126	25.2
2-3	76	15.2
3-4	47	9.4
Above 4	39	7.8
Total	**500***	**100.0**
Average Dependency load-1.93		

Note: For dependency load, the base is 500 as 40 households reported that they do not earn any income, but depend on non-household members for their livelihood.

Source: Primary Survey

1.4.3 Household Living Conditions

A large majority of the households, 93 per cent, possess their own houses. It is important to note that despite the fact that the survey covered rural poor households, physical conditions of their dwellings are good as evident from Table 1.8. This indicates the relatively higher standard of living enjoyed even by the economically deprived population segments of Kerala.

Table 1.8: Quality of Dwelling of Sample Households

Categories	Sub-Categories	Number of Households	Share of Households (%)
Housing conditions	Kutcha	18	3.3
	Semi Pucca	123	22.8
	Pucca	399	73.9
	Total	**540**	**100.0**
Area of the house (Sq.ft.)	Below 500	230	42.6
	500-999	296	54.8
	1000-1500	14	2.6
	Total	**540**	**100.0**
Number of rooms	1	14	2.6
	2	138	25.6
	3	262	48.5
	4	111	20.6
	5	9	1.7
	Above 5	6	1.1
	Total	**540**	**100.0**
Other facilities	Households with LPG connection	461	85.4
	Households with Electricity Connection	534	98.9

Source: Primary Survey

Only three per cent of the families are living in kutcha houses, while three-fourths are staying in pucca houses. The floor area is more than 500 sq.ft. in 57 per cent of the sample houses. Similarly, nearly three-fourths of the sample houses are of three rooms or more. Concerning the basic amenities in the house, there were very few non-electrified houses in the sample (only 1%). More than 85 per cent of the households reported that they have LPG connection at home.

1.4.4 Economic and Asset Position

As the study focuses on rural poor, it is relevant to understand how the sample households are included in the Government food distribution programmes, which categorise households based on income criterion. As seen in Table 1.9, about one-fifth of the sample households possess yellow cards, provided by the government for the economically most deprived sections of the society. Pink cardholders, who are better off than yellow cardholders form the majority. The asset position of the household was also looked into. It can be observed from Table 1.9 that 93 per cent of the sample households possess title deed over at least some land. The average area of the land owned by the land-owning households is calculated as 16 cents. Further, 57 per cent of households possess some amount of gold, as part of saving. The average quantity of gold owned by the households is estimated at 4.5 sovereigns.

Table 1.9: Economic and Asset Position of the Household

Particulars	Number of Households	Share of Households (%)
Households possessing yellow PDS card	115	21.3
Households possessing pink PDS card	425	78.7
Total	**540**	**100.0**
Households owning land with title deed	502	93.0
Average amount of land owned by the land owning households (base = 502)	15.5 cents	
Households possessing gold	308	57.0
Average quantity of gold held by households possessing gold (base = 308)	4.4 sovereign	

Source: Primary Survey

1.5 Structure of the Report

Rest of the chapters are schematised as follows: Chapter 2 briefly reviews the regulatory framework that governs the operation of credit institutions. Chapter 3 examines the magnitude and nature of indebtedness among rural households. Chapter 4 explores different credit sources of rural poor households in detail. Chapter 5 summarises the main findings and provide policy suggestions to improve credit availability and access to rural poor households.

CHAPTER 2

CREDIT SOURCES AND REGULATORY FRAMEWORK: SITUATING INDEBTEDNESS AMONG RURAL POOR IN KERALA

2.1 Introduction

This chapter provides an overview of major credit sources available for rural poor households in Kerala and examines the regulatory framework and operational mechanisms governing these sources. It is attempted to understand to what extent these credit sources are accessible and affordable to rural poor. Considering the high level of household indebtedness in rural Kerala and the unequal distribution of commercial bank branches between rural and urban areas of the state, this issue deserves critical importance. For instance, as per the first All India Rural Financial Inclusion Survey (NABARD, 2018a), the incidence of rural indebtedness among households in Kerala is estimated to be 56 per cent, much higher than the corresponding figure at all India level, 47 per cent. Further, Kerala accounts for 4.6 per cent of the total scheduled commercial bank branches operating in the country and ranks 5th at all India level in terms of coverage of the population by a commercial bank branch.[6] However, there does exist a wide gap in the distribution of financial institutions between rural and other segments in Kerala. Data indicates that of the total number of commercial bank branches operating in the state, only 6.5 per cent are in rural areas, while the share of urban and semi urban areas are 31 and 62.5 per cent respectively[7] (RBI, 2018a). For the poor, particularly those from socially and economically backward categories, propensity to save is limited or too small to be mopped up by the banks (RBI, 2017b). So, they tend to depend on informal financial sources, charging high interest rates, for their credit requirements.

Based on a review of secondary sources such as reports, circulars and data published by RBI, NABARD, etc., this Chapter examines regulatory framework and operations of three major credit sources relevant in rural Kerala—commercial banks, co-operative financial institutions and microfinance sector in Sections 2.2, 2.3 and 2.4 respectively. Section 2.5 summarises the chapter.

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[6] At all India level 10,339 people are covered by a commercial bank branch, the corresponding figure for Kerala is 4,553 (RBI, 2018a). However, number of individuals covered by a financial institution improves to 3256, if co-operative financial institutions, which has significant reach in Kerala is considered (National Federation of State Co-operative Banks Ltd. [NAFSCOB], 2018a, 2018b, 2018c).

[7] If the presence of co-operative financial institutions is considered, the situation becomes slightly better—25 per cent of total branches of commercial and co-operative financial institutions function in the rural areas (NAFSCOB, 2016-17).

2.2 Scheduled Commercial Banks

RBI defines scheduled commercial banks as those banks which are included under the second schedule of the Reserve Bank of India Act, 1934 and regulated under Banking Regulation Act, 1949. For the study, commercial banks are further classified into three categories: public sector banks[8], private sector banks[9] and RRBs.

Table 2.1: Scheduled Commercial Bank Branches in Kerala

Type	Number of Branches	Share in Total (%)
Public sector	3504	55.2
Private sector	2214	34.9
RRBs	630	9.9
Total	**6348**	**100.0**

Source: State Level Bankers' Committee (SLBC), 2018a

More than half of the total commercial bank branches in Kerala are in the public sector, as evident from Table 2.1. However, despite being the most important source of formal credit, there exist regional disparities in the distribution of public sector banks within the state. For instance, in Ernakulam district, one branch of public sector bank covers 5621 people. In contrast, the penetration of public sector banks in Malappuram is very less, with one branch covering more than 20,000 people (almost four times than Ernakulam) (Table 2.2).

Table 2.2: Population Coverage of Public Sector Commercial Banks in Kerala (District-wise)

District	Number of People Covered by One Public Sector Bank Branch
Thiruvananthapuram	6878
Kollam	11027
Pathanamthitta	5729
Alappuzha	9716
Kottayam	7103
Ernakulam	5621
Idukki	11433
Thrissur	10068
Palakkad	10766
Malappuram	20161
Kozhikode	12495
Wayanad	12385
Kannur	12742
Kasaragod	11673
All Kerala	**9534**

Source: Authors' calculation based on data provided by State Level Bankers' Committee, 2018b and Census, 2011

[8] Refers to the banks where majority stake is held by the Government.
[9] Refers to the banks where majority stake is held by private sector. Although RBI considers private sector banks and foreign banks as separate categories, this study view them as one category, because the presence of foreign banks in Kerala's rural area is very limited or almost nil.

2.2.1 Fair Practices Code

To improve public access to credit and to regulate the credit operations of commercial banks, RBI issues guidelines from time to time. While framing the Fair Practices Code, commercial banks are mandated to follow these guidelines. The Board of Directors is required to review the compliance of the Fair Practices Code and functioning of the grievance redressal mechanism periodically. Existing fair practices required to be followed by commercial banks are presented in Box 2.1.

Box 2.1: Highlights of Fair Practices Code for Lenders

- Loan application forms should be comprehensive. All information such as processing fee, pre-payment charges, the penalty for delayed repayments, conversion charges for switching loan from fixed to floating rates[10] , etc., should be disclosed to the borrowers. This information should also be displayed on the website of the banks and in the loan application form. Banks are prohibited from charging any fees from borrowers other than those already disclosed.
- Borrowers should be provided with acknowledgement receipt of loan applications.
- Banks should disclose timelines for conveying credit decisions through their websites, noticeboards, product literature, etc.
- Reasons for rejecting loan application should be disclosed to consumers, within a stipulated time.
- The lender should convey to the borrower the credit limit.
- Terms and conditions and other caveats governing credit facilities should be given to the borrowers in writing.
- Copy of the loan agreement along with a copy of all enclosures quoted in the loan agreement should be furnished to the borrower.
- Lenders should ensure timely disbursement of loans.
- Lenders should give notice to borrowers of any change in the terms and conditions including interest rates, service charges etc.
- Changes in interest rates and charges should be implemented only prospectively.
- On receiving payment of loan or realisation of loan, all securities should be released.
- Borrowers must not be discriminated on the grounds of sex, caste and religion. However, this does not preclude lenders from participating in credit-linked schemes framed for weaker sections of the society.
- In case of loan recovery, the lenders should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc.

Source: RBI, 2015a

[10] In fixed rate loan the interest rate is fixed for the entire tenure of the loan. i.e., the equated monthly instalments (EMIs) would remain constant over the tenure of the loan. Under floating rate EMIs would fluctuate as per market dynamics, that is, when interest rates increase or decrease.

2.2.2 Interest Rate

RBI mandates banks to fix the interest rates on different loans based on its marginal cost of funds based lending rate (MCLR).[11] No bank is currently allowed to lend below the MCLR. Although, banks have the freedom to offer all categories of advances on fixed or floating interest rates, interests on loans are allowed to be charged only at monthly rests.[12] Banks are also permitted to formulate their own policy for charging penal interest on advances which shall be fair and transparent. However, charging penal interest on advances to borrowers under priority sector up to Rs.25,000 is prohibited (RBI, 2016b).

Box 2.2: The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002)

In 2002, the Parliament enacted the SARFAESI Act that empowers banks/other financial institutions (including co-operative financial institutions) to recover the loans, for which the repayment instalments are due for three months, without the intervention of the Court. Under the provisions of this act, the financial institutions can issue a notice to the defaulting borrower and guarantor, calling upon them to discharge their full dues within 60 days from the date of the notice. If the borrower fails to comply with the notice, the institution is permitted to take possession of the security to auction them. The Act has been subjected to wide criticism as it is unfavourable to the property rights of poor borrowers who do not have any influence over these institutions. It has been pointed out by experts that, the discretion and authority given to financial institutions for the recovery of loans without the interventions of the court is majorly affecting the poor borrowers, many of them are not 'wilful defaulters'. [13] At the same time, wilfully defaulting corporates, who have political connections and money power, are given maximum relaxation (Chandrasekhar & Ghosh, 2018; Raj & Raju, 2016; Rao, 2012).

2.3 Co-operative Financial Institutions

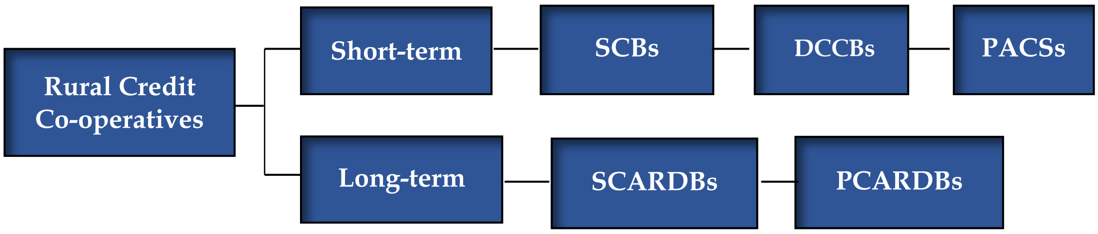
This section deals with financial institutions registered under the Co-operative Societies Act, 1904. Co-operative financial institutions play a major role in making credit available to rural poor, for agricultural activities and to small borrowers/businesses, where commercial banks do not have much interest. In fact, due to the wide network of co-operative financial institutions across different geographic regions and demographic groups, these institutions have immense potential to bring people under the formal financial system (RBI, 2011a).

[11] Describes the method by which the minimum interest rate for loans is determined by a bank—based on marginal cost or incremental cost of arranging one more rupee to the prospective borrower.
[12] Refers to periodicity of charging interest to borrowers.
[13] Wilful defaulter is an entity or a person that has not paid the loan back despite the ability to repay it.

2.3.1 Organisation Structure

Structure of rural co-operatives in Kerala is depicted in Figure 2.1. In the state, the rural co-operatives are divided into short term and long term structures. Short term co-operatives sector, has a three-tier structure comprising of State Co-operative Banks (SCBs) functioning as the apex level institution, District Central Co-operative Banks (DCCBs) operating at the district level and the Primary Agricultural Credit Societies (PACSs) working at the grass root level (village level). While the long-term co-operatives have the State Co-operative Agriculture and Rural Development Banks (SCARDBs) at the State level and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the district/block level. The role of SCARDBs and PCARDBs is to enhance capital formation in agriculture and rural sectors in the state through its long-term investment loans.

Figure 2.1: Structure of Rural Co-operative Credit Institutions in Kerala



Source: Adopted from Economic Review, 2016

The regulatory structure of rural co-operatives is complex with *Registrar of Co-operative Societies* (RCS), RBI and NABARD sharing the responsibilities of regulations. The banking functions of SCBs and DCCBs are regulated and supervised by RBI under various provisions of the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934, while RCS oversees registration/audit/management/ liquidation related activities of these banks and NABARD, with authority delegated under Banking Regulation Act, inspects these institutions. However, PACS and long-term credit co-operatives are outside the purview of the Banking Regulation Act and are hence not regulated by the Reserve Bank (Ministry of Finance, 2016; RBI, 2017a).

Kerala provided the largest amount of loans through co-operative financial institutions (Rs. 1100 billion) in 2016-17 followed by Maharashtra (Rs. 750 billion) and Tamil Nadu (Rs. 450 billion) (NAFSCOB, 2018a, 2018b, 2018c). NAFSCOB data also shows that Kerala is one among the few states in which every village has at least one PACS.[14] All these points to the prominent role of co-operative institutions in Kerala's credit structure, especially in rural Kerala. Table 2.3 shows that among the short-term rural co-operative financial institutions, PACSs have distributed the largest amount of loans in rural Kerala.

[14] The states in which every villages are covered by PACSs include Andhra Pradesh, Uttar Pradesh, Bihar, Chhattisgarh, Haryana, Himachal Pradesh and Punjab.

Table 2.3: Details about the Network of Short-term Rural Co-operatives in Kerala, 2016-17

Institution	Number of Branches	Memberships	Total Deposits (Rs. in Lakhs)	Total Loans Issued (Rs. in Lakhs)
SCBs	24	15*	6,67,357	4,36,620
DCCBs	807	83,812	52,80,555	28,03,035
PACSs	1,647	22,97,3460	83,19,351	76,94,114

*Memberships in SCBs include 14 DCCBs and the state government

Source: Compiled from NAFSCOB, 2018a, 2018b, 2018c

2.3.2 Operating Mechanism

It is mandatory to obtain membership from a co-operative institution to avail its services and membership is open to anyone residing within the area of operation designated to that institution, by paying a nominal contribution. Being a member will also make them eligible for a part of institutions' profit, which will be distributed among its members according to legal and statutory stipulations. Therefore, a customer of the co-operative institution is also its owner. Day to day functioning of co-operative institutions is carried out by the Board of Directors, democratically elected from members on "one member, one vote" basis. The staffs of co-operative financial institutions are mostly recruited from the locality. These peculiarities of co-operative financial institutions—familiarity between customers, employees and the Director Board Members and the right of anyone in the locality to secure membership, makes the institution easily accessible to rural poor.

Box 2.3: Priority Sector Lending

Recognising the prominent role played by bank credit in the equitable distribution of income, removal of poverty and development of the economy, the RBI introduced the concept of directed lending in the 1970s for priority sectors, which is applicable to both commercial banks and co-operative financial institutions. However, over the last four decades, the scope and extent of priority sector lending have undergone drastic changes by including several new areas and sectors within its purview and by altering targets applicable to various bank groups. (NABARD, 2017). Definition of priority sector lending was expanded to include short-term advances to traditional plantations including tea, coffee, rubber and spices, irrespective of the size of the holding and the distribution of inputs for agriculture and allied sectors (dairy, poultry, livestock rearing etc.). Narasimham Committee recommendation to scale down priority sector lending from 40 percent to 10 percent of the aggregate credit was accepted. Besides, norms of priority sector lending were diluted with the net effect that credit provided to the agriculture sector reduced. Consequently, for several private banks, particularly foreign banks, choice of priority sector lending was in favour of more cost effective and profitable sectors such as export (Chandrasekhar & Ghosh, 2018; Chandrasekhar, 2008; Chandrasekhar & Ghosh, 2004; Dasgupta, 2002).

Currently, the categories included in the priority sector are (i) Agriculture, (ii) Micro, Small and Medium Enterprises (MSMEs), (iii) Export Credit, (iv) Education, (v) Housing, (vi) Social

Infrastructure, (vii) Renewable Energy, (viii) Others. Bank credit to MFIs extended for on-lending to individuals and members of self-help groups (SHGs)/joint liability groups (JLGs) is included in the priority sector. Similarly, the loans to certain sections of the population are considered as 'priority sector loans to weaker sections' by the RBI. This category of priority sector includes:

i. Small and Marginal Farmers
ii. Artisans, village and cottage industries where individual credit limits do not exceed Rs. 1 lakh.
iii. Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
iv. Scheduled Castes and Scheduled Tribes
v. Beneficiaries of the Differential Rate of Interest (DRI) scheme
vi. Self Help Groups
vii. Distressed farmers indebted to informal lenders
viii. Distressed persons other than farmers, with loan amount not exceeding Rs. 1 lakh per borrower to prepay their debt to informal lenders
ix. Individual women beneficiaries up to Rs. 1 lakh per borrower
x. Persons with disabilities
xi. Overdrafts upto Rs. 5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts, provided the borrower's household annual income does not exceed Rs. 1 lakh for rural areas and Rs. 1.6 lakhs for non-rural areas
xii. Minority communities

Banks are required to comply with the following RBI guidelines, for all categories of advances under the priority sector (RBI, 2016b).

i. All-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the base rate plus eight per cent per annum. However, the eligible priority sector loans from MFIs, are exempted from this interest rate cap as there are separate caps on margin and interest rate for MFI loans.
ii. No service charges/inspection charges should be levied on priority sector loans up to Rs. 25,000.
iii. A register/electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement of priority sector loans with reasons thereof, etc., should be recorded.

2.4 Microfinance

Microfinance is a category of financial services, emerged during the 1980s that provides microcredit in the form of small loans to poor who lack access to credit from formal financial institutions. Over the years, institutions providing microfinance have grown tremendously in terms of size, reach and financial maturity. There exist numerous studies that document the role of microfinance in fulfilling the financial inclusion agenda and removing poverty (Karim, Tania, & Faraz, 2012; Shetty, 2008 and; United Nations, 1998).

In India, the models in the microfinance sector are classified into two main groups: (a) SHG-Bank linkage Model and; (b) Non-Banking Finance Companies-Micro Finance Institutions (NBFC-MFI). The basic features that distinguish between these two models of microcredit delivery are summarised in Table 2.4.

Table 2.4: Basic Features of SHG-Bank Linkage Model and NBFC-MFI Model

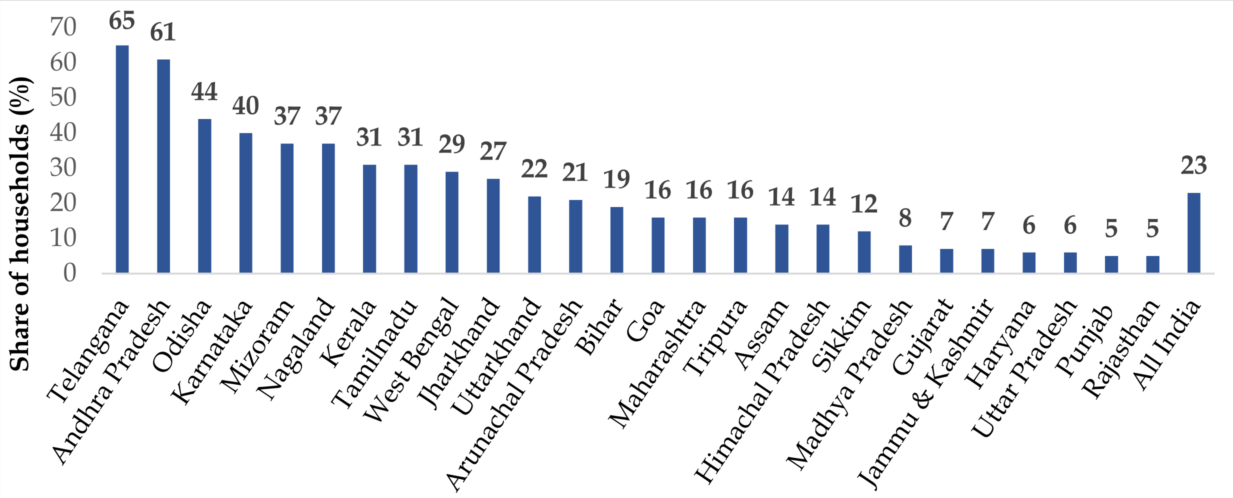
Features	SHG-Bank Linkage	NBFC-MFI
Basic structure	12-15 people form a group and start an account with a bank. They start to build up internal funds through thrift and savings. Once this reaches a substantial level, they begin borrowing from the bank.	NBFC-MFIs form client groups of convenient size and start lending to them right away, often without the requirement of savings and thrift.
Nature of group	Savings oriented group, where thrift is mandatory—savings are pre-requisite to initiate internal loaning and subsequent linkage with the bank. Borrowing power of the group is determined based on the group thrift.	Credit Oriented Group which is primarily formed to avail loan from the bank/formal credit institutions (no thrift).
Nature of loan	Banks give loan to the SHG. Further, the SHG members internally decide the allotment of the loan amount.	Loans are recorded in the names of individual borrowers.
Capacity building	Substantial capacity building is brought through group meetings and training sessions.	Not much capacity building as most group meetings is restricted to the distribution of loans and the collection for loan repayments.
Time for loan processing	Instant delivery of internal loan, though the processing of bank linkage loans is comparatively lengthier.	Ready delivery and easy processing of loans.
Interest rates	Comparatively lower rates, which hover between 12-24 per cent.	Considerably higher. Starts at around 24 per cent and could be much higher than that.
Other activities	Functions with a goal of socio-economic empowerment of its members. Towards the purpose imparts skill training to its members.	Activities of MFI are generally restricted to the financial domain.
Loan repayment	Usually done monthly. Internal repayments are more flexible depending on the cash flow of members, although there exists stipulated repayment terms.	Typically done weekly, regardless of the cash flow of clients.
Operational cost for the group	Higher—as bookkeeping and meetings are to be conducted by the SHG.	Lower—as bookkeeping and meetings are managed by the MFIs.

Source: Compiled from Paul& John, 2010; Ghate, 2006

With a comparatively high rate of interest and recovery, many Third World bankers are finding that lending to the poor is not just a good thing to do but is also profitable (Morduch, 1999). Recognising this trend, Mayoux put forward three paradigms of microfinance; the Financial Sustainability paradigm[15], the Poverty Alleviation paradigm[16], and the Feminist Empowerment paradigm[17] (Mayoux, 2000). It is argued that although at the embryonic stages of microfinance, the primary goals were poverty alleviation and woman empowerment. However, the emergence of 'commercial' microfinance by private capital since the late 1990s, resulted in dilution of empowerment and antipoverty paradigms, and focus shifted to financial sustainability paradigm of microfinance (Edward & Olsen, 2006).

All India Rural Financial Inclusion Survey Report 2016-17 published by NABARD notes microfinance group penetration among rural households in Kerala as 31 per cent, i.e., at least one member from these households is associated with a microfinance group (Figure 2.2). As per the Report, across Indian states, Kerala ranks 7th in terms of microfinance group penetration.

Figure 2.2: State Wise Share of Rural Households with at least One Member in Microfinance Group



Source: NABARD, 2018a

Rest of the Section will discuss three types of microfinance operations prevailing in Kerala. Section 2.4.1 discusses SHG-Bank-linkage programme, Section 2.4.2 deals with Kudumbashree programme[18] and Section 2.4.3 tracks the regulatory framework of Private Microfinance Institutions.

2.4.1 SHG-Bank Linkage Programme

NABARD launched the SHG-Bank linkage model in 1992 as a pilot project for financing 500 SHGs across the country. To study the functioning of SHGs for expanding their

[15] Argues that group lending is good business for banks.
[16] Aims at poverty reduction among the poorest, increased well-being and community development.
[17] Highlights women's need to organise themselves to escape their double oppression, both as women in the patriarchal gender order and within the working class.
[18] Although Kudumbashree NHGs follow SHG-Bank linkage model of group loan delivery, given the institutionalised structure and the significance Kudumbashree occupies in Kerala society, this study presents Kudumbashree as a separate category.

activities and deepening their role in the rural sector, RBI constituted a Working Group under the Chairmanship of S.K. Kaliain in 1994. The Working Group observed that linking SHGs would improve credit accessibility of rural poor, an approach which would be cost effective, transparent and flexible. It was expected that the move would offer much needed solution to the twin problems faced by the banks, viz. poor recovery of loans in rural areas and high transaction costs in dealing with small borrowers at frequent intervals. As a follow up to the recommendations made by the Working Group and encouraged by the positive results of the pilot project, in 1996, the RBI advised banks to mainstream the programme (RBI, 2017b).

NABARD defines SHG as a small informal group consisting of 10-20 individuals, who are homogenous in social and economic backgrounds. The group is supposed to have come together voluntarily to promote savings habit among members and with a cause to raise and manage resources for the benefit of group members. The internal savings mobilised by the group are lent to its members to meet emergency requirements or such other purposes as decided by the group. NABARD prescribes following characteristics for provision of credit by the bank to the groups:

a. SHG members should preferably have a homogeneous background and common interests.
b. It should have been in active existence for at least six months.
c. It should have successfully undertaken savings and credit operations from its own resources.
d. It should be democratically working; wherein all members feel that they have an equal say.
e. The group needs to maintain proper accounts/records.
f. The banker should be convinced that the group has not come into existence only for availing benefits, and there should be genuine interest to help each other.

The operating mechanism of SHGs, as prescribed by NABARD (2018b) is given below:

Opening Bank Account: SHGs are eligible to open savings bank accounts with banks. The saving account of the SHGs will be operated by the office bearers duly authorised to this effect by way of group resolution.

Quantum of Loan: Banks can sanction linkage loans to SHGs which varies from a saving to loan ratio of 1:1 to 1:4. Banks are required to make a credit decision based on certain objective parameters such as proven track record, savings pattern, recovery rates, credit history, etc.

Documentation: Keeping in view the nature of lending and status of borrowers, the banks normally prescribe certain documentation for lending to SHGs: (a) an inter-se agreement to be executed by the members of the SHG; (b) loan application to be submitted by SHG and; (c) loan agreement to be executed between bank and SHG.

Presence of Defaulters in SHG: Defaults made by a few members of SHG should not ordinarily come in the way of bank financing, provided the SHG has not defaulted it. However, the bank loan cannot be utilised by the SHG for financing a defaulter member of the bank.

Grading SHGs for Bank Finance: Banks are expected to finance SHGs that demonstrate group coherence, financial management capabilities and behavioural discipline. For the purpose, NABARD has developed a 15-point grading system for SHGs, which are as follows:

1. Structure of SHG
2. Year of formation
3. Number of monthly SHG meetings
4. Attendance of members
5. Accuracy and clarity followed in writing the minute book
6. Participation of members in the group meeting discussions
7. Nature of discussions and the method in reaching decisions
8. Number of times thrift collected monthly
9. Method of collecting thrift amount and loan repayment
10. Allocation and distribution of thrift loans
11. Interest rate of thrift loan
12. Percentage share of thrift amount disbursed as loan
13. Regularity in repayment of thrift loan
14. Keeping of registers and documents.
15. Understanding of members about the bylaw

Bank evaluates each indicator and award marks to SHGs. The total mark is capped at 150. An SHG should score at least 120 marks, to become eligible for availing linkage loan.

Rate of Interest: SHGs are free to decide the interest rate to be charged to their members for internal lending provided the rate of interest is not excessive. The banks have the discretion to decide on the interest rates applicable to loans given to SHGs.

Voluntary Savings/Thrift: Members of SHGs are allowed to make voluntary savings over and above compulsory savings mandated by the group. However, additional savings by group members does not entitle the concerned members to seek proportionately higher credit for themselves. SHGs have the freedom to decide as to whether the voluntary savings by group members are eligible for a proportionate share in the interest income or dividend from the group.

Purpose of Bank Loan: Loan granted by the bank to the SHG is purpose neutral as the group decides the purpose for which a loan can be given to its members. The loans can be utilised for any purpose such as income generation activities, social needs like housing, education, marriage and debt swapping. The bank cannot prescribe purposes for which linkage loan can be utilised. The only condition they could impose is that the purpose for which the loan will be utilised should be made clear in the loan request.

Joint Liability Groups (JLGs) within SHGs: A few members of an SHG may graduate faster to start or expand economic activities requiring much higher levels of loans than required by other SHG members. In such cases, other members may not like to stand as a mutual guarantee for large sized loans, which would require to create smaller "JLG" within members of an SHG. However, members of JLG will continue to remain members of the SHG and continue to participate in the activities as before.

Monitoring and Review of SHG Lending: Banks are required to monitor the progress of the programme at regular intervals. It is also required to submit a progress report concerning the linkage programme to NABARD every quarter.

Refinancing Banks for Supporting SHGs: NABARD provides 100 per cent refinance to banks for their direct lending to SHGs. Rate of interest on refinance will be determined by NABARD from time to time.

Interest Subvention Scheme for Women SHGs: All women SHGs in rural areas (this scheme is not available for SHGs in urban areas) are eligible for interest subvention to avail the credit upto Rs. three lakhs at seven per cent per annum. The bank (PSBs, RRBS and Cooperative Banks) will lend to women only SHGs in rural areas, at the rate of seven per cent per annum and these banks will be subvented to the extent of difference between their actual lending rates and seven per cent (subject to a maximum of 5.5 per cent per annum). Further, the SHGs are qualified for an additional three per cent subvention on prompt repayment of loans, reducing the effective rate of interest to four per cent (NABARD, 2018b).

Based on the broad guidelines issued by the NABARD, RBI had issued several guidelines/instructions to commercial banks for the smooth implementation of SHG-Bank Linkage Programme. RBI guidelines (RBI, 2017b) currently applicable are consolidated below:

1. Banks should report to RBI about their lending to SHGs under a separate category, viz. 'Advances to SHGs' irrespective of the purposes for which the members of SHGs have utilised loans. Lending to SHGs should be considered as lending to weaker sections.
2. Banks are required to provide adequate incentives to their branches in financing SHGs.
3. Keeping in view the nature of lending and status of borrowers, banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures and documents should be made simple.
4. Banks are required to initiate suitable steps to internalise the SHGs linkage project and organise exclusive short duration training programmes for the field level functionaries.

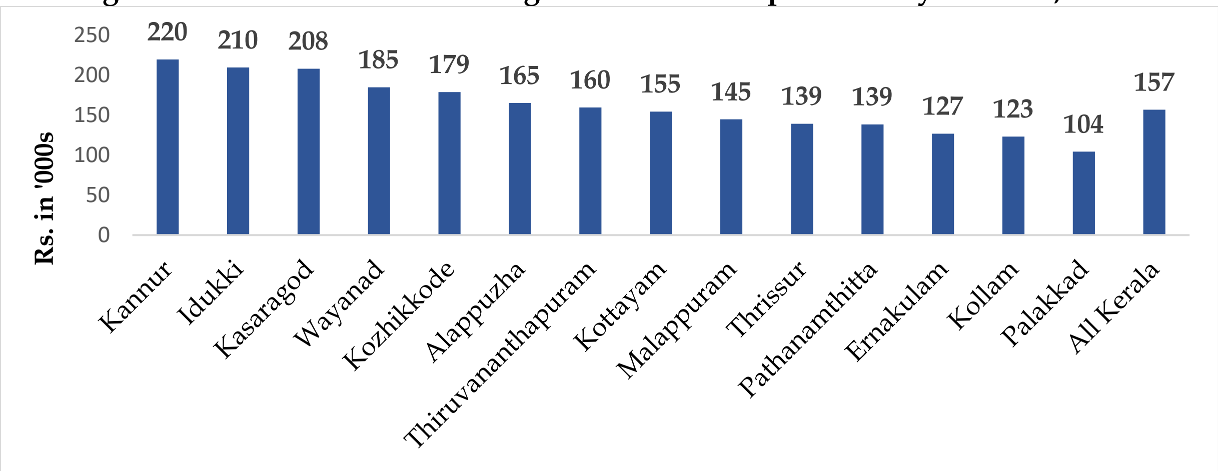
In terms of the number of SHGs having outstanding loans, Kerala stands below all India average despite the wide reach of the Kudumbashree Neighbourhood Groups (NHG)-Bank linkage programmes. While at the all India level, 56.5 per cent of SHGs have outstanding bank linkage loan, the corresponding figure in Kerala is 51.1 per cent. In the case of non-performing asset (NPA) in SHG-Bank linkage programme, Kerala performs better with NPA amounting to 4.5 per cent in comparison to all India average of 6.5 per cent. Corresponding figures for neighbouring states are much higher; 35.1 per cent in Andhra Pradesh and 12.8 per cent in Tamil Nadu (NABARD, n.d.).

2.4.2 Kudumbashree[19]

Launched in 1997, Kudumbashree is the poverty eradication and women empowerment programme implemented by the State Poverty Eradication Mission (SPEM) of the Government of Kerala. With an aim to eradicate poverty through collective and holistic empowerment of women, Kudumbashree forms women groups in the neighbourhood, known as Neighbourhood Groups (NHGs)[20]. Kudumbashree, being the largest SHG-Bank linkage programme in Kerala, modus operandi of the programme which are relevant for the present study are described below:

Thrift: Women in NHGs initiate thrift programme as the first activity of the group. Each NHG has the right to decide the thrift amount, which is what the poorest member of the group can set aside every week. However, as per the Kudumbashree guidelines, no member should be denied Kudumbashree membership, due to an individual's inability to make a financial contribution to the thrift. The money collected as thrift from members is deposited in a bank account jointly operated by the president and secretary of the group. The average thrift amount per NHG in the state is Rs 1,57,000. District-wise variations in average thrift amount per NHG is evident from Figure 2.3. For instance, the average thrift amount per NHG in Kannur is double that in Palakkad.

Figure 2.3: Kudumbashree Average Thrift Amount per NHG by Districts, 2019



Note: As on 03-May-2019.
Source: Authors' calculation based on the data from www.kudumbashree.org accessed on June 06, 2019

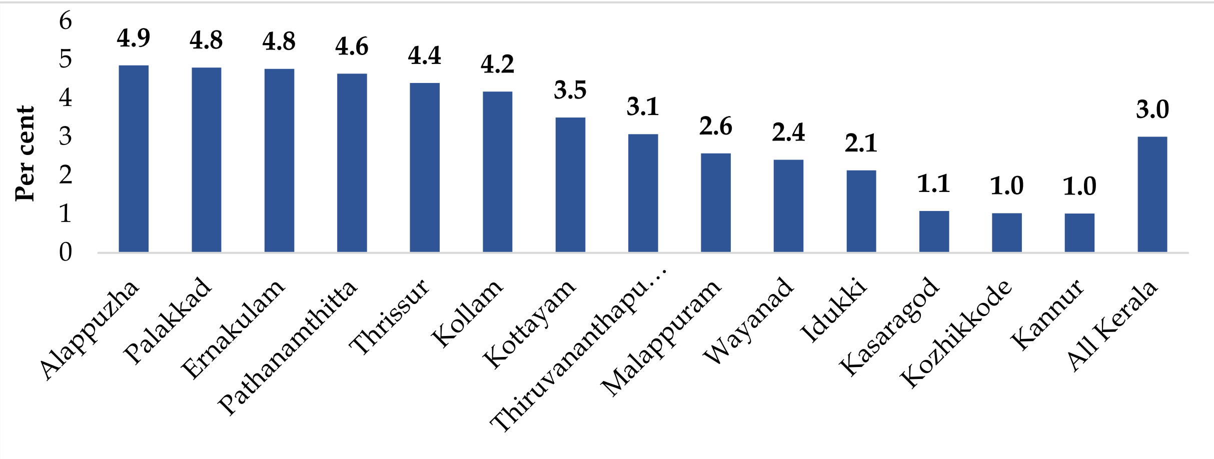
[19] Details in this section are compiled from www.kudumbashree.org, www.kudumbashreestory.info (accessed on 25 November, 2018) and Kudumbashree school padapusthakam published by Department of Local Self Government, Kerala in 2017.
[20] Neighbourhood Groups (NHGs) is the terminology used to describe the self-help groups (SHGs) formed by Kudumbashree.

Thrift Loan: After an NHG completes six months of operation with regular meetings and thrift, the group can start internal lending, which is known as thrift loan. The group decides who will get the loan and how much. A member can avail thrift loan for any purpose. If multiple members apply for a loan at the same time, the group discusses the loan requirement of each member and democratically decide priority to disburse loan amount among its members. An NHG has the freedom to decide the interest rate to be charged on thrift loan, though the maximum rate of interest that could be charged is capped at 12 per cent per annum. Similarly, NHG can impose a penalty on the defaulters of thrift loan, again the penal interest rate can be decided by the NHG.

Bank-Linkage Loan: As per NABARD's regulations on SHGs, Kudumbashree NHG is eligible for bank linkage loan. An NHG can avail any number of linkage loans from the banks. The applications for linkage loans should be submitted by the group, and the bank disburses the loan to the group, not individually. The Kudumbashree guidelines suggest that preferably the linkage loan shall be used for income generating activities. For the loans availed through bank linkage for lending within the groups, Kudumbashree Mission provides a token matching grant of Rs. 5,000 or 10 per cent of the thrift, whichever is less, to the NHGs to encourage bank linkage programme. The quantum of the grant is linked to the total accumulated savings of the NHG thrift. Repayment of linkage loan is to be done by the NHG, and it is the responsibility of all the group members to ensure that repayments are being done regularly. If any group member fails to make regular repayment, NHGs may adopt peer pressure, impose penal interest on the defaulters, shift thrift amount to the loan repayment share or employ other legal actions.

Figure 2.4 indicates the inter-district differences prevailing in the distribution of bank linkage loan to Kudumbashree NHGs. While the disbursement of bank linkage loan in proportion to thrift amount is lower in Kannur, Kasaragod and Kozhikode, in districts like Alappuzha, Palakkad, Ernakulam, Pathanamthitta, Thrissur and Kollam, more than four times the thrift amount collected was distributed as linkage loans.

Figure 2.4: Linkage Loan to Thrift Ratio of Kudumbashree NHGs by Districts, 2019



Note*:* As on 03-May-2019.
Source: Authors' calculation based on the data from www.kudumbashree.org accessed on June 06, 2019

Box 2.4: Interest Rates Offered by Different Formal Credit Sources

A comparative picture of interest rates charged by different formal credit sources on similar type of loans is presented in Table 2.5. It needs to be noted that different agencies within the same category offer loans at different rates of interest and so its range is provided. It is evident from Table 2.5 that variation in interest rates is higher among NBFCs and private sector banks compared to public sector banks. Similarly, the maximum interest rates charged by public sector banks and co-operative financial institutions are relatively lower than private sector banks and NBFCs.

Table 2.5: Interest Rates on Loans from Different Formal Financial Sources

Type	Interest Rate (In Per cent)			
	Gold Loan	Housing Loan	Education Loan	Group Loan
Public sector banks	10-12	8.5-9.75	8.6-11	10
Private sector banks	10.5-15	8.65-9.7	9-15.2	12-24
PACSs	11.5	10.5-11.75	12.25	9
District co-operative banks	11	9.5-10.75	12.25	9
NBFC*	12-26	8.9-18	11.5-24	21-25

Note: The detailed terms and interest rates prescribed by major financial institutions operating in Kerala are provided in Appendix II, III, IV and V)
*includes NBFCs, NBFC-MFIs and newly created Small Finance Banks (SFBs).
Source: Compiled from the websites of various banks. The maximum rates of interest for PACSs and DCCBs are collected from Circular No. 51/17 (Office of the Registrar of Co-operative Societies, 2017) are provided.

Interest Subvention Scheme of Bank-Linkage Loan: The state Government has introduced an interest subvention scheme to promote bank linkage Program among Kudumbashree NHGs, the benefit of which has been available since April 2016. Any NHG could avail loan from any scheduled/co-operative financial institution subject to certain conditions. Usually, the loan tenure will be 36 months. Subsidy benefits of such loans are disbursed in yearly instalments to the savings accounts of NHGs. However, if the NHG closes the loan before the expiry of the loan tenure, it cannot avail the remaining interest subsidy benefits (Kudumbashree, 2017).

Joint Liability Groups (JLGs): Kudumbashree adopted NABARD's concept (as discussed in section 2.4.1) of JLGs in collective farming in 2009. These groups are eligible for NABARD's interest subsidy, which reduces the interest rate of farm loans effectively to two per cent, as NABARD grants five per cent interest subsidy on agricultural loans distributed by banks to JLGs at seven per cent interest rate. Conditions on formation and operation of JLGs are provided in Box 2.5.

Box 2.5: Conditions on JLG Formation and Functioning

a. A JLG should comprise of 4-10 members
b. The members can be from the same NHG or from different NHGs.
c. Each JLG should elect a President and a Secretary and should open a bank account in their names.
d. All JLGs should register with the farmers' facilitation centre (FFC) and renew the registration every year.
e. Every JLG should meet at least twice a month and should keep the minutes of the meeting and other accounts up to date.
f. Every JLG should participate in training programmes and FFC meetings.
g. A board containing information about JLG should be displayed in the farming land.
h. Each JLG is controlled by the Area Development Society (ADS) in which the members belong.
i. A JLG member should not be a part of multiple JLGs
j. There should be periodic monitoring by ADS and Community Development Society (CDS) office bearers. Area and crops must be verified by the ADS President/Secretary.

***Source*:** Kudumbashree school padapusthakam published by Department of Local Self Government, Kerala in 2017

2.4.3 Private Microfinance Institutions[21]

In the Indian context, several concerns were raised regarding the operation of private MFIs like charging high rates of interest, lack of transparency in interest rates and other charges, multiple lending, the tendency of over-borrowing among group members, ghost borrowers and coercive methods of recovery. Doubts have also been expressed as to whether these institutions have remained committed to the goal of fighting poverty or whether they are solely motivated by financial gain (Hulme & Maitrot, 2014; Ray, Mahapatra, & Nath, 2019).

To address some of these issues, especially in the wake of the Andhra Pradesh microfinance crisis in 2010, a committee was constituted under the Chairmanship of Y.H. Malegam which submitted its report in January 2011. Although the report noted a significant increase in the availability of credit due to the advent of private MFIs, it also identified certain pitfalls associated with the operation of these institutions and came up with regulatory suggestions to solve them (RBI, 2011d). Although RBI accepted the framework of regulations suggested by the Committee and incorporated them in the Monetary Policy Statement 2011-12, the recommendations were not implemented completely. Later, drawing insights from the Malegam committee report, although not

[21] For the purpose of classification, the study includes all the private institutions involved in the JLG model of group loan delivery in this category. However, legal status of these institutions could be different from each other – eg: NBFCs, NBFC-MFIs and NGOs. The possibility of unregistered institutions or individuals engaging in group loan delivery can also not be ruled out.

fully complying with its recommendations, the Microfinance Institutions (Development and Regulation) Bill[22], 2012 was drafted; which is still pending in the parliament.

While RBI regulates those MFIs registered as NBFCs[23] and NBFC-MFIs, NABARD, oversees the SHG-Bank linkage program, which implies that there is no single regulator for the entire microfinance sector. However, following the Malegam committee report, RBI asserts active control over the NBFC-MFI sector by several means. For instance, in May 2011, NBFCs operating in the microfinance sector was reclassified separately. As per the Directions (RBI, 2011c), NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

i. Minimum Net Owned Funds of Rs. 5 crores.
ii. Not less than 85 per cent of its net assets[24]is in the nature of qualifying assets. To be categorised as a qualifying asset a loan should satisfy the following criteria:
    - loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 60,000 or urban and semi-urban household income not exceeding Rs. 1,20,000;
    - loan amount does not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles;
    - the total indebtedness of the borrower does not exceed Rs. 50,000;
    - tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with provision for prepayment without penalty
    - loan to be extended without collateral
    - the aggregate amount of loans, given for income generation, is not less than 75 per cent of the total loans given by the MFIs
    - the loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower
iii. Banks are mandated to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans:
    - Margin cap[25] at 12 per cent
    - Interest cap on individual loans at 26 per cent per annum, calculated on a reducing balance basis

[22] The Bill was directed to Standing Committee on Finance which expressed its dissatisfaction over many of the provisions of the Bill in its report and recommended much wider consultations. The Bill thus remains pending still.

[23] Non-banking financial companies (NBFCs) are companies registered under the Companies Act, 1956 and, as per Section 45 (I) of the Reserve Bank of India (RBI) Act, 1934. In terms of the activity they conduct NBFCs are categorised into 12 and NBFC-MFI is one among them (For details see Ray, 2019). As per the latest available data, 96 NBFC-MFIs are registered with RBI (RBI, 2019).

[24] Defined as total assets other than cash, bank balances and money market instruments.

[25]Difference between the amounts charged to the borrower and the cost of funds to the MFIs.

- Only three components are to be included in the pricing of loans—processing fee not exceeding one per cent of the gross loan amount, the interest charge and the insurance premium
- Processing fee not to be included in the margin cap or the interest cap of 26 per cent
- Only the actual cost of group insurance for life, health and livestock of borrower and spouse can be recovered; administrative charges to be recovered as per Insurance Regulatory and Development Authority of India (IRDA) guidelines
- No penalty for delayed payment
- No security deposit/margin to be taken

iv. An NBFC which do not qualify as an NBFC-MFI shall not extend loans to the microfinance sector, which in aggregate exceed 10 per cent of its total assets.

However, the following years witnessed a gradual dilution in the directions applicable to NBFC-MFIs. The following changes have been brought by the RBI in subsequent years with regard to the conditions for categorising a loan as a qualified asset.

Annual income limit	For rural households, increased from Rs. 60,000 to Rs. 1,60,000 and for urban households from Rs. 1,20,000 to Rs. 2,00,000
Amount of loan	Increased from Rs. 35,000 to 60,000 in the first cycle and from 50,000 to 1,00,000 in the subsequent cycles
Total indebtedness limit of the borrower	Increased from Rs. 50,000 to Rs. 1,25,000. Further, education and medical loans are excluded from the calculation of total indebtedness of a borrower
Aggregate loan for income generation	Reduced to 50 per cent from 75 per cent of the total loans given by the MFI
Loan limit on which tenure of the loan should not be less than 24 months	Hiked from Rs. 15,000 to Rs. 30,000
Interest rate cap on the individual loan	Relaxed. Rate of interest on individual loans may exceed 26 per cent. However, the maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed four per cent

Further, banks have been made responsible to ensure that the institutions receiving priority sector funds adhere to the above requirements, with verification through a quarterly Chartered Accountants Certificate (RBI, 2011b).

There also exists a Fair Code of Conduct prescribed by the RBI to NBFC-MFIs, drawn from Malegam Committee recommendations which are listed below:

I. **Standard form for loan agreement**

- Every NBFC-MFI should provide borrowers with a loan card reflecting—terms and conditions of the loan, including the effective interest rate and information to adequately identify the borrower. It is mandatory to acknowledge by the NBFC-MFI about all repayments including instalments received and the final discharge. Further, all entries in the loan card should be in the vernacular language.
- Effective rate of interest charged by the NBFC-MFI should be prominently displayed in its offices, literature and website.

II. **Avoidance of Multiple-lending, Over-borrowing and Ghost-borrowers**

- Not more than two NBFC-MFIs should lend to the same borrower.
- There must be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment. The moratorium shall not be less than the frequency of repayment.
- Recovery of loan given in violation of the regulations should be deferred until all prior existing loans are fully repaid.
- All sanctioning and disbursement of loans should be done only at a central location, and more than one individual should be involved in this function.
- Every NBFC-MFI has to be a member of at least one Credit Information Company (CIC)[26], provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the conditions regarding membership of JLG, level of indebtedness and sources of borrowing.

III. **Non- Coercive Methods of Recovery to be Followed**

- NBFC-MFIs shall ensure that a Code of Conduct and systems are in place for recruitment, training and supervision of field staff.
- Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if the borrower fails to appear at a central designated place on two or more successive occasions.

All NBFC-MFIs are also encouraged to become member of at least one Self-Regulatory Organisation (SRO)[27] which is recognised by the RBI and will also have to comply with

[26] RBI itself recognises the shortfalls of data with CICs which defeat the primary goal of registration of NBFC-MFIs with CICs. In the opinion of RBI, while the quality and coverage of data with CICs will take some time to become robust, the NBFC-MFIs may rely on self-certification from the borrowers and their own enquiries on these aspects as well as the annual household income (RBI, 2017c).

[27] The SROs are expected to facilitate compliance by the Non-Banking Financial Companies that are engaged in microfinance (NBFC-MFIs) with the regulations and code of conduct and function in the best interest of the customers of the NBFC-MFIs. The Malegam Committee also has pointed out the necessity to place greater responsibility on such industry associations for monitoring of regulatory compliance. But as of now membership to the SRO is not mandatory, but voluntary, which hinders the implementation of an effective monitoring mechanism. Currently two major SROs recognised by RBI are functioning in India for the MFI sector— Microfinance Institution Network (MFIN) and Sa-dhan.

the Code of Conduct prescribed by the SRO. It is also stated that NBFC-MFIs should ensure allotment of resources towards providing professional support for the formation of JLG, appropriate training for capacity building and empowerment after the formation of the groups. All NBFC-MFIs are expected to be prudent and responsible in their lending activity besides educating their borrowers on the dangers of wasteful conspicuous consumption (RBI, 2016a).

2.5 Conclusion

This chapter explored the organisation structure, regulatory framework and operational mechanism of three major formal credit sources relied on by rural poor in Kerala. The review indicates that in comparison with commercial banks, co-operative financial institutions have a better network in rural areas. Further, the operating mechanism of co-operative financial institutions and microfinance segment makes them more accessible to the rural poor, although variations do exist between different genres of microfinance banking. Given the background, Chapters 3 and 4, will examine evidence from the primary survey to understand the extent and nature of dependence on different credit sources by rural poor in Kerala.

CHAPTER 3

PATTERN OF BORROWINGS AND INDEBTEDNESS AMONG RURAL POOR HOUSEHOLDS

3.1 Introduction

This chapter aims to understand the borrowing patterns of rural poor households in Kerala. Credit sources available and accessible to them, the purpose of borrowings, preference towards different credit sources and factors shaping such preferences are some of the interrelated themes explored here. An attempt is also made to make a preliminary assessment of the level of debt burden among rural poor households and strategies adopted by them to manage it. Evidence presented in this Chapter is primarily drawn from the field work—primary survey and qualitative research— conducted in selected Panchayats in Kerala.

Apart from the introductory section, this Chapter is divided into six subsections: Section 3.2 explores the borrowing pattern of rural poor households in Kerala, Section 3.3 analyses knowledge and perception of households regarding different credit sources, Section 3.4 examines the type of security pledged to seek loans and loan defaults, Section 3.5 measures the extent of household indebtedness, Section 3.6 presents sacrifices and coping mechanism adopted by households to repay loans and Section 3.7 concludes by highlighting main issues discussed in the Chapter.

3.2 Pattern of Household Borrowings

This section aims to present a picture of the credit life of rural poor in Kerala, by looking into the number of loans per household, major borrowing sources and purpose of borrowings among sample households. An attempt is also made to examine borrowing patterns by household characteristics like economic position (as revealed by PDS card) and social groups.

3.2.1 Number of Loans

Among the 540 households covered in the survey, 88 percent (476 households) has at least one existing loan (Table 3.1). However, data do not indicate any striking variation regarding the extent of indebtedness between households with different socio-economic characteristics.

Table 3.1: Share of Indebted Households within Each Socio-Economic Group (In Percent)

Economic Group		Social Group				Total
Very poor	Poor	SC	ST	OBC	General	
89.6	87.8	89.4	89.7	87.9	85.0	88.1

Source: Primary Survey

It is important to note that the majority of households have multiple loans and also depend on multiple sources. It can be very well gathered from Figure 3.1 and Figure 3.2 that 82 per cent of the indebted households have taken multiple loans and 74 per cent have received loans from more than one source.

Figure 3.1: Distribution of Households by Number of Loans

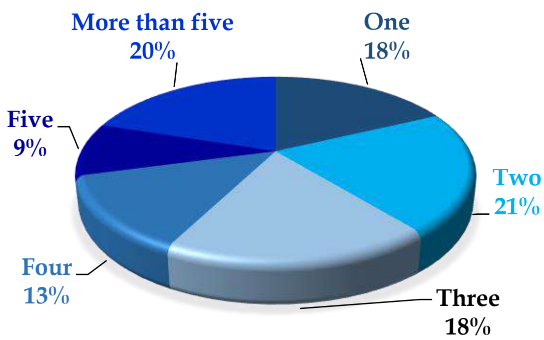
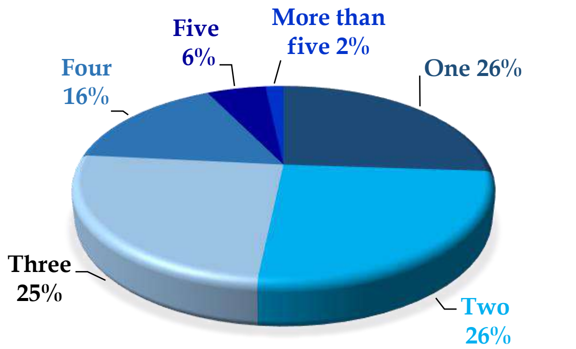


Figure 3.2: Distribution of Households by Number of Loan Sources



Base: Total number of households with loan=476.
Source: Primary Survey

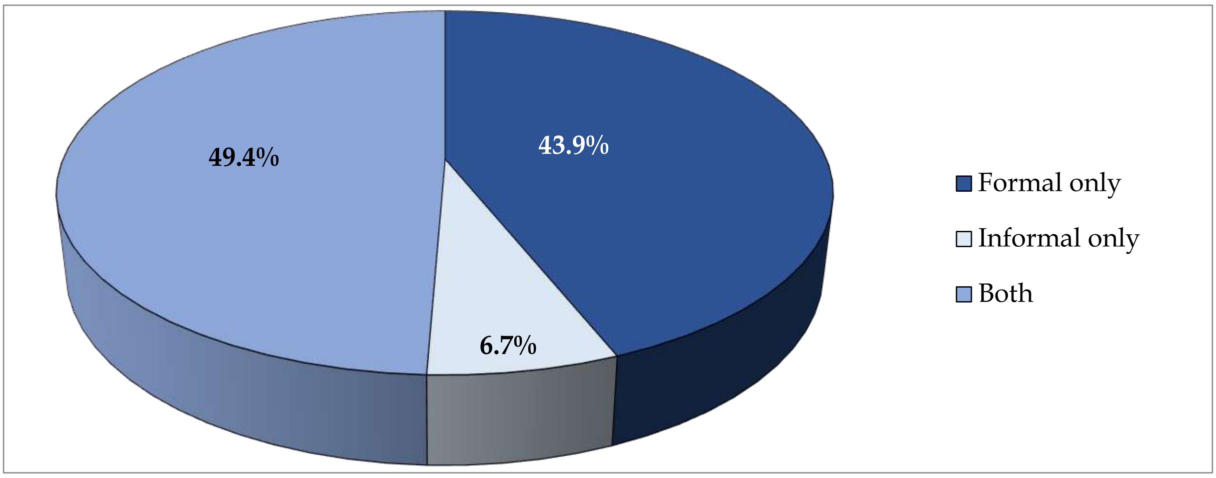
3.2.2 Household Borrowings by Source

In this section, borrowing pattern of rural poor is analysed with respect to the credit sources. An attempt was made to distinguish borrowings according to the nature of credit sources—formal and informal and loan characteristics—individual and group.

Formal credit sources operate under the regulatory framework of authorities. Informal and formal credit sources could be distinguished according to certain key characteristics like: small loans versus large loans, flexibility of loan use versus purpose-specific loans, flexible business hours versus restricted working hours, familiarity versus official relations, speed and simplicity of transaction versus lengthy and bureaucratic procedures, privacy versus public business, disadvantaged clients versus higher proportion of more advantaged customers (Jones, 2008).

Figure 3.3 shows that, 44 per cent of the indebted rural poor households depends exclusively on formal credit sources for meeting their credit requirements, while the share of those depending exclusively on informal sources (private moneylenders, friends and relatives) is only seven per cent. It is emerging from the Figure 3.3 that, among the indebted households, a large majority (93%) has borrowed from formal sources, indicating high accessibility of formal credit sources among the rural poor in Kerala.

Figure 3.3: Proportion of Households Borrowed from Each Type of Credit Source



Base: Total number of households with loan= 476.
Source: Primary Survey

Table 3.2 reveals that more than three-fourths of the households with only one loan have taken it from a formal source, and more than three-fifths of the households with two loans have borrowed exclusively from formal sources. The proportion of households relying exclusively on formal or informal sources decreases and those depending on both formal and informal sources increases as the number of loans per household increases.

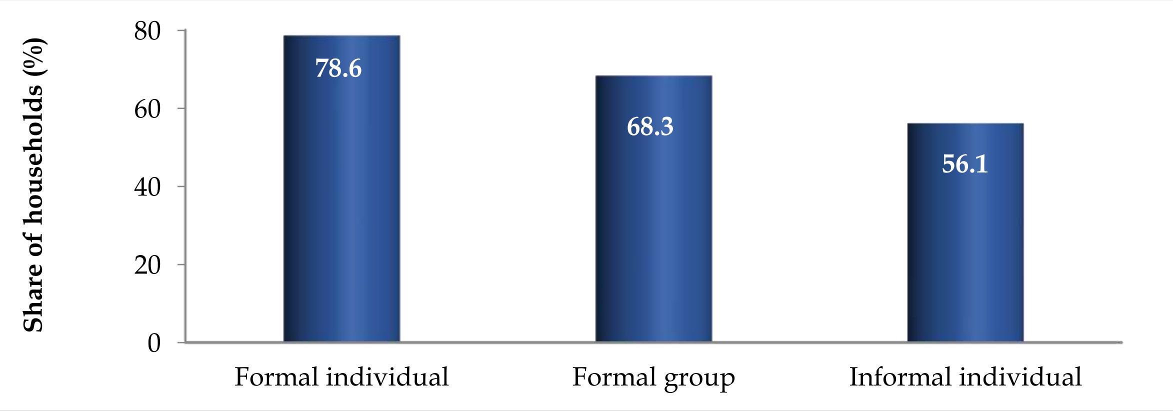
Table 3.2: Proportion of Households Borrowed from Each Type of Credit Source according to the Number of Loans (In Per cent)

Nature of Credit Source	Number of Loans					
	One	Two	Three	Four	Five	More than Five
Formal only	76.5	61.4	44.3	25.4	34.1	12.6
Informal only	23.5	9.9	2.3	-	-	-
Both	-	28.7	53.4	74.6	65.9	87.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Base: Total number of households with loan= 476.
Source: Primary Survey

As described in the methodology part of the first chapter, for the purpose of the analysis, taking into consideration the nature of the source—formal and informal— and loan characteristics—individual and group, the study divides the credit sources into three broad categories: formal individual, formal group and informal individual. Figure 3.4 shows that more than three-fourths of the indebted households in the survey availed loans from formal individual sources and more than half of the households borrowed from informal sources.

Figure 3.4: Household Dependency on Different Types of Loans



Base: Total number of households with loan= 476.
Note: Multiple response question.
Source: Primary Survey

Across social and economic categories, the proportion of households borrowed from formal sources is higher than those borrowed from informal sources (Table 3.3). It needs to be noted that the dependency of ST households on individual loans from formal credit sources is significantly lesser than that of other social categories. Data also reveals that SC households have a higher dependence on all types of credit sources. While the reliance on formal individual sources is found to be less among very poor households compared to poor households, the proportion of households who have availed group loans is higher among very poor households. However, to determine whether these differences are supply side (accessibility issue) or demand side phenomena, a more detailed enquiry is required.

Table 3.3: Share of Households Depending on Different Type of Loans within Each Socio-Economic Group (In Per cent)

Loan Type	Economic Group		Social Group			
	Very Poor	Poor	SC	ST	OBC	General
Formal- individual	72.8	80.2	79.0	62.9	81.4	74.5
Formal-group	71.8	67.3	74.8	62.9	66.0	64.7
Informal- individual	57.3	55.8	60.1	54.3	55.1	51.0

Base: Total number of households with loan= 476.
Note: Multiple response question; Column percentage is given in the table.
Source: Primary Survey

The number of households depending on different credit sources and the average loan amount extended by each source (to those households depending on respective sources) is provided in Table 3.4. As clearly emerging, rural population in the surveyed area majorly depends on PACSs and Kudumbashree, for their credit requirements. In contrast to the literature suggesting moneylenders as the most prominent and dominant credit source among rural poor, survey data reveals that more than four-fifths of the indebted households in rural Kerala do not depend on moneylenders.

When it comes to average credit amount borrowed by the households from each source, as evident from Table 3.4, formal individual sources provide a higher amount of credit compared to the other two source types.

Table 3.4: Details of Household Borrowing

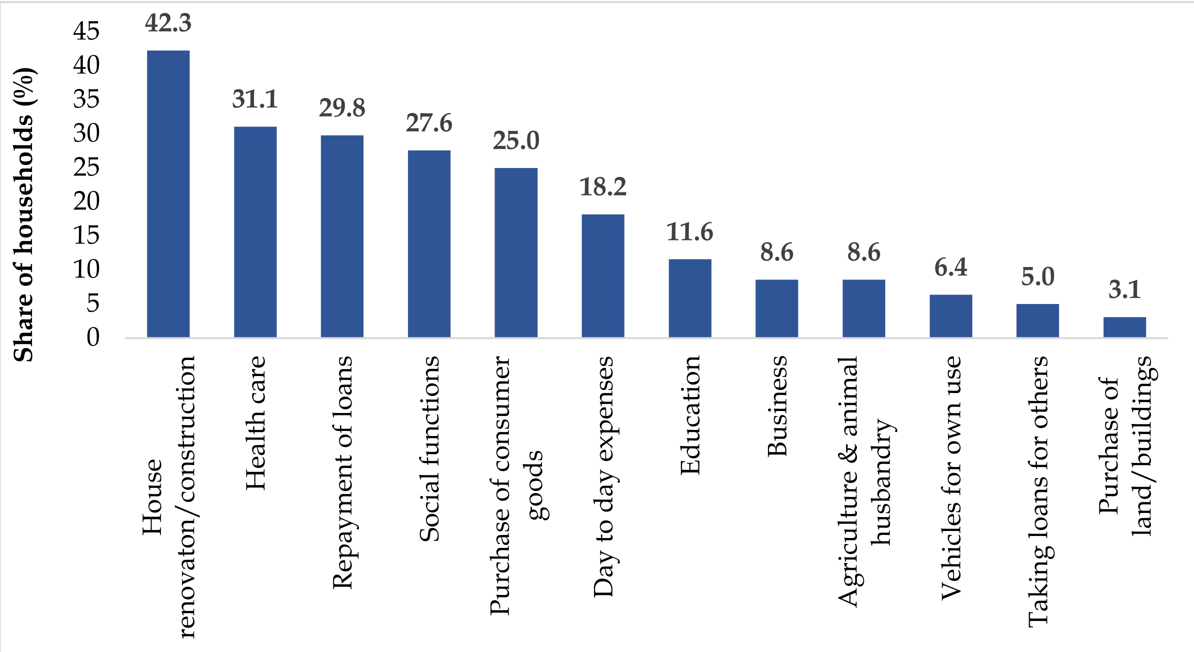
Loan Type	Credit Source	Average Credit Amount per Household (Rs.)	Share of Households Borrowed from Each Source (%)
Individual	**Formal Credit Sources**		
	District co-operative banks (DCCBs)	2,34,870	4.8
	Primary agricultural credit societies (PACSs)	1,78,703	47.5
	Private sector banks	1,72,553	8.0
	Kerala State Financial Enterprises Limited (KSFE)	1,59,333	1.3
	Chit funds*	1,43,867	3.2
	Public sector banks	1,34,357	14.7
	RRB	1,28,306	6.9
	NBFCs**	68,492	22.5
	Informal Credit Sources		
	Friends & relatives	67,579	28.6
	Chit funds	46,709	4.8
	Moneylenders	25,200	19.1
	Product loans from moneylenders	8,312	17.0
	Others	54,250	5.0
Group	**Formal Credit Sources**		
	SHG- bank linkage (other than kudumbashree)	66,178	5.9
	MFI	52,038	25.2
	Kudumbashree JLG	46,417	1.3
	Kudumbashree -bank linkage	44,003	30.5
	SHG thrift (other than kudumbashree)	19,261	4.8
	Kudumbashree thrift	16,642	46.0
	MFI product loans	8,332	4.4

Base: Total number of households with loan= 476.
Note: Multiple response question.
* Chit funds provided by registered financial institutions are categorised as formal credit sources, while chit funds organised by individuals are considered as informal credit sources. Chit funds from NBFCs are included in formal chit funds category, rather than in NBFC sub-category;
** While it is acknowledged that there exist registered and unregistered NBFCs, in the study all NBFCs are clubbed into formal sources, as in most cases the respondents were not able to distinguish between the two categories.
Source: Primary Survey

3.2.3 Purpose of Household Borrowings

Figure 3.5 presents the purposes for which the loans were used. Data pertains to 456 households having a current outstanding loan.[28] As evident from Figure 3.5, 42 per cent of the indebted households have utilised loan amount for house renovation or construction. This is followed by loans for meeting health care expenditure (31%), repayment of other loans (30%), for meeting expenses of social functions such as marriage, ceremonies (28%) and for the purchase of consumer goods (25%). Nearly one-fourth of the households has spent borrowed money for meeting day to day expenses. It is significant to mention that the proportion of households using loan amount for income generating purposes such as agriculture or business is comparatively less, which raises concerns about the productivity of rural credit.

Figure 3.5: Utilisation of Credit Amount



Base: Total number of households having loan and specified the purposes for which it was used= 456. Note: Multiple response question.
Source: Primary Survey

Mounting health expenditure pushing households into indebtedness is aptly illustrated by the case of Sankaran, a head load worker, whom the research team met during the fieldwork.

> "Four years before, I was diagnosed with heart disease. Although I applied for financial assistance under Government schemes for treatment, I did not receive any benefit. Until then, I did not have a debt of a single rupee. My wife took a loan from Kudumbashree and other groups for my treatment; we were prompt in paying the instalment till I got hospitalised five months before.

[28]Although 476 households have outstanding loans, 20 households were excluded from analysing purpose of borrowings due to inadequacy of relevant data.

After that, we could not pay weekly payments. Today she has arranged some amount from others and has gone to the MFI office to settle the due."

Table 3.5 presents the proportion of households in each socio-economic category relied on loans for different purposes. Across socio-economic categories, except ST and general category, the largest proportion of households used the borrowings for house renovation or construction. The highest proportion of ST and general category households spent the borrowings on meeting healthcare expenditure.

Table 3.5: Purpose of Utilising Loan by Socio-Economic Group

Purpose	Share of Households in Each Category (%)					
	Economic Group		Social Group			
	Very Poor	Poor	SC	ST	OBC	General
House renovation or construction	40.0	43.0	44.9	28.6	46.0	27.1
Health	33.0	30.6	32.6	34.3	28.5	37.5
Repayment of loan	31.0	29.5	31.2	22.9	30.6	27.1
Social functions	26.0	28.1	28.3	22.9	29.4	20.8
Purchase of consumer goods	31.0	23.3	32.6	25.7	21.7	18.8
Day to day expenses	19.0	18.0	21.0	17.1	18.3	10.4
Education	12.0	11.5	13.0	5.7	9.8	20.8
Business	5.0	9.6	5.8	2.9	11.5	6.3
Agriculture & animal husbandry	10.0	8.1	5.8	22.9	7.7	10.4
Purchase of vehicle for own use	8.0	5.9	8.7	-	6.4	4.2
Taking loans for others	5.0	5.1	6.5	-	5.1	4.2
Purchase of land/buildings	1.0	3.7	3.6	-	3.0	4.2

Base= Total number of households having loan and specified the purposes for which it was used= 456.
Note: Multiple response question; Column percentage is given in the table.
Source: Primary Survey

3.3 Knowledge and Perception of Credit Sources among Households

This section majorly looks at knowledge and perception of rural poor with respect to loan terms and credit sources.

3.3.1 Knowledge about Loan Terms

Possessing adequate knowledge about various credit sources, their terms and conditions are important to make prudent financial decisions and credit choices. Such knowledge plays a crucial role in the lives of rural poor who are likely to depend on loans even for consumption smoothing. Existing literature indicates that the knowledge on various loan terms tends to be generally low among poor households, and so they tend to make grave mistakes in financial decision-making (Ray, Mahapatra and Nath, 2019; Aggarwal, Gupta and Singh, 2014). As rural poor often face an irregular and uncertain flow of income and expenditure, this section tries to capture the respondents' understanding of various sources and terms of credit.

During the field visit, researchers noted limited understanding about the loan terms among the respondents. Many respondents were not aware of basic information such as the duration of the loan, the frequency of repayment or interest rate. It was more evident in the case of gold loans, thrift loans and loans from moneylenders. Around one-fourth of the respondents who have availed loans from co-operative financial institutions/commercial banks did not have a clear idea even about monthly instalment amount.

In the case of SHG (including Kudumbashree NHG) thrift loans, the situation is much worse. Most of them were not aware that there exist certain regulations regarding interest rate, repayment period and periodical instalments for thrift loans. Among the 219 households which have availed Kudumbashree thrift loans, nearly two-thirds reported that there is no such specific periodical repayment amount, but every week they give an amount according to their ability. One-third of them responded that there is no maximum time limit for the repayment of thrift loan. The reality is that in the case of thrift loans, borrowers are required to repay the loan amount at stipulated dates, failure of which will invite penal interest rate. Respondents also seem to be unaware of the weekly payments to be made for commodities purchased on instalments, as discussed in Box 3.1.

In contrast, all the respondents who have taken group loans with joint liability (such as SHG-Bank linkage loans and MFI loans) are found to be very much aware of the basic terms and conditions such as periodical repayment amount, the period of loan and interest rates. Stringent terms of repayment, shorter repayment period and peer pressure could be the reasons that make them more careful about such loans.

Box 3.1: Limited Information on Loan Terms: Case of Weekly Instalment Payments

Purchasing consumer durables, through instalments, is observed to be quite popular among rural poor households. In this arrangement, individuals (like moneylenders) make house visits and sell durables. The buyer does not need to pay the entire price in one go, instead, he/she can pay the cost in instalments. The seller visits the household every week (every month in some places) and collects the instalment.

The survey found that 15 per cent of households (81 out of 540) has such outstanding debts. However, when they were enquired about their understanding of the terms and conditions of such loans, the majority was not able to answer. While a large majority of them (85%) were aware of the duration of the loan, more than two-thirds (66%) did not know the specified instalment amount. Many of them said that there is no stipulated instalment amount and that they can pay the available cash. Some of them could not recollect how much amount they have repaid and how much more they should repay.

An informal arrangement like this, without proper documents or without specifying the interest rate clearly, gives the buyers a general feeling that the sellers are flexible. Therefore, the buyers become less concerned about the total amount they ultimately pay to the sellers. However, the research team could not crosscheck allegations made as the households did not have any bills or loan documents to prove their claim.

For instance, Sarada who purchased mixi, chair, cot, bed, fan and a cupboard for a total price of Rs. 25,000 (but on instalment basis) from a seller who visits the house every Monday to sell new products and collect the instalments of already bought products. However, she was not able to recall how much amount she had paid back. She said "it is not compulsory that we should pay a fixed amount every week. We can give the available amount. There is no time limit within which we should complete the payment. He is very friendly and flexible. We do not have any loan card or any document. How much we paid back, how much more we should pay, everything he only knows". She firmly asserts that she has full faith in him and believes that he would never cheat her either by charging higher price or interest rate.

3.3.2 Perception of Credit Sources

Often misconceptions prevent respondents from approaching different credit sources to fulfil their financial requirements. To capture this aspect, respondents were asked to report their perception about the advantages and disadvantages of different credit sources.

Information was sought on their perception of approaching commercial banks[29] for loans (Table 3.6). Among the respondents, 84 per cent did not report any advantage of

[29]It was decided to choose perception on commercial banks, considering the 'otherness' associated with commercial banks—both public and private, in contrast to a 'friendly neighbourhood feeling' attached to co-operativefinancial institutions. See, George et al., (2013). *How the Poor Manage Their Finances: A Study of the Portfolio Choices of the Poor Households in Ernakulam District, Kerala.* Ernakulam: Centre for Socio-economic and Environmental Studies(CSES)& RBI.

commercial banks. The less stringent repayment schedule of the commercial banks compared to other sources was indicated by nine per cent as a major advantage. Similarly, five per cent each reported low interest rate and the lesser harassment by the bank officials in case of defaults as advantages of loans from commercial banks.

More than three-fourths of the respondents did not comment on the disadvantages they feel about loans from commercial banks. However, 10 per cent thinks that commercial banks charge higher interest rates compared to other sources. Nine per cent each pointed out complex procedures and collateral requirements as major deterrents of availing loans from a commercial bank. Dealy in loan processing and hostile behaviour of bank officials were also raised by some. Some of the respondents also pointed out that the formal individual credit sources demand salary certificate and tax receipt as proof of the borrowers' repayment capacity, which often prevents people employed in informal sector from accessing formal loans.

The contradictory opinions hold by rural poor regarding the interest rates of commercial banks itself is an indicator of the lack of clarity existing among this group about the terms and conditions of different credit sources. It is relevant to note that, compared to the share of households who think that the interest rates charged by commercial banks are low, a higher proportion of households believe that the interest rates offered by commercial banks are high.

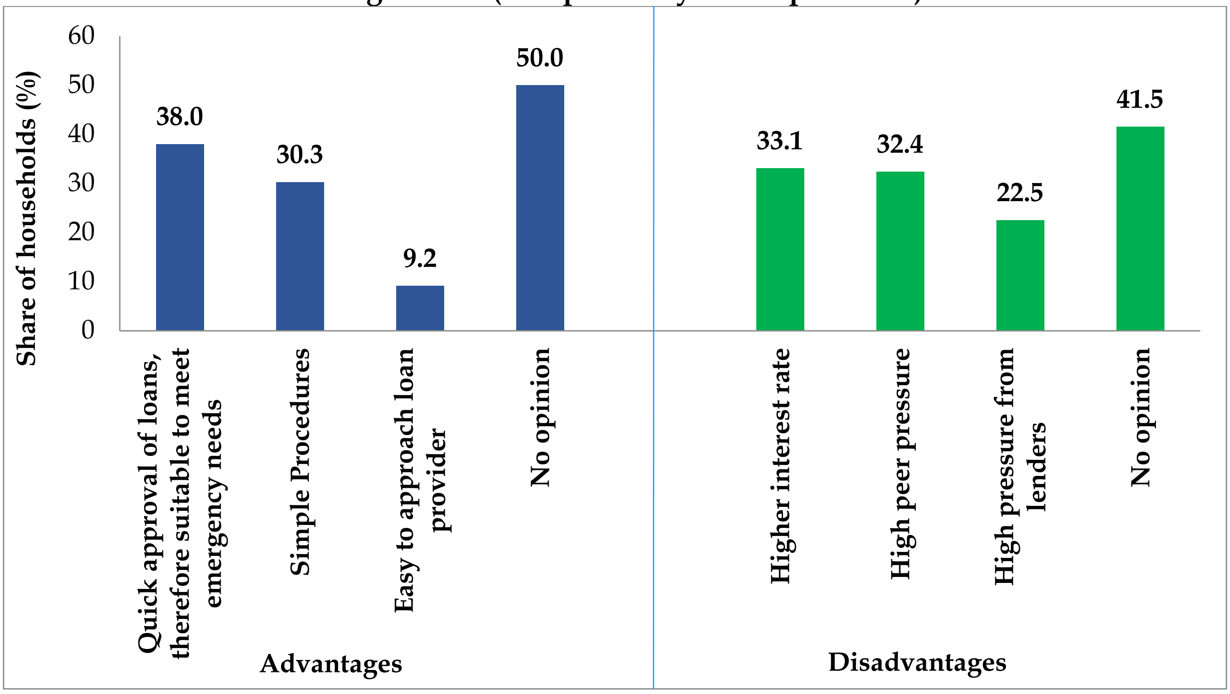
Table 3.6: Perceived Advantages/Disadvantages in Approaching Commercial Banks for Loans (as reported by the respondents)

Perception	Share of Households (%)
Advantages	
No strict repayment schedule	9.3
Not much harassment even if default instalments	5.7
Low interest rate	5.0
No opinion	83.9
Disadvantages	
High interest rate	10.0
Complex procedures	9.3
Requirement of collateral	9.1
Procedural delay in loan disbursement , therefore not suitable for emergency purposes	5.2
Difficult to approach/hostile behavior of bank officials	4.3
No opinion	77.4

Base: Total number of households surveyed=540.
Note: Multiple response question;
Source: Primary Survey

How the rural poor perceive various group loans was another point the study tried to explore. The respondents were asked to compare MFI group loans and Kudumbashree linkage loans (this question was administered only to women who borrowed from both sources at least once in their lifetime). Two major advantages of MFI loans noted by the respondents were the ease of obtaining loans and minimum processing time (Figure 3.6). While 38 per cent of those who responded to the question indicated quick approval of MFI loans makes it ideal for emergency requirements, 30 per cent noted that simple procedures including lesser documentation as the major advantage of MFI loans. One third of the respondents opined that MFI loans have a higher interest rate than the Kudumbashree loans and a similar share indicated that higher peer pressure as a critical negative feature of MFI loans in comparison with Kudumbashree linkage loans.

Figure 3.6: Perceptions of the Households on MFI Group Loans and Kudumbashree Bank Linkage Loans (as reported by the respondents)



Base= Total number of households availed both MFIs loans and Kudumbashree linkage loans at least once in their life= 142.
Note: Multiple response question.
Source: Primary Survey

FGDs conducted among women and the interviews with key respondents of various Panchayats such as President of the Panchayat, CDS Chairperson, etc., reveal that the perceptions of the public regarding MFI group loans are mixed and varied according to the character of the locality. In the Panchayats where the MFIs have early and deep intrusion, the public including the ones who never approached MFIs for loans have a general feeling that the MFI loans with higher interest rate and stringent repayment schedule are exploitative in nature. In such areas, the authorities also seem to be aware and concerned about the operations and practices of MFIs. Some women, who experienced the pressure of such MFIs, went to the extent of stating that, "Tamil moneylenders were much better than the private MFIs as they were more humanitarian and flexible". Another set of women reported that "as they are not able to handle the weekly pressure of repayment, they will not further take loans from MFIs once their outstanding loans are repaid". However, in areas where penetration of private MFIs is a comparatively recent phenomenon, people seem to be very happy about these institutions. In such places, the researchers noted that the non-requirement of material collateral and the easy availability of money are the factors that make the institutions popular among women. In those areas, authorities are also not much aware of the presence of these institutions in their Panchayats.

3.4 Loan Security and Defaults

This section explores the nature of loans with respect to the security/guarantee attached to them. It also entails discussions on the concepts of secured and unsecured debts, repayment priorities, various levels of security and defaults.

3.4.1 Secured and Unsecured Debts

The requirement to furnish collateral to avail loans has been identified as an important factor affecting household credit decisions and credit accessibility (Basu, 2005; Rajeev, Vani, &Bhattacharjee, 2011; Swamy, 1980; Chandio et al., 2017). The role of collateral in the credit market, characterised by imperfect information, has been explored in detail in the literature. It is shown that in credit market equilibrium, borrowers with a high probability of default choose a contract with a higher interest rate and lower collateral requirement than borrowers with a low probability of default (Bester, 1985). Through empirical evidence, Berger and Udell suggest a stronger association of collateral with riskier borrowers and riskier loans (Berger & Udell, 1990) The model propounded by Pozzolo addressed the requirement of collateral from the lenders' side. As per the model, financial institutions mandate collateral on loans that appear to be riskier, as such loans are granted to borrowers of less capitalised, and with multiple banking relationships (Pozzolo, 2002). In their model of credit rationing, Stigliz and Weins argue that in a market where different borrowers with different probabilities of repayment exists, interest rate and collateral requirements act as screening devices to distinguish between good borrowers and bad borrowers and thus reduces the problems of moral hazard and adverse selection (Stiglitz & Weiss, 1981).

The common understanding emerging from all these studies is that, for a given probability of repayment, lenders and the borrowers face a trade-off between higher interest rates and lower levels of collateral. However, when the probability of repayment decreases, two contradictory predictions can be found in literature; first, signaling models which predict a negative relation between the value of collateral and default risk (substitutability between interest rate and collateral); second, risk compensation models that assert a positive correlation between collateral and interest rate (complementarity between interest rate and collateral) i.e., banks cover the higher credit risk both by augmenting the degree of securitisation and charging higher interest rates (Boot, Thakor, & Udell, 1991).

The loans backed by collateral, something valuable like land, vehicle and gold, are defined as secured loans by RBI. With a secured loan, the lender can take possession of the collateral if the debtor does not repay the loan as agreed (RBI, 2015b). All other loans, not secured by any tangible, are classified by RBI as unsecured loans. Thus RBI perceives loans against personal security (except the advances granted to salaried employees against personal security, with an obligatory provision for deduction of periodical loan instalments by the employer out of the employee's salary to meet the bank's claims), and loans on the basis of group liability (e.g., credit to SHGs or JLGs) as unsecured loans (RBI, 2015c). In contrast, Pozzalo recognises advances backed by collaterals or personal guarantees as secured debt. However, he attributes different roles to these two types of guarantees in loan contracts. In a preliminary note, he claims that the relationship between collateralisation, borrowers' and loans' riskiness differ depending on whether guarantees are assets owned by the borrower (inside collateral) or assets posted by an external guarantor (outside collateral) (Pozzolo, 2004). In the opinion of Berger and Udell[30], personal guarantees typically operate like outside collateral, with the exception that they do not give control to specific assets, but they represent a generic claim on the entire wealth of the guarantor (Berger & Udell 2003).

The present study recognises the need to revisit the concept of security in the present Indian context, characterised by diverse credit arrangements. The emergence of comparatively newer types of credit sources such as group loans necessitates an exploration of security/guarantee in a much broader perspective than the definition put forth by the RBI.

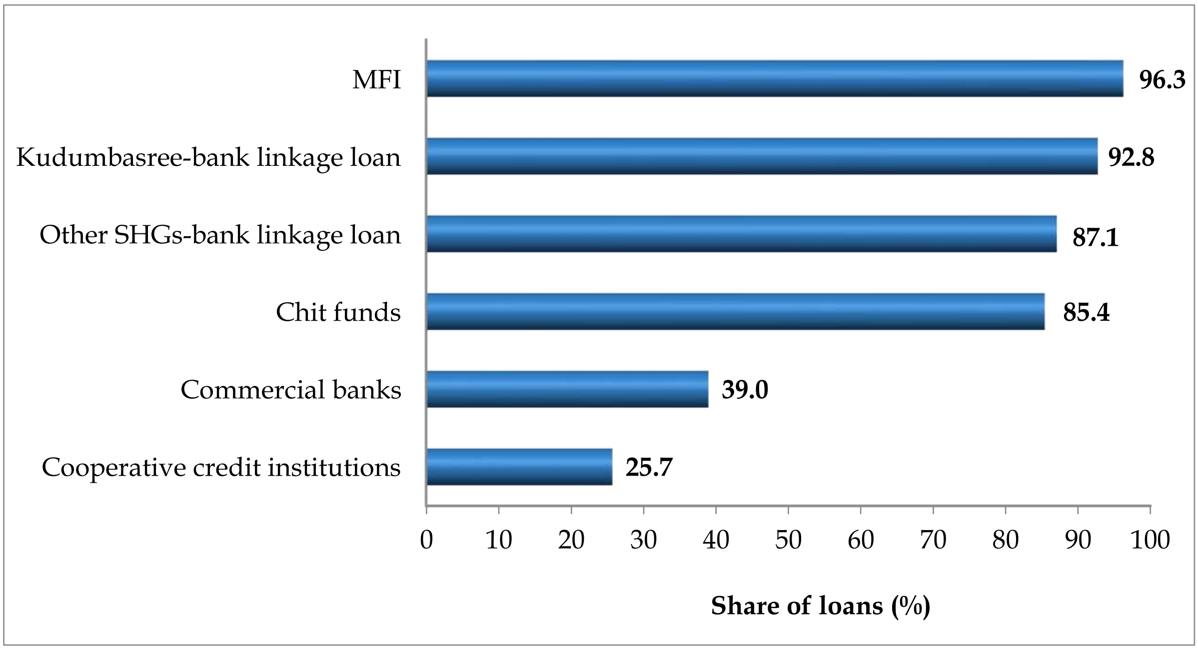
The primary factor that distinguishes the loans with a personal guarantee and the loans based on group liability is the legal claim the lenders have on the guarantors' wealth or property at the juncture of defaults. Although in personal guarantee, no tangible collateral is mortgaged, the formal institutions are legally empowered to raise a claim over the property of guarantor on the face of defaults. However, even though group loans also rest on the mutual personal guarantee of group members, such guarantee does not give much legal right to the loan provider over the property or wealth of the group members even if someone fails to repay the debt.[31] Group loans operate on peer pressure and therefore are

[30]There is a difference between Berger & Udell's and Pozzolo's idea of inside and outside collateral. Berger and Udell adopted the concepts in the framework of a firm. In their opinion, outside collateral involves pledging assets owned outside of the firm as securityfor a loan to the business. This includes the pledging of personal assets such as a home, as collateral for a business loan by the owner. In contrast, they define inside collateral as pledging of specific business assets such as accounts receivable, inventory, or equipment to a specific lender as security for a business loan.

[31] During the interview, the private MFI officials clearly mentioned that they do not have any legal right over the property of borrowers even if they default. However, there exists an ambiguity among the bank officials whether such legal right in favour of bank is valid in the case of SHG-Bank linkage programme. Given the high recovery rate of the SHG-Bank linkage programme, they do not seem to be much concerned about default on payment. Similarly, as noted in Chapter 2, Kudumbashree guideline

considered as unsecured loans by RBI, as noted above. However, the survey data and the conversations with different stakeholders associated with banking and microfinance industry reveals that such loans are the most risk-free loans, with a higher rate of recovery than the loans backed by tangible collateral or personal guarantee. It is evident from Figure 3.7 that the default rate is much less in group loans compared to the loans secured with collateral or personal guarantee (loans from commercial banks or co-operative financial institutions). The repayment rate is the highest for MFI loans which lend on group liability basis followed by Kudumbashree NHG-Bank linkage loans and other SHG-Bank linkage loans (other than Kudumbashree). As noted above, peer pressure serves as the strongest guarantee for group loans.[32]

Figure 3.7: Share of Loans without Defaults within Each Source



Note: Gold loans are not included in the analysis as there is no stipulated periodical repayment schedule for gold loans. A prominent practice observed among the rural poor regarding gold loan is to renew the loan by paying interest at the expiry of the term.
Source: Primary Survey

As per Figure 3.7, among the formal financial sources, the default percentage is the highest in the case of loans from co-operative institutions. Many of the respondents who availed loans from such institutions stated that they do not pay instalments regularly, but their usual practice is to renew the debt at the expiry of the term, by paying the interest. Changing priorities of loan repayment and increasing default in loans taken from co-

itself suggests peer pressure, imposing of penal interest and shifting of thrift amount to the loan repayment as primary remedial measures if any group member defaults NHG-Bank linkage loan. Therefore, for the purpose of analysis, SHG-Bank linkage programme is categorised as an unsecured loan backed only by group pressure.

[32]It was not possible to calculate the default rate in the case of thrift loans, as many of the borrowers do not know that there is any fixed term or fixed amount of repayment. Therefore, they do not consider the non-repayment as a default.

operative institutions are challenges for the co-operative financial sector in Kerala as illustrated in Box 3.2.

Box 3.2: Low Priority to Repay Loans from Co-operative Financial Institutions

As part of the study, the research team held detailed discussions with officials of co-operative financial institutions in Kangazha (Kottayam), Muzhappilangad (Kannur), Cherthala (Alappuzha), Thirunelly (Wayanad) and Karadka (Kasaragod). Interaction with them indicated that people approach co-operative institutions for loans despite the fact that they charge higher interest rates than the public sector banks and mandatorily impose collateral requirements. This is mainly because borrowers enjoy more flexibility in loan repayment with co-operative institutions as the number of cases reaching revenue recovery is minimal. Although the recovery rates are low in all the five locations where discussions were held, only in the range between 10-25 per cent, officials seemed not much concerned about this. They held the opinion that, since the co-operative financial institutions are for the people, it cannot impose stringent recovery methods.

As quoted by one of the officials "….since co-operative financial institutions are the easily approachable credit sources, especially for rural poor people, the borrowers would not purposefully default repayment. Only in the circumstances with other urgent financial requirements, people might give lesser priority to the repayment of loans from co-operative institutions, but they would at least renew the loan by paying interest. We also conduct Adalats for giving defaulters a chance to repay their debt without penalty." However, most of the officials seem to be bothered about the increasing reach of MFIs and its implications on household financial prudency.

Repayment priorities of borrowers, presented in Table 3.7, assert the above findings from the borrowers' perspective. It can be observed from the table that, compared to the loans from commercial banks or co-operative financial institutions, a higher priority for repayment among borrowers exists in favour of group loans, which RBI views as unsecured debts. For instance, among the households borrowed from both MFIs and commercial banks/co-operative financial institutions together, 57 per cent gives higher repayment priority to MFI loans. This is in consistence with the findings of the empirical study of Berger and Udell which points to the incapacity of collateral to fully offset the default risk faced by the lenders (Berger & Udell, 1990). Between the group loans, a stronger priority to repay MFI loans is visible among the subset of households, which have taken both MFI loans and Kudumbashree linkage loans—more than 80 per cent giving preference to repay MFI loans. Compulsory nature of MFI loans, pressure exercised by the peer group and MFI field staff are quoted as the major factors influencing their priority for loan repayment.

Table 3.7: Repayment Priority towards Different Loan Sources

Type of Loan		Repayment Priority (Proportion of households preferring each source [%])			Total
Loan-1	Loan-2	Loan-1	Loan-2	Other Loans	
MFI loan	Kudumbashree linkage loan	82.5	10.0	7.5	100.0
MFI loan	Loans from moneylenders	81.4	4.7	13.9	100.0
MFI loan	Loans from commercial banks or co-operative financial institutions	56.9	34.5	8.6	100.0
Kudumbashree linkage loan	Loans from moneylenders	54.1	32.4	13.5	100.0
Kudumbashree linkage loan	Loans from commercial banks or co-operative financial institutions	42.0	34.8	23.2	100.0
Loans from money lenders	Loans from commercial banks or co-operative financial institutions	39.0	46.3	14.6	100.0

Source: Primary Survey

When household were enquired further on attributing top priority to repay loan from moneylenders, personal abuse was indicated as the element leading to timely repayment. A minority of respondents also acknowledged that they would give priority for the repayment of loans from their friends and relatives as they place personal obligations and relations above all other factors. The respondents giving priority to commercial banks/co-operative institutions for debt repayment cited fear of losing collateral as the main factor influencing their preference. However, higher repayment priority towards group loans compared to secured debts, as noted above, indicates that collateral is not a major factor ensuring the regularity of debt repayment. On the contrary, the nature of the debt source and the kind of pressure imposed to determine the lenders' recovery rate and borrowers' regular and timely repayment. Women usually give low priority for repayment of thrift loans as they think that there is no stringent stipulation regarding the thrift loan repayment. Several women who responded as "we pay Kudumbashree thrift loans according to our convenience…", added that such relaxation could not be expected about Kudumbashree linkage loan or MFI group loans.

Interestingly, in the financial borrowings in society with strong social networks, apart from tangible materials, emotions and obligations can act as security. In the light of the above discussion, the study recognises four methods adopted by the lenders to secure their loans: First, the backing of loans by corresponding material collateral, which gives the lenders sanction to recover their debt through the proceeds from the sale of collateral. i.e., there is a direct backing of debts by assets. Second, securing loans by the guarantee of an external person, i.e., the assurance given by a third party that, in the event of a default by the borrower, he/she will pay back the loan. Here, lenders are entitled to claim the assets of the guarantor if there is a default. Therefore, there is an indirect backing of debt by the assets. Third, backing the debts by group liability, i.e., the members of one group are responsible for each other's debt, and the peer pressure acts as the security for the lenders. It is not still clear whether the loan providers are entitled to recover the debt by confiscating the property of the borrower or guarantor. However, as gathered from the conversations with group loan providers, such loans are not backed by any form of collateral. Nevertheless, it is the most profitable and secured type of debt for lenders in the present situation of Kerala, as such loans are characterised by higher interest rates in the name of risk associated with collateral free lending. But in reality, such loans have a higher rate of recovery.[33]Fourth, the lenders extending loans without demanding any security requirements. Loans given by the moneylenders mostly belong to this category. In such situations, the lenders ensure the loan recovery and reduce the default risk through the power or domination they enjoy over the borrowers.

Table 3.8 gives the details of the security submitted by the respondents for loans from formal sources and informal sources. Nearly one-third (30%) of the formal loans are taken by pledging gold, and 13 per cent are taken by submitting land as collateral. Thus 43 per cent of the loans from formal sources are secured loans[34] as defined by RBI, while only 2.5 per cent of the informal loans belongs to this category. Among the formal loans, 10 per cent is availed the personal guarantee. Therefore, as per Pozzolo's definition, 53 per cent of loans are secured loans. Nearly half (47%) of the loans are distributed on group liability. If group liability is also considered as a personal guarantee (since the legal recovery provisions with regard to group loans are still ambiguous), then all the loans distributed by the formal sources become secured loans as per Pozzolo's definition. On the contrary, 97 per cent of loans from informal sources did not require any form of security.

Table 3.8: Type of Security Used to Avail Loans

Types of Security	Share of Loans from Formal Sources (%)	Share of Loans from Informal Sources (%)
Group pressure	47.4	-
Gold	30.2	1.3
Land/property	12.5	0.9
Personal guarantee	9.8	0.2
Yield from farming	-	0.2
No security	-	97.3
Total	**100.0 (1382)***	**100.0 (445)***

*Total number of loans from formal sources and informal sources is provided in the parenthesis.
Source: Primary Survey

[33]This statement is valid with respect to the current situation of Kerala. It might not be true for an economy facing MFI repayment crisis, as one experienced by Andhra Pradesh during 2010.

It is also found that more than one-third of land-owning indebted households (153 out of 438 households) has submitted land as security for availing the loan. Similarly, more than 60 per cent (287 out of 476 households) of the surveyed households with outstanding loans have pledged gold, thus constituting the most important collateral in the life of rural poor. The prominent role of collateral requirement in determining the credit choices of poor borrowers is very well reflected in the words of Bindhu, a manual labourer from Palakkad,

> "Banks, be it commercial or co-operative, ask for security even for a small amount of loan. Only the MFIs are providing us with money without giving any collateral. That is why we, again and again, are forced to borrow from such institutions even with their high rate of interest."

3.4.2 Default on Loan Repayments

It is found that more than half (52 per cent) of the indebted households are currently in default of at least one loan. Figures 3.8 and 3.9 confirm the conventional wisdom that as the number of loans or outstanding loan amount per household increases, the risk of default rises. Only 17 per cent of the households having one loan reported that they are in default of the periodical debt repayment at the time of the survey. However, among the households having more than five loans, 80 per cent responded that they are in default. Similarly, if the outstanding loan amount is taken into consideration, 70 percent of the households having more than Rs.3 lakh debt is currently in default of at least one loan.

Figure 3.8: Default Percentage of Households with Different Number of Loans

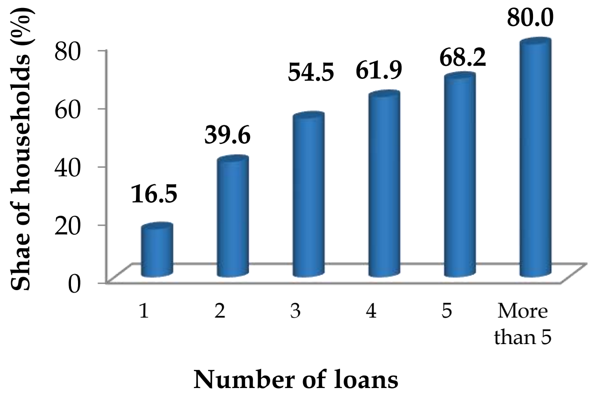
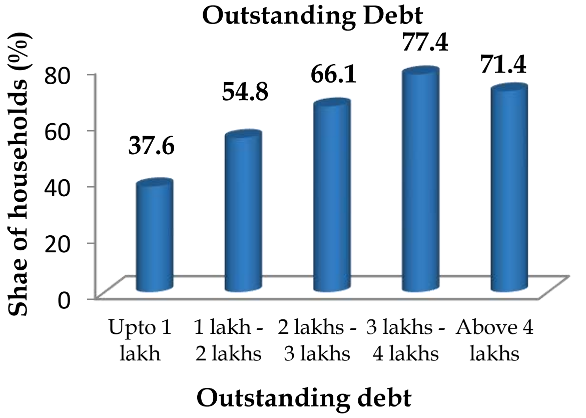


Figure 3.9: Default Percentage of Households with Different Levels of Outstanding Debt



Base: Total number of households with loan= 476.
Source: Primary Survey

3.5 Measuring Household Indebtedness

This section aims to assess indebtedness among sample households in rural Kerala. An attempt is made to analyse the debt burden using objective and subjective measures suggested in the literature. It is envisaged that an understanding of nature and extent of debt burden borne by poor households in rural Kerala would provide insights to devise policies to enhance financial stability in the lives of the rural poor.

3.5.1 Extent of Indebtedness

Table 3.9 presents the existing indebtedness scenario of households with different socio-economic characteristics. It can be inferred from the table that the average amount of outstanding debt among general category households is five times that of ST households. Similarly, poor households bear a heavier debt obligation compared to very poor households. It needs to be noted that, although average outstanding debt is the highest among the general category households, the average number of loans possessed by those households is less than that of OBC and SC category households. A similar pattern is noted in the case of poor and very poor households. This in a way indicates the lower accessibility of deprived population towards high value loans.

Table 3.9: Indebtedness according to Household Characteristics

Category	Economic Group		Social Group			
	Very poor	Poor	SC	ST	OBC	General
Average outstanding debt (Rs.) per household	1,50,279	2,36,807	1,37,672	61,322	2,67,741	3,10,632
Average number of loans per household	3.8	3.6	3.9	3.0	3.7	3.3
Average number of credit sources per household	2.5	2.6	2.7	2.1	2.6	2.4

Base: Total number of households with loan= 476.
Source: Primary Survey

To get a clearer picture of the extent of indebtedness, the following questions were asked to the respondents with outstanding debt:

1. Has the household faced difficulties in the last one year to meet other expenditure after making periodical debt repayments?
2. Has the household defaulted any loan repayment in the last one year?
3. Did the household enjoy any form of loan waiver in the last one year?

From the response, it is seen that although only 61 per cent of the 476 households have defaulted at least one instalment in the last one year, 74 per cent has faced difficulties in meeting household expenditure after making the periodical loan repayments. It is found that 70 per cent of the households which reported that they faced difficulties in meeting other expenditure after making debt repayment has defaulted at least one loan repayment in the last one year. However, only less than two per cent enjoyed any form of loan waiver during the period.

3.5.2 Measuring the Debt Burden

The debt burden of the household is defined as the amount owed by the households to others. However, a simplistic portrayal of the amount does not give an idea of the actual load of debt shouldered by the households. To get a clear picture, the economic status of the household and its repayment capacity should also be considered. The concept of over-indebtedness captures the situation whereby households find it impossible to repay all debts fully and on time (Alam, 2012). Studies conducted in different parts of the world have identified various factors that drive households into over indebtedness. Failure of credit markets, the existence of liquidity constraints, lack of access to formal credit markets (Betti et al., 2007), lack of self-control, financial illiteracy (Gathergood, 2012; Lusardi & Tufano, 2008), poor financial decisions, income shock on the households such as unemployment and ill health, macroeconomic shocks such as credit crunch and changes in interest rates (Disney, Bridges, & Gathergood, 2008) and under estimation of the risk of borrowing (Alam, 2012; Kilborn, 2005) are some of the reasons cited for the accumulation of more debts by the households beyond their capacity to repay. Majority of these studies observe that the reasons for over-indebtedness are time and space specific.

Measuring the magnitude of the debt burden of households is riddled with methodological limitations. For instance, there are difficulties in defining the tipping point between borrowing and over-borrowing as there is no uniform definition of over-indebtedness (see Fondeville, Őzdemir, & Ward, 2010; Betti et al., 2007; D'Alessio & Iezzi, 2013).

In spite of the methodological limitations noted in the literature, an attempt to capture the debt burden of rural households, objectively and subjectively is made in the rest of the section.

3.5.2.1 Objective Measure of Debt Burden

Quantitative measurement of debt burden is suggested by Pytkowska and Spannuth (2011). This method categorises households according to indebtedness index, which is the percentage of monthly income used by the households for debt repayment (monthly instalments).

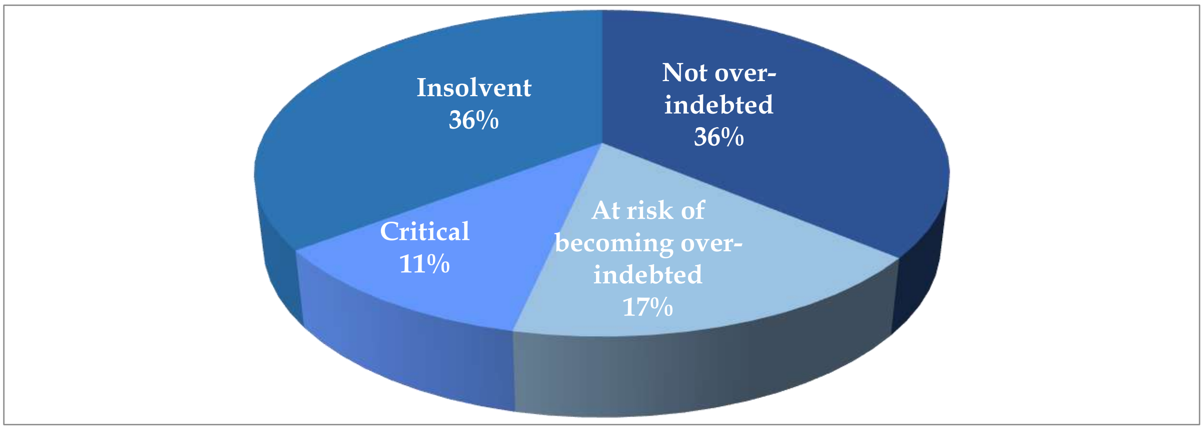
Indebtedness Index =	**Total monthly instalments on household debt ÷ monthly household income.**

As per the index, households are classified into the following four categories:

- **Insolvent/over-indebted:** entire household income is required to spend on debt servicing (indebtedness index equal or exceeding 100%);
- **Critical:** between 75 to 100 per cent of the household income is required to spend on debt servicing (indebtedness index equal to or above 75% but below 100%);
- **At the risk of becoming over-indebted**: between 50 to 75 per cent of the household income is required to spend on debt servicing (indebtedness index equal to or above 50% but below 75%) and;
- **Not over-indebted:** less than 50 per cent of the household income is required to spend on debt servicing (indebtedness index below 50%).

However, this method necessitates the calculation of monthly repayment commitment of each household.[35] This can be precisely calculated only for loans with fixed periodical repayment obligations (such as housing loans, MFI loans, SHG-Bank linkage loans, etc.). Borrowings such as gold loans, thrift loans, loans from moneylenders and loans from friends and relatives which are relevant in rural Kerala do not follow such definite periodical repayment schedule or even a specific repayment term. Therefore, the debt burden estimation attempted here relies on certain approximations regarding the above mentioned loans. For the purpose, the study considers the duration of such loans as one year and to calculate the monthly commitment, the principal amount of such loans plus interest[36] is divided by 12. Further, due to grave data inadequacies, 83 households with current debt are excluded from the calculation, thus reducing the valid number of households for assessing debt burden to 393. It is also acknowledged that the asset position of the households is an important factor determining the debt burden borne by them. However, this study has not attempted to quantitatively value the asset position of household in assessing the debt burden. Despite these limitations and approximations, this method could provide a crude estimate of the debt burden of rural poor households in Kerala. Classification of sample households using this method is presented in Figure 3.10.

Figure 3.10: Debt Burden of Sample Households based on Indebtedness Index



Base= 393.
Source: Primary Survey

As evident from Figure 3.10, two-thirds of households are either over-indebted or at the risk of becoming over-indebted. The fact that more than one-third of the rural poor households are already insolvent/over-indebted calls for immediate attention from policy makers.

[35]It needs to be noted that Pytkowska and Spannuth adopted this method to assess the debt burden among microcredit clients in Kosovo. They consider only the borrowings from microcredit institutions which follow stringent and definite periodical repayment methods. Debt from other sources are ignored in their estimation.

[36]For those loans where the respondents did not report the interest rate, interest amount is calculated with the following approximated rates. For gold loan, 10 per cent, the lowest rate charged by formal financial institutions on gold loans as reported in Chapter 2was applied for calculation. For loans from moneylenders, minimum interest rate reported for such loans found during the survey is taken as the rate for approximation, i.e., 24 per cent.

Figures 3.11 and 3.12 indicate that multiple borrowing and over-indebtedness go hand in hand. As the number of loans and the number of sources of credit goes up, the proportion of insolvent households also increases. For instance, only 4 per cent of households with only one loan is insolvent, while 71 per cent of the households with more than five loans are insolvent/over-indebted. Similarly, three-fourths of the households with loans from six sources are insolvent, while only 12 per cent of the households with loans from a single source are insolvent. Thus, the situation of over-indebtedness is observed among the households having a higher number of loans and borrowings from multiple sources.

Figure 3.11: Debt Burden of the Households according to the Number of Loans

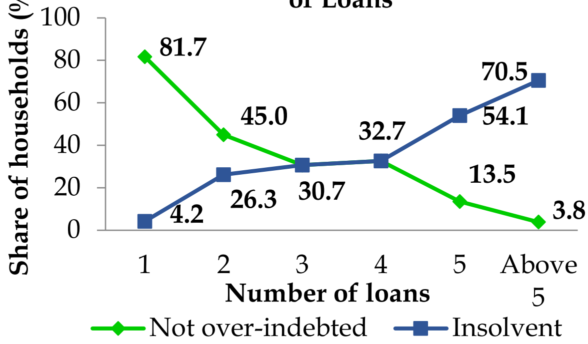
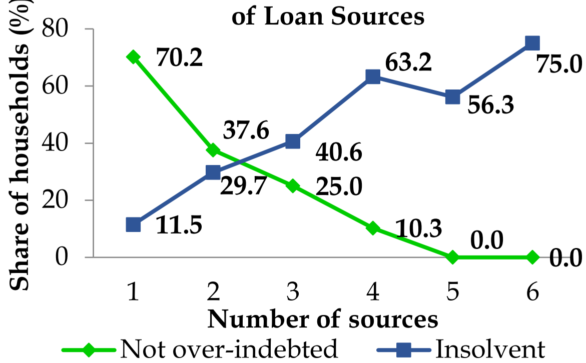


Figure 3.12: Debt Burden of the Households according to the Number of Loan Sources



Base= 393.
Source: Primary Survey

Table 3.10 examines the debt position of households with different levels of the debt burden. The average outstanding loan amount of the insolvent households is seven times that of the not over-indebted households. A rise in debt pressure is visible in the case of monthly instalment amount, which increases as one moves from not over indebted category to insolvent category. A similar trend is observed with respect to the average number of loans, the average number of sources from which the loans were taken and the average number of defaulted loans.

Table 3.10: Debt Position of Households with Different Levels of Indebtedness

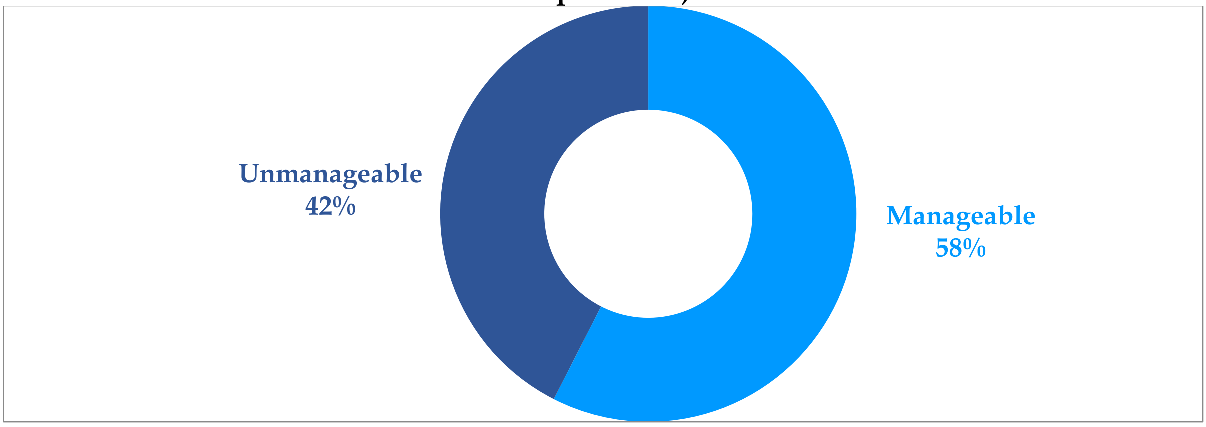
Category	Not over-indebted	Risk of becoming over-indebted	Critical	Insolvent/ over-indebted
Average outstanding debt per household (Rs.)	45,303	131,019	222,590	316,310
Average amount of monthly installment per household (Rs.)	3053	7,058	10,623	16,500
Average number of loans per household	2.2	3.4	4.6	5.1
Average number of sources per household	1.8	2.5	3.0	3.2
Average number of defaulted loans per household	0.5	0.7	0.9	1.2

Base= 393.
Source: Primary Survey

3.5.2.2 Subjective Measure of Debt Burden

The subjective assessment of the debt burden captures the perception of the respondents about the current debt situation of their households. The households with at least one debt[37] were asked to share their opinion on their debt burden and to state to what extent their outstanding debt had been a burden on their household finances. The respondents were asked to categorise their perception on the household's debt burden into 'manageable' and 'unmanageable'. Among the total 393 respondents considered for the present analysis, 58 per cent reported that the current debt situation of the household is manageable (Figure 3.13).

Figure 3.13: Perception of Households on Their Current Debt Burden (as reported by the respondents)



Base= 393.
Source: Primary Survey

It was further noted that respondents' perception about the debt burden is related to the number of loans of the households (Figure 3.14) and the number of sources from which the households took loans (Figure 3.15). Similar to the case with objective measurement, as the number of loans and the number of sources from which the loans were received increases, households' confidence on the manageability of their debt situation declines.

Figure 3.14: Perception of Debt Burden & Number of Loans

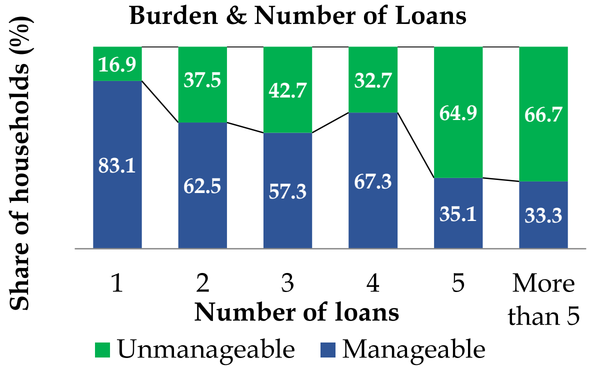
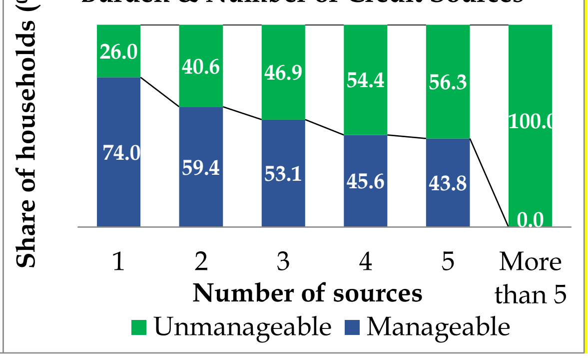


Figure 3.15: Perception of Debt Burden & Number of Credit Sources



Base= 393.
Source: Primary Survey

[37]Although this data is available for all the indebted households, to facilitate a comparative analysis, only the 393 households for which the objective index was calculated were considered.

The average number of loans for households which has unmanageable debt is 4.5, while it is three for households with manageable debt. Similarly, the average outstanding debt of households which perceive their indebtedness level as unmanageable (Rs.27,6913) is 2.75 times that of those reported their debt situation as manageable (1,01,146).

It was also attempted to find out the relation between objective and subjective measures of debt burden (Table 3.11). It is observed that as the households move from not over-indebted category to insolvent category, their perception about the unmanageability of debt rises. However, it is relevant to note that, a significant share (around 40 per cent) of the households classified as insolvent consider their debt burden as manageable. While such a scenario can be recognised as an indicator about the absence of clear idea prevailing among the rural poor regarding their debt burden, it should not be forgotten that this difference could also arise due to the non-inclusion of several factors such as household assets in objectively assessing debt burden.

Table 3.11: Relation between Objective and Subjective Measures of Debt Burden (Percentage of Households)

		Subjective Measure		
		Manageable	Unmanageable	Total
Objective Measure	**Not over-indebted**	75.4	24.6	100.0
	Risk of becoming over-indebted	66.2	33.8	100.0
	Critical	47.7	52.3	100.0
	Insolvent/ over-indebted	38.1	61.9	100.0

Base= 393.
Source: Primary Survey

3.5.3 Gender and Debt Burden

Among the sample households, the number of loans in the name of a female member is 2.5 times the number of loans in the name of a male member (Table 3.12). But this wide difference could be mainly attributed to the fact that 51 per cent of the loans in the name of women are 'women exclusive loans' (loans available only to women) such as Kudumbashree loans and MFI group loans.

There are also differences in the type of loans taken in the name of men and women. It is noted that around 64 per cent of the total gold loans are in the name of women. However, men have almost twice the number of loans from moneylenders compared to women.

Although the average number of loans in the name of men is less than that of women, the average credit amount per loan in the name of men is double that in the name of women. This could be due to multiple reasons; the smaller amount of loan women borrow at one time or that sources which women depend, mainly group loans, only offer relatively smaller amount as loan. This might also arise due to the fact that given the social structure of Kerala, the immovable property assets of a household are often in the name of men, therefore, the possibility of availing high value loans requiring collateral backing is higher for men than women.

Table 3.12: Indebtedness by Gender

Credit Source	Percentage of Loan Taken in Their Name			Average Credit Amount	
	Male	Female	Total	Male	Female
Formal Individual Loan					
PACSs	46.3	53.7	100.0	1,28,809	94,786
Commercial banks	38.7	61.3	100.0	1,54,474	95,391
NBFCs	39.3	60.7	100.0	51,000	29,772
DCCBs	66.7	33.3	100.0	1,85,944	2,28,333
KSFE	55.5	44.4	100.0	1,82,400	11,000
Chit funds	33.3	66.7	100.0	1,16,000	1,57,800
Formal Group Loan					
Kudumbashree thrift	-	100.0	100.0	-	15,777
Kudumbashree- bank linkage	-	100.0	100.0	-	41,977
MFI	-	100.0	100.0	-	29,878
SHG- bank linkage (other than kudumbashree)	15.6	84.4	100.0	1,22,000	46,037
SHG thrift (other than kudumbashree)	24.0	76.0	100.0	23,833	15,789
Kudumbashree JLG	-	100.0	100.0	-	46,417
Informal Individual Loans					
Moneylender	64.7	35.3	100.0	17,770	16,277
Instalments other than MFI	33.7	66.3	100.0	9,502	5,860
Chit funds	56.3	43.7	100.0	35,278	31,379
Overall*	**28.1**	**71.9**	**100.0**	**91,405**	**45,859**

*Relevant data on 18 loans are missing, therefore excluded from the analysis. Further, loans received from friends and relatives are not included in the total number of loans, as they are not borrowed in any specific person's name. Thus, the total number of loans excluded from the table is 202.
Source: Primary Survey

3.6 Sacrifices in the Management of Debt Burden

How the rural poor manage their debts is an area that deserves critical attention to understand household indebtedness in its totality. Considering anecdotal evidence[38]

[38] While there is a growing body of literature on agrarian crisis leading to farmer's suicide, evidence is scanty how lack of financial prudency leads to loss of property or suicide in non-agricultural settings. Of late, a few studies have attempted to document the latter scenario, especially in the context of Andhra Pradesh which was first to hit by MFI crisis. For details see Johnson & Meka, 2010; Jain, 2011;

pointing towards mounting debts leading to losing of the house, loss of the only land they possess, the suicide of household members, this section intends to understand sacrifices made and coping strategies adopted by indebted households in the sample. Towards the purpose, a list of sacrifices and coping up strategies identified by Schicks (2014) was followed (Box 3.3). Indebted households included in the study were asked to describe sacrifices they made and the debt management strategies they adopted in the last one year to fulfil their debt obligations.

Box 3.3: List of Sacrifices Identified

Sacrifice in Basic Needs

1. Reduce quantity or quality of food (forced to skip meals, decrease consumption of meat, milk, etc.)
2. Reduce/postpone education expenditure
3. Reduce/postpone health expenditure

Forced to Adopt Economic Coping up Strategies

4. Work more than usual (additional labour/work longer hours)
5. Deplete financial savings
6. Make additional borrowings
7. Sell or pawn assets
8. Defaulted insurance/post office or other periodical payments

Suffering Socio-Psychological Harassments

9. Seizure of assets
10. Suffer from shame or insults or feel threatened/harassed by peers/family/loan officer

Source: Schicks (2014)

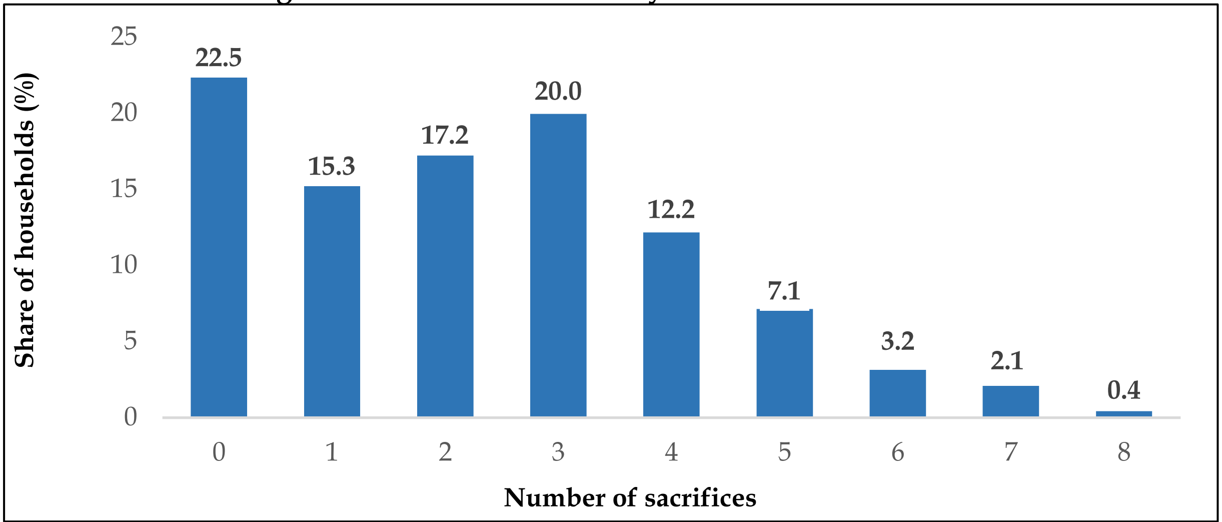
More than three-fourths of the indebted households made at least one sacrifice to manage debt. One-fourth reported four or more sacrifices. Only less than one-fourth of the households reported that no sacrifices were made because of their debt position (Figure 3.16).

The listed sacrifices were further grouped into three categories: sacrifice in basic needs (reduction in food, education, and health expenses), forced to adopt economic coping up strategies (additional work, depleting savings, loan recycling, sale/pawning) and suffering of social or psychological harassments (shame/insults, threats/harassment from the loan providers and psychological stress due to seizure of assets). Among the indebted households, 47 per cent had to undergo sacrifices with respect to adjusting their basic needs and adopting economic coping strategies together to repay loans as can be

Consultative Group to Assist the Poor (CGAP), 2009; Taylor, 2011;Srinivasan, 2010. In the case of Kerala, such reports seem to be minimal, except cases reported from Palakkad. However, anecdotal evidence indicate that situation of several households are grim due to excess borrowing. For details see Chandra, 2018; Mullappatt, 2019; Nair, 2015.

observed in Table 3.13. In total, 66 per cent of the indebted households were forced to adopt some sort of economic coping up strategies in the last year for the management of their debt. As reported by the respondents, 62 per cent were compelled to compromise with their basic necessities to save money for the loan repayment. However, only five per cent of households faced some sort of threats or harassment with regard to their debt in the last year.

Figure 3.16: Sacrifices Made by Indebted Households



Base: Total number of indebted households= 476.
Source: Primary Survey

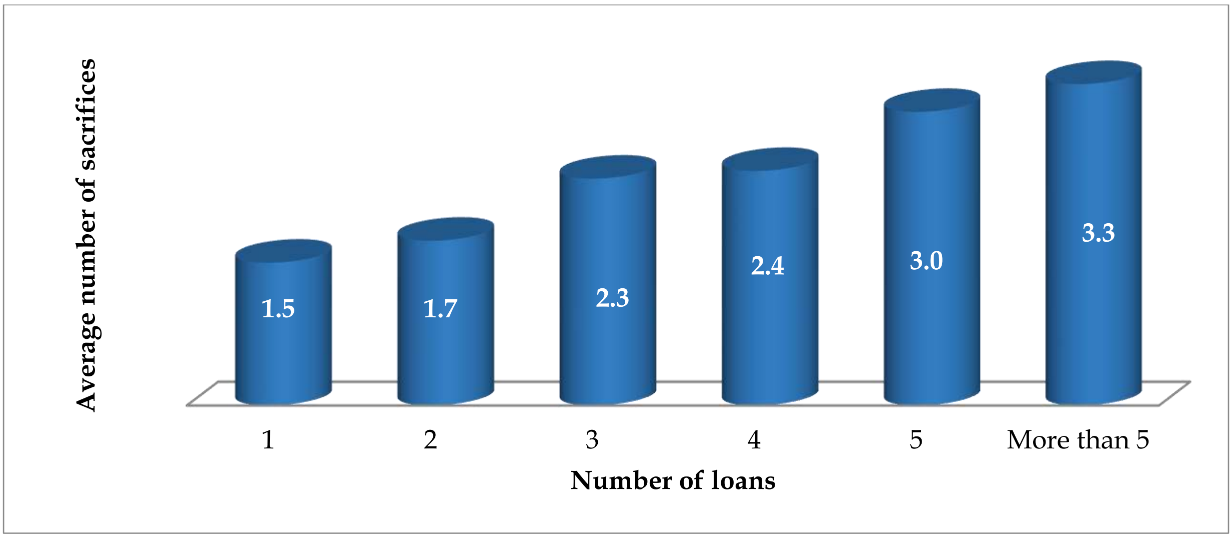
Table 3.13: Household Sacrifices for Debt Management (Over the Last One Year)

Type of Sacrifice	Share of Households (%)
Forced to adopt economic coping up strategies alone	14.1
Sacrifice in basic needs alone	10.7
Suffered socio-psychological harassments alone	0.2
Sacrifice in basic needs & forced to adopt economic coping up strategies together (excluding socio-psychological harassments)	47.1
Forced to adopt economic coping up strategies & suffered socio-psychological harassments together (but did not sacrifice any basic needs)	0.6
Sacrificed basic needs & suffered socio-psychological harassments together (but were not forced to adopt economic coping up strategies)	0.4
Sacrificed basic needs, forced to adopt economic coping up strategies and suffered socio-psychological harassments together	4.4
No sacrifice	22.5
Total	**100.0**

Base: Total number of households with= 476.
Source: Primary Survey

Confirming the positive linkage between the possibility of a debt trap and number of loans the Figure 3.17 shows that the number of sacrifices the rural poor is forced to suffer for loan repayment increases as their number of loans rises.

Figure 3.17: Average Number of Sacrifices Borne by Households with Different Number of Loans



Base: Total number of households with loan= 476.
Source: Primary Survey

A detailed examination of these sacrifices gives an idea about the coping up strategies adopted by the poor households in Kerala. Around half of the indebted households took up additional jobs or were compelled to work extra hours to meet the debt obligations. More than half of the households (56%) reduced the quality of food, and 41 per cent were compelled to reduce the quantity of food or skip meals to save money for the loan repayments (Figure 3.18). More than one-third of the households borrowed money from other sources to repay some other debt, thus giving rise to a condition of loan recycling. One-fifth of the households pawned some assets majorly gold to earn money for the loan repayment.

While households were generally reluctant to share their experiences with respect to threats or harassments from the loan providers. Some of them, due to their inability to repay the debt on time, during informal chats cited several such instances.

Box 3.4: Facets of Indebtedness

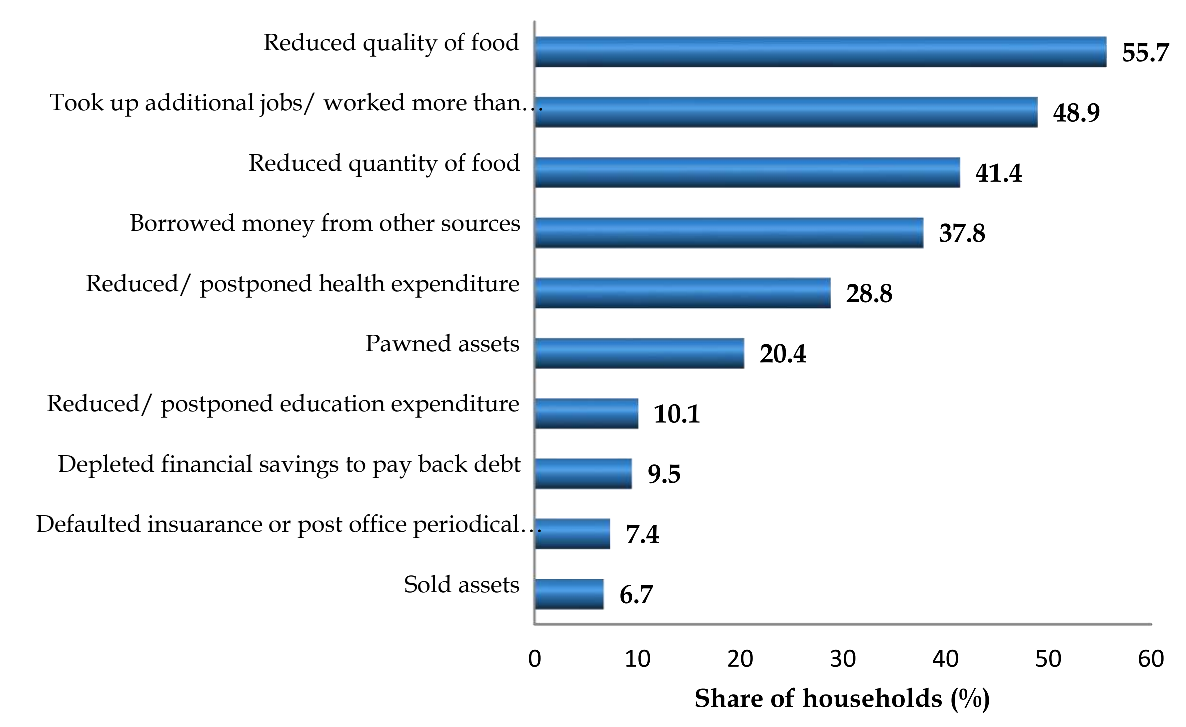
Case 1: Story of Jayasree, a 22 year old SC woman, shows how a family plunges into a vicious circle of loan recycling. The five member family is living in a semi-pucca house, with an asbestos roof. In the name of Jayasree, Rs.65,000 was borrowed from a commercial bank to buy a two wheeler for Sajan, Jayasree's husband. For the loan, Rs. 2364 has to be paid each month as monthly instalment. Sajan also purchased a TV stand and a table fan on an instalment basis. However, for paying these monthly instalments, Jayasree was forced to take three gold loans worth Rs. 3000 each from NBFCs and a group loan of Rs. 25,000 from Madura microfinance in different months. Sajan has also borrowed Rs. 5,000 at a 25 per cent interest rate from moneylenders from Tamil Nadu for the payment of instalments. Thus, the family with a monthly income of less than Rs. 8,000 is incurring additional debt to repay previous debts. The respondent reported that Sajan was compelled to work extra, and the family was forced to compromise with the quality and quantity of food for debt management.

Case 2: The family of Rajamma, Nitheesh and their three children live on the meagre income of Nitheesh who works as a daily wage labourer. The family has an outstanding debt of around Rs.1,50,000. For several months, Nitheesh could not find employment on most days, and the family survived with the help of relatives. Rajamma, the respondent, said that after meeting their debt obligations, the family is left with nothing. Even though the children are bright in studies and shortlisted for many competitive examinations, the family is unable to provide them with required study materials due to financial difficulties. Rajamma recalled that two years before, the gold she pawned in a private financial institution was sold by the institution as she could not pay back even the interest. The family has borrowed money from many people, including moneylenders at the high interest rate for paying back some other loans and to meet day to day expenses. Rajamma reported that the family faced threats from the moneylenders as they could not return the loan on time.

Case 3: A vehicle loan of Rs.2,37,000 was taken by Rajan, a daily wage manual labourer, from SBI. The duration of the loan was five years. The only four cent property of the family was mortgaged as the security for this loan. Rajan, the sole breadwinner of the four member family, earns about Rs. 5000 a month. The instalment of the bank loan itself comes around Rs. 3500 a month. In some months he does not have much work because of which he cannot pay the instalments on time. Currently, he has defaulted for three months. Twice he borrowed from a moneylender at an exorbitant interest rate to pay the instalment. The bank gave him relaxation by increasing the loan period for two more years. However, still, the family is facing pressure and is forced to reduce other necessary expenditure to meet the monthly payment obligations.

Note*:* Names of the respondents and family members are changed to protect their identity.
Source: Field Interactions

Figure 3.18: Coping Strategies Adopted by Rural Poor Households for Loan Repayment



Base= Total number of households with loan= 476.
Source: Primary Survey

3.7 Conclusion

This chapter examined the extent, nature and characteristics of indebtedness prevailing among rural poor in Kerala. Results indicate that among the surveyed households, 88 per cent are indebted. Formal credit sources seem to be available and accessible to rural poor households in Kerala. Interestingly, the dependence on moneylenders is low. Indebted households tend to borrow for a variety of purposes with house renovation/construction, health care requirements and loan repayments topping the list. Generally, the share of households incurring credit for directly productive activities is low. Survey results indicate that more than one-third of the indebted poor households in rural Kerala is insolvent, calculated by framing an objective index for measuring indebtedness. Indebted households seem to be in a vicious circle of not able to use loans for any directly income generating activities, perhaps, adding to their debt burden. The next chapter explores the dependency of rural poor households on different credit sources in much detail.

CHAPTER 4

DISSECTING THE CREDIT SOURCES OF RURAL POOR HOUSEHOLDS

4.1 Introduction

This chapter examines sources of borrowings by rural poor households in detail. The Chapter is organised as follows: Section 4.2 examines the pattern of individual borrowing from formal sources; Section 4.3 explores the case of individual borrowing from informal sources, while dynamics of group borrowings is examined in Section 4.4. As most of the group lending activities are focussed on women, Section 4.5 attempts to explore gendered aspects of group lending. Section 4.6 concludes the Chapter.

4.2 Individual Borrowing from Formal Sources

Several studies have noted that for poor with no collateral, credit from formal institutions are often inaccessible (Shukla & Sekhri, 2016; Rajeev, Vani, & Bhattacharjee, 2012; Basu, 2006 and; Hermes & Lensink, 2002). By looking into the pattern of individual borrowings from formal financial sources by rural poor, this section tries to understand the situation in Kerala with regard to the dependence of the rural poor to different formal financial institutions.

Among 476 households which have at least one outstanding loan, 78 per cent (374 households) had taken individual loans from formal finanancial sources. Data indicates the strong dependence of such households on PACSs. As presented in Table 4.1, 60 per cent of rural poor having individual loans from formal financial sources have borrowed from PACSs followed by NBFCs and public sector banks.

Table 4.1: Individual Borrowings from Formal Financial Sources

Credit Sources	Share of Households (%)
PACSs	60.4
NBFC	28.6
Public sector banks	18.7
Private sector banks	10.2
RRBs	8.8
DCCBs	6.1
Registered chit funds	4.0
KSFE	1.6

Base: Households which have taken individual loans from formal financial sources= 374.
Note: Column total does not add up to 100 as households depend on multiple sources to meet credit requirments.
Source: Primary Survey

Further, the analysis of dependence on various credit sources by household characteristics was attempted. Table 4.2 reveals that PACS emerges as a major source of credit in rural areas across socio-economic categories. Data indicates variations in the dependence on formal sources of credit providing individual loans according to socio-economic characteristics of households. The reliance of general category households on public and private sector banks is found to be quite high compared to other social categories. For instance, 32 per cent of those belonging to General category has taken loans from public sector banks, as against 14 per cent of the ST households and 17 per cent of SC households. No such differences is visible in the case of PACSs and NBFCs.On the other hand, the dependence of very poor on NBFCs is much higher compared to the poor.

Table 4.2: Individual Borrowings from Formal Financial Sources by Household Characteristics

Financial Institutions	Share of Households (%)						
	Economic Group		Social Group				Overall
	Very Poor	Poor	SC	ST	OBC	General	
Public sector banks	10.7	20.7	16.8	13.6	17.9	31.6	18.7
Private sector banks	10.7	10.0	5.3	-	11.4	23.7	10.2
DCCBs	5.3	6.4	7.1	9.1	6.5	-	6.1
PACSs	60.0	60.5	61.9	68.2	59.2	57.9	60.4
RRBs	4.0	10.0	7.1	4.5	11.4	2.6	8.8
KSFE	2.7	1.3	2.7	-	1.5	-	1.6
NBFCs	40.0	25.8	28.3	22.7	29.9	26.3	28.6
Registered chit funds	2.7	4.3	1.8	4.5	5.5	2.6	4.0

Base: Number of households with individual loans from formal financial sources= 374
Note: The table provides coloumn percentage. However, the column does not add up to 100 because household borrow from more than one formal source.
Source: Primary Survey

The survey also explored the type of individual loans taken by rural poor households from formal sources. As presented in Table 4.3, more than three-fourths of the households having such loan have availed a gold loan. This observation is in concurrence with the literature that suggests the importance of gold in the financial lives of rural poor (World Gold Council, 2017; Sharma, Srivastava, & Singh, 2017; Nandakumar, 2010; Nandakumar, 2011).

Table 4.3: Type of Individual Loans Availed from Formal Financial Sources

Type of Loan	Share of Households (%)
Gold loan	76.2
Housing loan	25.9
Personal loan	23.5
Vehicle loan	7.8
Agricultural loan	5.3
Registered chit funds	4.0
Education loan	2.1
Business loan	2.1
Consumer loan	0.5
Other loans	1.9

Base: Number of households with individual loans from formal financial sources= 374.
Note: Column does not add up to 100 because the households borrow from more than one formal source.
Source: Primary Survey

The number of individual loans borowed from different formal sources according to loan type is presented in Table 4.4. This would capture multiple borrowings by household and the base is 712 loans. This is different from the data captuered in Tables 4.1 to 4.3, which is on type and sources of formal individual loans borrowed by surveyed households, where the unit of analysis is household (base is 374 households). While Table 4.4 categorises total number of formal individual loans taken by these households by loan type and sources. This can provide insights into the choice of credit sources by rural poor for a specific type of loan. It is seen that half of the total number of individual loans from formal sources taken by the sample households is borrowed from PACSs. Similarly, around two-thirds of the housing loans, agricultural loans and business loans are availed from PACSs. However, for vehicle loans and education loans, rural poor primarily depends on commercial banks. It can also be gathered from Table 4.4 that gold loan is the most prominent type of loan borrowed from all financial institutions except from DCCBs.

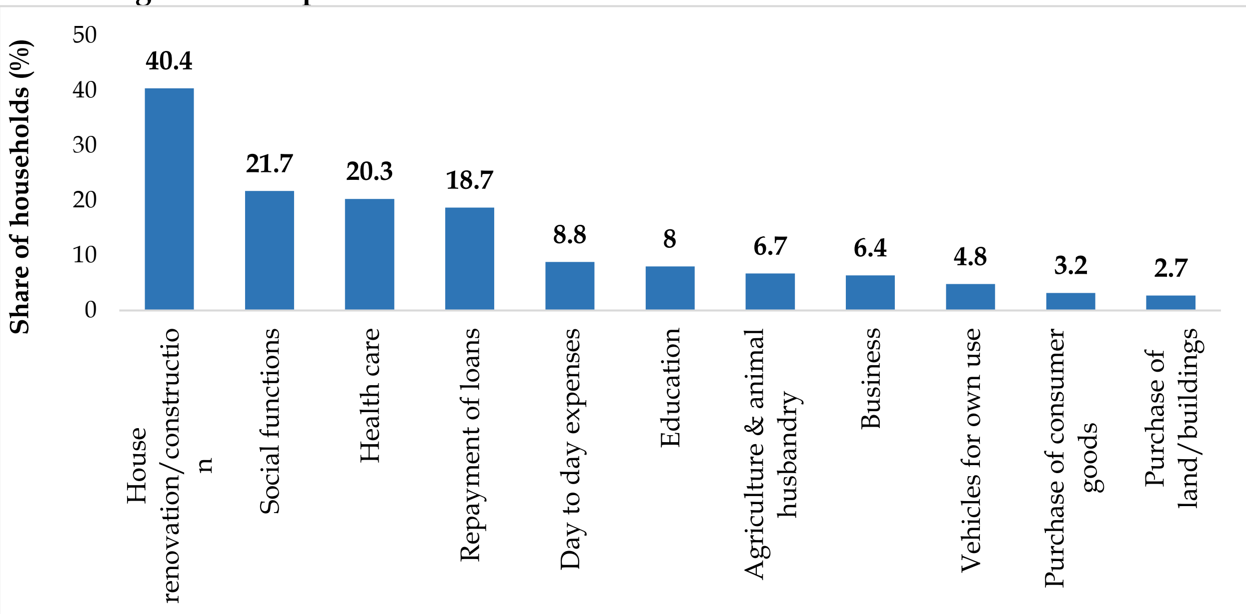
Table 4.4: Type of Individual Loan Availed from Different Formal Financial Sources

Type of Loan	Credit Source					
	Commercial Banks*	PACSs	DCCBs	NBFCs	KSFE	Total
Gold	27.0	41.1	1.9	28.5	1.4	100.0
Housing	12.4	66.7	12.4	7.6	1.0	100.0
Vehicle	48.3	13.8	-	37.9	-	100.0
Agriculture	31.8	63.6	-	4.5	-	100.0
Education	87.5	12.5	-	-	-	100.0
Personal	14.2	77.5	3.3	3.3	1.7	100.0
Consumer	-	-	-	100.0	-	100.0
Business	12.5	62.5	25.0	-	-	100.0
Total Loans	**24.2**	**50.4**	**3.8**	**20.4**	**1.3**	**100.0**

Note: Loans from Registered Chit Funds are not included here;
*Commercial banks include public sector banks, private sector banks and regional rural banks.
Source: Primary Survey

An attempt was also made to understand the purposes of borrowing individual loans from formal financial sources. As seen in Figure 4.1, more than 40 per cent of the households availed such loans for house renovation or construction. Health care and social functions like marriage, childbirth and repayment of debt are other important purposes for which households take loans from formal sources. Only less than one-tenth of the households belonging to this category have taken loans for other purposes.

Figure 4.1: Purposes of Utilisation of Individual Loans from Formal Sources



Base: Total number of households borrowed from formal financial sources= 374.
Source: Primary Survey

4.2.1 Preference for Gold Loan

Over the last few decades, a pool of formal financial institutions, mainly NBFCs, have emerged as major players in the gold loan market which was previously dominated by the informal moneylenders (Sharma, 2013). It has been noted that the organised gold loan market has grown at a rate of 40 per cent from 2002 to 2010 (Churiwal & Shreni, 2012). NBFCs are identified as a major driving force behind this growth given their extensive network. The flexibility of loan options, liberal loan to value ratio and simple documentation are identified as major factors that contributed to the expansion of gold loans in recent times (RBI, 2013). A noticeable surge in the demand for gold loans from rural regions in South India is also being recognised (Sridhar, 2013); reason for which could be attributed to the concentration of newly emerged gold loan providing NBFCs in Kerala (RBI, 2013). Considering the significance of gold loans in the lives of rural poor households, this section specifically analyses gold loans by household characteristics and source type.

Table 4.5: Share of Households Availed Gold Loans within Each Socio-Economic Group

Household Characteristics	Share of Households (%)
Economic Group	
Very poor	60.2
Poor	59.8
Social Group	
SC	54.5
ST	57.1
OBC	64.4
General	54.9
Overall	**59.9**

Base: Total number of indebted households= 476.
Source: Primary Survey

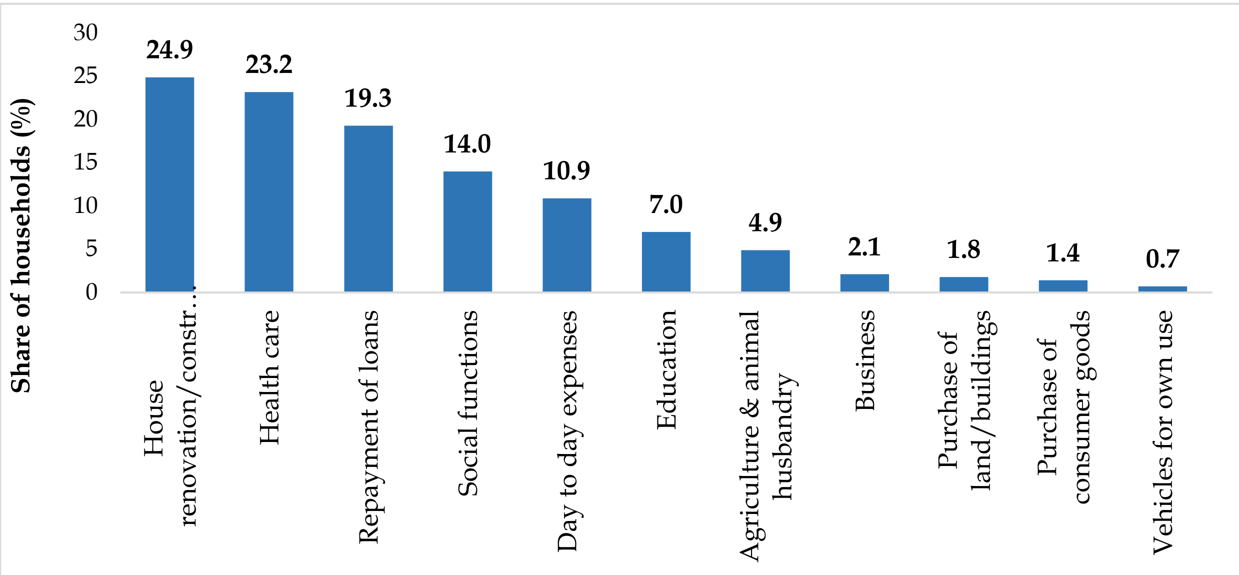
Table 4.5 shows that, across categories, more than half of the indebted households rely on gold loans for their credit requirements. This points to the relevance of gold loans in the lives of rural poor irrespective of categories they belong to. Table 4.6 probes into the type of institution approached by rural poor for gold loan. As pointed out earlier, a significant proportion of rural households have taken gold loans, mainly from PACSs, followed by NBFCs and public sector banks. This is the pattern across socio-economic categories, except for general category households. General category households are found to approach NBFCs and public sector banks majorly for gold loans. It is also worth mentioning that the reliance of General category households on commercial banks for gold loans is much higher in comparison with SC and ST households. In the case of ST households, three-fourths of them have approached PACSs for pledging gold. Similarly, the proportion of households depended on commercial banks for gold loans is found to be lesser among very poor households in comparison with poor households. Such socio-economic differences in the dependence on institutions for gold loans in a way point towards a higher preference or accessibility of commercial banks by the privileged sections of the society compared to the deprived households and a higher dependence by the deprived sections on co-operative financial institutions compared to the privileged households.

Table 4.6: Gold Loans Availed by Households from Different Credit Sources

Source	Share of Households (%)						
	Economic Group		Social Group				Overall
	Very poor	Poor	SC	ST	OBC	General	
PACSs	53.2	43.0	51.3	75.0	42.1	25.0	45.3
NBFCs	37.1	30.5	37.2	20.0	30.8	32.1	31.9
Public sector banks	6.5	19.7	10.3	10.0	18.2	32.1	16.8
Private sector banks	8.1	9.0	1.3	-	12.6	14.3	8.8
RRBs	1.6	9.0	3.8	-	10.7	3.6	7.4
DCCBs	4.8	2.2	3.8	10.0	1.9	-	2.8
KSFE	1.6	0.9	3.8	-	-	-	1.1

Base: Total number of indebted households= 476.
Note: The table provides coloumn percentage. However, the column does not add up to 100 because the household tends to borrow from more than one formal source.
Source: Primary Survey

Figure 4.2: Purposes of Utilisation of Gold Loans



Base: Total number of households who have availed gold loans= 285.
Source: Primary Survey

Figure 4.2 shows that major purposes for which gold loans are utilised include house renovation/construction, health care and repayment of the previous loan. Dependence of rural poor households on gold loans for house construction is well captured by the case of Usha; a respondent met during the primary survey:

'….like other poor families, Usha started house construction with her meagre household savings and housing loan from a commercial bank and co-operative financial institutions. A few people get assistance from the Government. Building a home is a dream for everyone, and in most cases, house construction cannot be completed within the planned budget. To complete the construction, Usha pawn her gold as well. She thought it is better to lose gold than losing the only piece of land they have; many times, the poor household cannot repay even the interest, and they ultimately lose the jewellery. But Usha says "it is OK…. what is the point in wearing gold jewellery, if we are not able to provide a decent home to our children?"

For rural poor, gold loans come handy for emergency purposes and for compensating the shortage of money in meeting some specific purposes.

4.3 Borrowing from Informal Sources

This sub section deals with individual borrowings from two kinds of informal sources—moneylenders and friends and relatives.

4.3.1 Borrowing from Moneylenders

Despite the penetration of the formal banking sector, financial dependence on moneylenders in the rural credit markets of developing countries is well established in the literature (Madestam, 2014; Bell, 1990). Interest rates in such unorganised money markets generally tend to be high in relation to that of the organised money market, the reasons for which are explained in different ways by different researchers. This could be attributed to disproportionately large demand for loanable funds coupled with a generally inelastic and limited supply of funds (Wai, 1957); risk taking behaviour of moneylenders in the rural credit markets hiking the interest rate (Bottomley, 1963) and; pre-capitalist nature of such markets and the resulting monopoly power enjoyed by the moneylenders (Rao, 1980; Bhaduri, 1977).

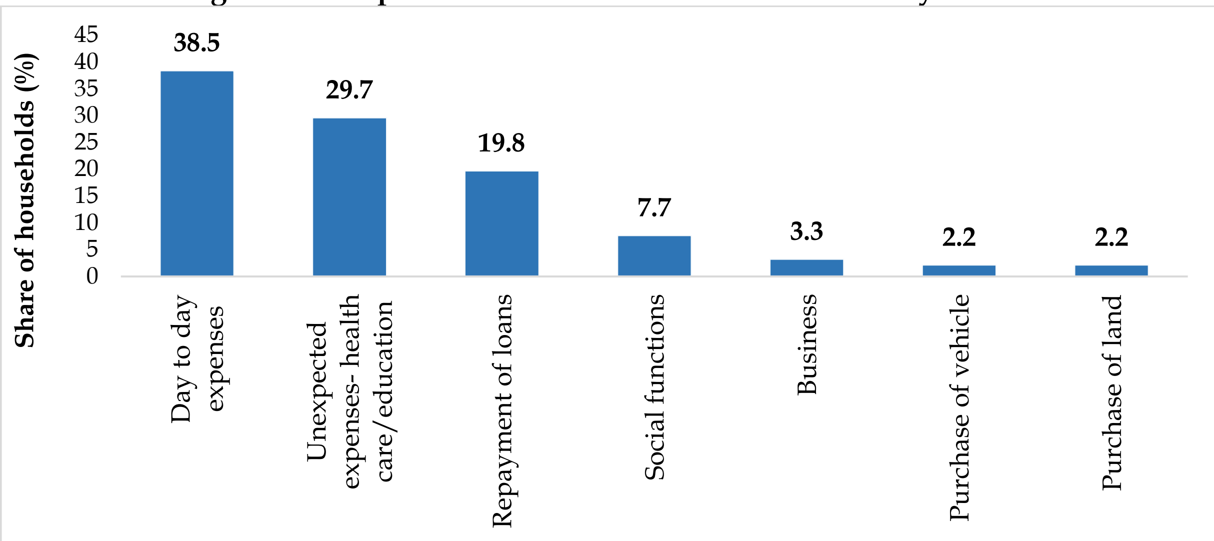
Table 4.7 shows that, 19 per cent of the indebted households in the sample has taken cash loans from moneylenders. During the field work, researchers noticed that people are generally reluctant to report their loans from moneylenders. When respondents were asked specific questions on borrowings from moneylenders, they tend to refuse even the presence of moneylenders in the locality. This may be because, after *Operation Kubera* launched by the Kerala Government in 2014, individual moneylenders generally work under cover by persuading the borrowers not to reveal about their identity. It is likely that unlicensed moneylenders continue to operate without complying with the provisions of the Kerala Moneylenders Act, 1958. As per the Act, moneylenders are required to exhibit their names over the place of business with the word "moneylender" and its equivalent in the regional language. However, in the surveyed areas, the majority of the moneylenders were found to be operating without any shop/office or fixed place of business. Although the Act mandates the moneylenders to give a receipt for amount repaid, majority of the respondents reported that they have not received any repayment receipt. Moneylenders are not allowed to charge an interest rate exceeding two per cent above the maximum rate of interest charged by commercial banks. However, respondents reported that moneylenders continue to charge exorbitant interest rates, sometimes even more than 100 per cent per annum. It needs to be noted that borrowers do not care much about interest rates or terms and conditions of borrowings as often they approach moneylenders during emergencies. The proportion of households which have borrowed from moneylenders is higher among SC households as evident in Table 4.7. In-depth interviews held with Panchayat officials also confirmed the presence of moneylenders in rural Kerala. However, they opined that wide network of Kudumbashree-NHGs and private MFIs has made loans from traditional moneylenders with higher interest rates unattractive to the people.

Table 4.7: Share of Households Borrowed from Moneylenders within Each Socio-Economic Group

Household Characteristics	Share of Households (%)
Economic Group	
Very poor	21.4
Poor	18.5
Social Group	
SC	27.3
ST	11.4
OBC	16.2
General	15.7
Overall	**19.1**

Base: Total number of indebted households=476
Source: Primary Survey

Figure 4.3: Purposes of Utilisation of Loans from Moneylenders



Base: Total number of households borrowed cash loans from moneylenders= 91.
Source: Primary Survey

In addition to cash loans from moneylenders, purchase of consumer durables on instalment also seems to be a regular practice among rural poor. The respondents purchased a wide variety of products including, mixi, television, bed, fan, vessels, gas stove, clothing, iron box, etc. from moneylenders. Out of the total indebted households surveyed, 17 per cent reported purchase of durables in such instalments as presented in Table 4.8. Among the social groups, SC and ST households, and am the economic categories, very poor are found to be more attracted to such product loans. Indirectly, it indicates that socio-economic deprivation of people is compelling them to depend on moneylenders to meet their demands for consumer durables.

Table 4.8: Consumer Durable Loans from Moneylenders by Household Categories

Household Characteristics	Share of Households (%)
Economic Group	
Very Poor	27.2
Poor	14.2
Social Group	
SC	22.9
ST	14.2
OBC	9.8
General	17
Overall	**19.1**

Base: Total number of indebted households= 476

Source: Primary Survey

4.3.2 Borrowings from Friends and Relatives

Within the informal sector borrowings, literature draws a difference between a loan from moneylenders and friends/relatives (interpersonal loans) (Turvey, Kong, & Huo, 2010). As borrowings from friends and relatives are generally interest free, rural poor tend to rely on such loans, to meet a financial emergency. As personal trust is the basis of interpersonal loans, such transactions usually occur among close knit people (Tsai, 2004). However, the economic significance of informal lending between friends and relatives in rural areas has been largely ignored in the studies, perhaps because such loans are interest free and working on personal affinities rather than on formal financial relationships.

Table 4.9: Share of Households Borrowed from Friends and Relatives within Each Socio-Economic Group

Household Characteristics	Share of Households (%)
Economic Group	
Very poor	28.2
Poor	28.7
Social Group	
SC	25.9
ST	28.6
OBC	30.4
General	27.5
Overall	**28.6**

Base: Total number of indebted households= 476

Source: Primary Survey

Results reveal that more than one-fourth of the total indebted households surveyed have borrowed from friends and relatives (Table 4.9). No significant difference exists in such borrowings according to socio-economic backgrounds of the households. Several respondents indicated their commitment to honour trustworthiness and obligation towards their friends and relatives who helped them in the time of necessity. One-fourth of the households with such loans said that they would give first preference to those loans in their loan repayment, as they value their personal obligations and relations more than anything else.

4.3.3 Other Informal Borrowings

Due to inhibitions to approach formal financial sources, rural poor follow certain financial management mechanisms based on mutual trust. One such mechanism is the informal chit funds organised by individuals in the locality. Generally, such chit funds do not follow mandatory requirements provided under the Chit Funds Act, 1982 and Kerala Chit Funds Rules, 2012 such as prior approval, provision for chit agreement, minute book, a cap on aggregate chit amount, etc.

A slightly different version of chit funds that can be broadly called as festival funds (Onam fund, Ramzan fund, etc.), are also found to be operating in rural Kerala. Individuals, Kudumbashree-NHGs and co-operative financial institutions usually run these funds. A group of people in the locality join the fund and agree to give a fixed amount to the organiser for a definite period (for instance, between two festival seasons). Deducting a small amount as commission, the individual or the institution running the fund provides a lump sum amount during the festival time, which subscribers of the fund can utilise to meet festival expenses. In certain places, the organisers lend from these funds to the needy in the same locality for an interest. Therefore, it is both thrift and credit method, which the rural poor resort to. Among the sample, nine households are found to have borrowed from such funds.

4.4 Group Loans

A major factor hindering rural poor's accessibility to formal credit is their inability to provide collateral (Basu, 2005). It is in this context microfinance comes as an inclusive financial system for rural poor households that would result in better distribution of credit and thereby faster economic growth. This section looks at various types of microfinance programmes functioning in Kerala, their business practices, and its implications on the lives of the rural poor. For analysis, microfinance models in Kerala are broadly categorised as follows:

- Self Help Groups (SHGs)—include those formed by Kudumbashree commonly known as Neighborhood Groups (NHGs) and SHGs formed by Non-Governmental Organisations (NGOs), caste and religious groups.
- Joint Liability Groups (JLGs)—majorly include those formed by NBFC-MFIs and other private microfinance institutions.

4.4.1 Self-Help Groups

Among the sample households, 73 per cent have membership in at least one SHG (combining Kudumbashree NHGs and SHGs formed by Non-Government Organisations [NGOs]/caste/religious groups). As presented in Table 4.10, the share of households having membership in Kudumbashree NHGs is 70 per cent, while around 11 per cent of households has membership in SHGs formed by NGOs and caste/religious groups. Survey results indicate that among rural poor households, the share of households having membership in Kudumbashree is the highest among SC households and the lowest among general category households, while the converse is true with respect to membership in SHGs formed by NGOs and caste and religious groups. A similar trend is visible if households are analysed by economic groups—Kudumbashree NHG membership is higher, and membership in other types of SHGs is lower among very poor in comparison with poor households.

Table 4.10: Share of Households with Memberships in SHGs among Different Socio-Economic Groups (In Per cent)

Membership	Economic Group		Social Group				Overall
	Very poor	Poor	SC	ST	OBC	General	
Kudumbashree NHGs	77.4	68.5	76.9	69.2	68.3	63.3	70.4
Other SHGs	7.8	12.7	8.1	7.7	13.5	15.0	11.7
Combined	79.1	71.5	77.5	71.8	71.5	70.0	73.1

Base: Total number of surveyed households= 540.
Source: Primary Survey

The mode of operation of Kudumbashree NHGs and other SHGs, partly explain the differences in its membership across household categories. As per the NABARD guidelines, banks providing linkage loans are required to ensure that the SHGs are not solely formed for the purpose of availing benefits, but from a genuine interest to help each other. However, interactions with women revealed that many of them consider Kudumbashree NHG mainly as a source of easily accessible credit, and they think participation in it is mandatory to avail benefits from various schemes of the Government. Further, as a programme of the State Government, Kudumbashree makes special efforts to include all sections of the population. Thus, individual incentives for participation and Government efforts result in higher membership in Kudumbashree NHGs.[39] In contrast, other types of SHGs in Kerala, not being a Government programme, are more selective in choosing their members, resulting in the possibility of a caste/class wise differentiation.

Table 4.11: Proportion of Households which Availed Loans from SHGs (In Per cent)

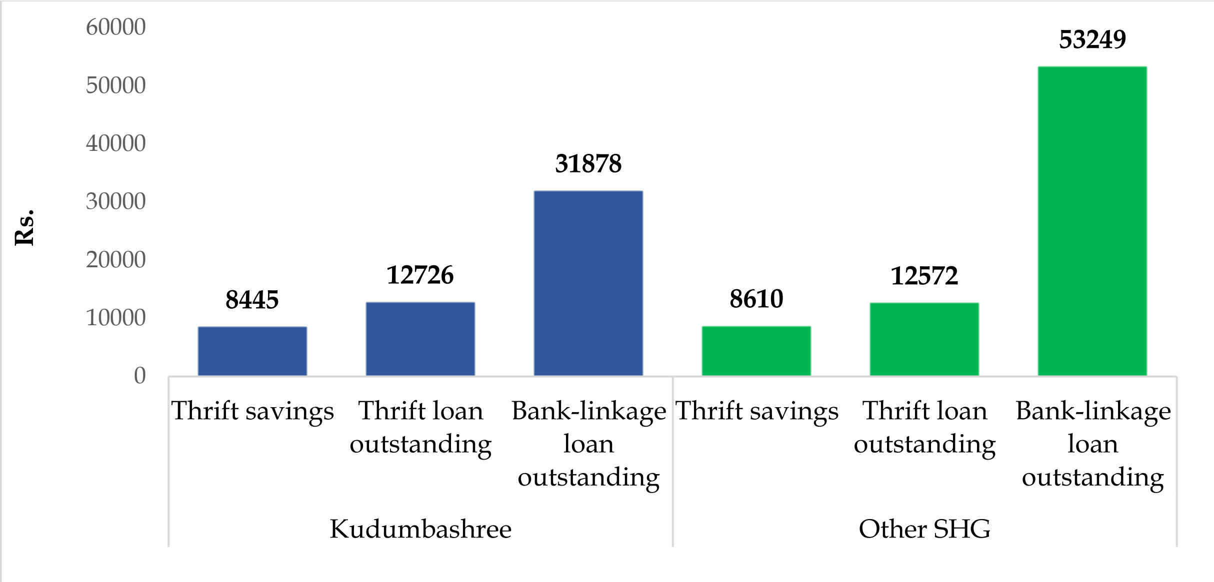
Type of Loan	Kudumbashree NHGs	SHGs other than Kudumbashree NHGs
Thrift loan	57.6	36.5
Bank linkage loan	38.2	44.4

Base: Number of households with membership in SHGs; for Kudumbashree NHGs N= 380, for other SHGs N= 63
Source: Primary Survey

[39] According to the first financial inclusion index, launched by CRISIL in June, 2013, Kerala is one of the top three states that have achieved financial inclusion; a major reason noted is the Kudumbashree Scheme implemented by the State Government (Ministry of Finance, 2014).

As noted in Chapter 2, SHGs provide two types of loan to its members—thrift loan and bank linkage loans. Among Kudumbashree NHG members, thrift loan is more popular. The proportion of Kudumbashree member households having thrift loan is 19 per cent more than that of households possessing bank-linkage loans as presented in Table 4.11. However, in the case of SHGs other than Kudumbashree NHGs, the opposite pattern is observed. The proportion of households having bank linkage loan is higher than that of households having thrift loans. Identifying the factors leading to this difference requires a more detailed enquiry.

Figure 4.4: Average Thrift Savings and Outstanding Loan Amount of the Members of Kudumbashree NHGs and Other SHGs



Base: Total number of households surveyed= 540.
Note: To calculate average thrift savings, 12 households having Kudumbashree memberships are excluded as they could not specify their thrift amount.
Source: Primary Survey

As presented in Figure 4.4, although there is not much difference between the average thrift amount and average thrift loan in Kudumbashree NHGs and other SHGs, a significant difference is visible with respect to the bank-linkage loan. The average bank-linkage loan taken by members of SHGs other than Kudumbashree NHGs is much higher in comparison with that of the members of Kudumbashree NHGSs.

Following subsections explore key features of loans from Kudumbashree-NHGs and other SHGs. Aspects like income generating activities pursued, type of banks relied on for financial transactions and purposes for which loan amounts are utilised are examined.

4.4.2 Features of Loans from Kudumbashree NHGs

As a significant share of households has taken a loan from Kudumbashree-NHGs, it would be appropriate to examine how they utilise the loan amount. Although as per the Kudumbashree guidelines, linkage loans are to be preferably used for income generating activities, out of the total 409 Kudumbashree NHG members[40] in the sample, only 12 per cent is involved in some form of productive activities. A few NHGs which were engaged in income generating activities discontinued such activities due to lack of coherence between group members; a common issue encountered by several NHGs in Kerala. As noted earlier, for a considerable number of women, Kudumbashree NHGs is a source of credit and means to obtain Government benefits. Such an attitude at the grass root level might defeat the very purpose of Kudumbashree which is envisaged as a poverty eradication and women empowerment programme that aimed to encourage income-generating activities among women by providing credit at a subsidised rate.

More than half of the NHGs in which the respondents are members have an account in co-operative institutions, and only seven per cent hold an account in private sector banks (Table 4.12). This preference towards co-operative financial institutions by rural women groups corroborate the prominence as well as penetration of co-operative institutions in rural Kerala, as noted in the previous chapter. However, during the field visit, variations in the attitude of co-operative financial institutions to NHG accounts were noted. For instance, in Muzhappilangad, Kannur, where the co-operative sector has deep rooted influence in the society more than 90 per cent of Kudumbashree NHGs in the Panchayat is linked with the co-operative financial institutions. In contrast, in A.R. Nagar, Malappuram, CDS officials reported the reluctance of co-operative banks to provide linkage loans to Kudumbashree NHGs, forcing them to shift loan accounts to other nationalised banks.

Table 4.12: Type of Financial Institutions to Which Kudumbashree NHGs are Linked

Type of Financial Institutions	Share of Kudumbashree NHGs (%)
Co-operative financial Institutions	53.8
Public sector bank	38.9
Private sector bank	7.3
Total	**100.0**

Source: Primary Survey

No major difference exists in the utilisation pattern of thrift and bank linkage loans. As is emerging from Table 4.13 largest share of households use Kudumbashree linkage loans for house renovation/construction and thrift loans for repayment of previous debts, to meet expenses of social functions and healthcare requirements. This indicates the meagre share of Kudumbashree loans spent on directly productive or income generating activities.

[40] Although 380 households have Kudumbashree membership, in some households, more than one member is found to be participating in different Kudumbashree NHGs. Thus, the total number of Kudumbashree NHGs reported during the survey was 409.

Table 4.13: Purpose for which Kudumbashree Loans are Utilised

Purposes	Share of Households (%)	
	Thrift Loan	Linkage Loan
House renovation/construction	17.4	27.6
Repayment of loans	19.6	22.1
Social functions	16.4	17.2
Health	18.3	13.8
No specific reasons	6.8	9.7
Daily expenditure	11.0	-
Education	8.2	4.1
Business	-	2.8
Agriculture	1.8	3.4
Purchase of consumer durables	0.9	2.1
Purchase land/buildings	0.5	0.7
Purchase of vehicles	0.9	1.4

Base: Number of households with Kudumbashree loans; for thrift loans N= 219; for bank-linkage loans N= 145
Note: Multiple response question.
Source: Primary Survey

It needs to be noted that more than one fifth of the households which took Kudumbashree loans utilised them for repayment of earlier loans which deserves further probing on financial management followed by its members. As noted in Chapter III, a significant share of Kudumbashree members considers thrift loan as a type of loan which does not have a stringent repayment schedule and therefore gives it a low priority for repayment. Such attitude of the poor regarding repayment of Kudumbashree loans, combined with utilisation of such loans for repayment of previous liability might affect the viability of the Kudumbashree NHGs in the long term.

A major concern raised during FGDs conducted in different study areas is the smaller amount of linkage loans. During the first cycle, the maximum amount of loan a group could avail is Rs. 3, 00,000, which translates to a meagre amount when shared among the group. This creates a situation whereby the needs individuals are not fulfilled while they become indebted. In most cases, they are not able to meet specific activities, such as house renovation, which they plan with the loan amount. Thus, to bridge the gap, they make additional borrowings from private MFIs, moneylenders, etc., and thus become indebted to multiple sources.

In some cases, it is noted that Kudumbashree linkage loans are taken only because it is available and not to fulfil any need of the borrower (this trend was observed in the case of all group loans but found to be more prevalent in Kudumbashree linkage loans). Some women reported that they availed Kudumbashree linkage loans merely because they did not want to decline the sanctioned amount. It might also be due to the peculiar nature of the NHG-Bank linkage loans. As the loan is available to the group, there is pressure on women to avail loans even if they are not in need of cash at that point in time. Some women were even forced to quit from Kudumbashree as availing bank linkage loan has been made mandatory by some groups.

It has also been noticed that several NHG members utilise loan amount without following the terms and conditions. This seems to be particularly true with respect to Kudumbashree JLG loans disbursed at a subsidised rate of interest with an objective to strengthen group farming. Further, while JLG loan is available to a four member group, the bank-linkage loan is available to a 10 member group, though initial credit amount is Rs. 3, 00,000 for both types of loans. Among sample households, only six households have availed JLG loans. Of them, three households reportedly utilised the amount for house renovation and medical treatment. A general tendency to utilise JLG loans for purposes other than agriculture was reported during FGDs and interactions with Kudumbashree officials. In the FGD in Malappuram district, one Kudumbashree member reported to having taken JLG loan and utilised the amount to clear a gold loan. In her opinion, as the amount sanctioned under JLG loans are higher and carries a lower interest rate compared to bank-linkage loans, she prefers to avail JLG loans for meeting her financial requirements. In most cases, Kudumbashree officials are aware of such practices but to remain silent to avoid conflict within the NHGs.

4.4.3 Characteristics of Households without Kudumbashree Membership

As Kudumbashree is a poverty eradication programme designed for the economically poor households, the researchers felt the need to enquire the key characteristics and borrowing pattern of households which are not participating in Kudumbashree NHGs. As noted earlier, 30 per cent of the rural poor households (160 households of the total 540 households surveyed) does not possess Kudumbashree membership. These poor households are outside the Kudumbashree network in spite of having an adult woman of relevant age group. Among these households, 23 per cent (37 households) reported that they cancelled Kudumbashree membership due to reasons like inability to pay regular thrift, conflicts with other group members, group's decision to implement accepting bank-linkage loan as a mandatory condition to continue membership, dissolution of the group by the CDS, etc.

Considering that Kudumbashree offers credit, which is easily accessible by the rural poor, how do households without Kudumbashree membership cater their credit requirements is an interesting theme to explore. Survey data indicate that among these 160 households, 24 per cent (38 households) does not have any outstanding loans, while 42 per cent has availed gold loans. As emerging from Table 4.14, PACSs and friends/relatives are the major credit sources of these households.

Table 4.14: Major Credit Sources of Households without Kudumbashree Membership

Credit Source	Share of Households (%)
PACSs	37.5
Friends & relatives	25.0
Commercial banks	21.9
MFI	14.4
Moneylenders	13.8
Individual loans from NBFCs	11.9
SHG linkage	4.4
Chit funds (informal)	4.4
DCCBs	2.5
SHG thrift	1.9
KSFE	0.6
Others	1.9

Base: Total number of households without Kudumbashree membership= 160.
Note: Percentage may exceed 100 as households depend on multiple sources for credit.
Source: Primary Survey

4.4.4 Features of Loans by SHGs other than Kudumbashree NHGs

As noted earlier, 63 households in the sample have membership in SHGs other than that of Kudumbashree NHGs. However, the spread of such SHGs is limited to specific areas.

Table 4.15: Details of SHGs other than Kudumbashree NHGs by Type of Institutional Affiliation

Type of Institutional Affiliation	Share of SHGs (%)
Caste/religious organisation	52.0
Individuals	25.3
Co-operative institutions	16.0
NGOs	5.3
Panchayat	1.3
Total	**100.0**

Source: Primary Survey

As presented in Table 4.15, more than half of SHGs outside the Kudumbashree network are managed by caste/religious organisations like Christian churches, temple committees, Muslim organisations[41] and caste-based organisations like *Sree Narayana Dharma Paripalana* Yogam (SNDP), Nair Service Society (NSS), among others. More than one-fourth of SHGs are formed by the individuals of a neighbourhood themselves, without affiliation to NGOs or religious organisations.

Box 4.1: Tale of *Thudajambika* Sangham: SHG in Karadka, Kasaragod

In 2008, a men only SHG, with 16 members was formed by Jamuna Help Society (JHS), an NGO based in Manjeswaram. The SHG started functioning with a working fund of Rs. 10,000 received from JHS. Initially, the Sangham (group) collected a thrift of Rs. 20 from its members per week, which was gradually increased to the current rate of Rs. 50. It is mandatory to attend the Sangham meeting every week, failure to attend invites a nominal fine of Rs. 5. The Sangham gives a loan of Rs. 20,000 to members from its internal fund on the condition that the borrower must pay Rs. 21,000 within two years.

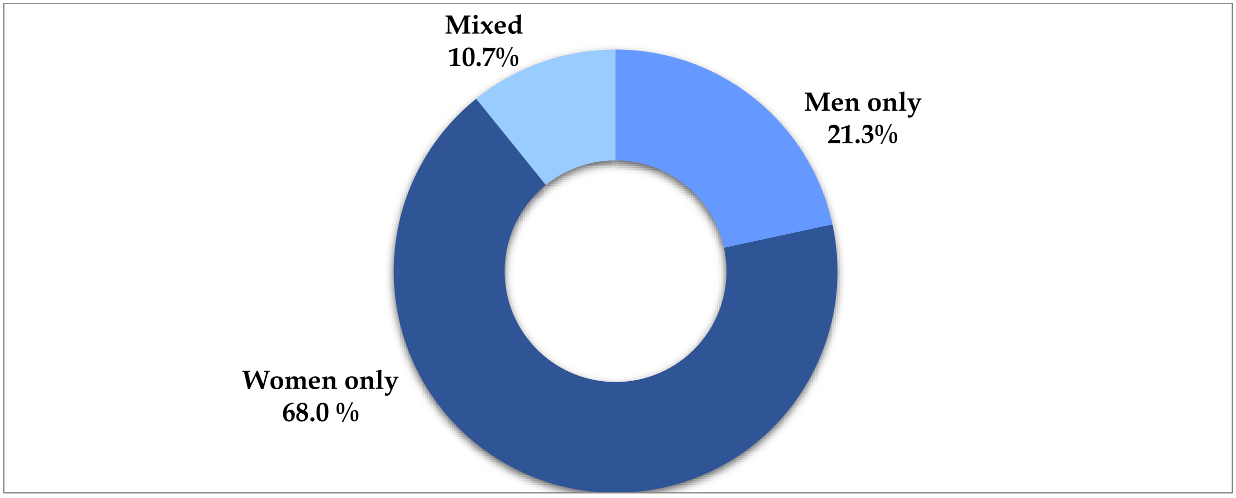
Currently, the Sangham has an outstanding bank linkage loan of Rs. 5,00,000, which is distributed among the members according to the needs of each member. In addition, the *Thudajambika* has a fixed deposit of Rs. 2,00,000 in the district co-operative bank and owns some land and an office building. The Sangham undertakes group farming with the cooperation of its members and so could earn a higher income. The Secretary of the *Sangham* claimed that *Thudajambika* ensures credit availability to poor households, thus curbed the operation of moneylenders in the locality who would charge an interest rate of 50 per cent. Currently, the Sangham is also able to cater to the medical requirement of the members and their family. It has plans to expand its medical assistance to people in the locality who are not members of the Sangham. *"Nothing is impossible if a group of people work together in a harmonious way. We proved it from our experience"*, the Secretary said.

Apart from the *Thudajambika*a, a number of SHGs are functioning in Karadka Panchayat in Kasaragod district (generally SHGs formed by NGOs/caste/religious groups are found to be active in Kasaragod district). An NGO named *Gandhigram* was a pioneer in the Panchayat to start SHGs. They gave loans to women SHGs to start enterprises and imparted skill training such as stitching and tailoring. Certain religious groups are also engaged in SHG activities in the Panchayat. Dharmastha Sangham, SHGs formed by a temple in Karnataka is a case in point. The members said, initially, a priest from the temple used to attend the Sangham meetings, and it was mandatory to offer prayers in front of the photo of Swami, before commencing the Sangham meeting.

It is interesting to note that 68 per cent of SHGs outside Kudumbashree are women only groups as presented in Figure 4.5. This is in concurrence with the literature which underlines solidarity of women only groups than men only groups as women are less divisive based on local power nexuses (Westermann, Ashby, & Pretty, 2005; Agarwal, 2000).

[41] Their operation tends to be concentrated in regions with high share of Muslim population and adopts distinct lending practices. For instance, Nanma Self Help Group, follows the concept of interest free loan following Islamic banking principles.

Figure 4.5: Membership Composition of SHGs other than Kudumbashree NHGs



Base: Total number of SHGs= 75.
Source: Primary Survey

The utilisation of loans from SHGs other than Kudumbashree NHGs is presented in Table 4.16. As evident from the Table, the largest number of households have used such loans for debt recycling. It is also relevant to note that, compared to Kudumbashree loans, a higher share of households utilise these loans for productive purposes such as business, agriculture or animal husbandry.

Table 4.16: Purpose of Utilising Loans from SHGs other than Kudumbashree NHGs

Purposes	Share of Households (%)	
	Thrift Loan	**Bank-Linkage Loan**
Repayment of loans	43.5	14.3
House renovation/construction	13.0	28.6
Social functions	13.0	14.3
Health	13.0	14.3
Purchase land/buildings	-	3.6
Education	8.7	-
Business/agriculture/animal husbandry	-	17.8
Others	8.7	10.7

Base: Number of households with SHG loans; for thrift loans N= 23; for bank-linkage loans= 28.
Note: Multiple response question.
Source: Primary Survey

4.4.5 Private MFIs

Among the sample households, 22 per cent has at least one outstanding debt from private MFIs. As in the case of SHGs other than Kudumbashree NHGs, regional differences in the penetration of private MFIs are observed. For instance, the presence of private MFIs seems to be weak in Karadka, Kasaragod, where there exists a strong presence of SHGs formed by NGOs and religious groups. Similarly, in Muzhappilangad, a coastal region of Kannur district, where co-operative financial institutions are strong, penetration of MFIs was noted only among the fishing community, but others seem to be unaware of private MFIs.

Significant variations were also noted in group formation and lending practices of MFIs across districts. While in some places, field agents of MFIs organise women into groups of 5-10 members to lend money, in other places, women who need money organise themselves into groups and approach MFIs for loans. From the FGDs and the key informant interviews conducted in Muzhappilangad, it was found that MFIs maintain some secrecy in their activities as they fear resistance from the public considering the political fabric of the region. As reported by a woman in Muzhappilangad who is a member of an MFI:

> *"The field agents of the institutions ask us not to discuss activities of the group with people from other parts of the Panchayat".*

It was observed that, in places where already some MFIs exist, more and more MFIs penetrate using the same group. In certain places, private MFIs utilise Kudumbashree structure to get access to women groups, and in some other places, they purposefully keep a distance from Kudumbashree officials. A CDS chairperson in one of the Panchayats surveyed (who herself is a borrower from a private MFI) mentioned that:

> *"initially all the MFIs come to the CDS office. During weekly NHG meetings, we inform members about it. If women show interest, the MFI field staff approach them".*

Box 4.2: Implementation of RBI Regulation on MFIs in the Field

As per the RBI regulations, every NBFC-MFI is required to register with at least one Credit Information Company (CIC) such as CRIF-High Mark, Equifax, Experian and Trans Union CIBIL to ensure that they follow RBI guidelines on assessing indebtedness level of the borrowers before sanctioning the loans (see Chapter 2 for details). Officials of MFI informed that this process of identifying eligible borrowers on the basis of their indebtedness level is technology driven, and field agents of MFIs do not have any role in deciding on any one's loan application. Rekha, an official with a prominent NBFC-MFI, described the process as below:

"Once the field agent receives a loan application, he/she enters the Aadhar number of the applicant in the database using tablets. If the applicant's outstanding debt amount from MFIs is more than Rs. 1,00,000, or if the applicant has outstanding loans from more than two MFIs, her application will be automatically rejected."

The RBI regulations suggest "not to lend money to women whose total indebtedness exceeds Rs. 1,00,000", while the MFIs interpret this requirement as "not to lend if the total debt from NBFC-MFIs exceeds Rs. 1,00,000". The net result is that Kudumbashree loans, SHG-loans, group loans provided by commercial banks/co-operative institutions and other individual loans will not be considered by MFIs in deciding loan disbursement. During the fieldwork, researchers also came across cases where the individual has an outstanding loan from more than two MFIs. Discussion with women indicated that in areas where several

MFIs operate, such multiple lending is rampant. Sini, a respondent from Kodungallor revealed that:

"when the field agent keys in our Aadhar number, loans from certain MFIs do not appear. Therefore, our loans from those institutions will not be considered for deciding on our loan application".

This points to the possibility of the operation of certain group loan providing institutions without registration or without adhering to RBI regulations.

Report of the High-Level Task Force on Public Credit Registry for India constituted by RBI observes the weakness of the credit information system in India. The credit information system in India is spread over multiple systems in bits and pieces. Information on borrowings from banks, NBFCs, and other credit sources are not available in a single repository. This makes it very difficult to form a comprehensive view of the total indebtedness of a borrower. Also, the same information gets reported to multiple agencies in different formats leading to inefficiency in the credit reporting system and data quality issues. Therefore, the task force suggests the formation of a comprehensive credit information repository covering all types of credit facilities extended by all credit institutions –commercial banks, co-operative financial institutions, NBFCs and NBFC-MFIs (RBI, 2018b).

Another malpractice noticed during the fieldwork is that loan cards are not provided in vernacular language as mandated by the RBI. Loan cards issued by two major MFIs were observed to be in English, instead of Malayalam. During FGDs, some women mentioned that, since the agreement is in English, they are not clear about the terms and conditions of the loan.

RBI requires NBFC-MFIs to ensure the allotment of greater resources for appropriate training and skill development activities for capacity building and empowerment of groups. Similarly, all NBFC-MFIs are expected to educate their borrowers on the dangers of wasteful conspicuous consumption. However, MFIs are found to be only providing pre-group formation orientation, in which the field staff talks only about the terms and conditions of loans and consequences of defaults.

In addition to private MFIs, certain commercial banks and co-operative institutions are also engaged in group loan delivery. The growing interest of commercial banks in group loan delivery (either directly to groups or indirectly by lending to MFIs) could be emerging from the requirement to fulfil the priority sector targets fixed by the RBI (as discussed in Chapter 2). It is noted that bank credit to MFIs (NBFC-MFIs, societies, trusts, etc.) extended for on-lending to individuals and members of groups is eligible for categorisation as priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises. Similarly, direct lending to SHGs by banks is categorised as priority sector lending to weaker sections. Considering the higher recovery rate of group loans, it is the most risk-free loan the commercial banks can afford within the priority sector to fulfil their mandatory targets. HDFC bank is observed to be a key player in this field. In three sample

Panchayats, HDFC bank utilises the structure of Kudumbashree NHGs for loan distribution without the knowledge of Kudumbashree officials. HDFC bank provides such loans to existing Kudumbashree NHGs, which makes it difficult for the NHG members to distinguish between NHG-Bank linkage loans and HDFC bank group loans. When enquired, the response of women who have membership in Kudumbashree was as follows:

> *"HDFC bank provides group loans only to existing Kudumbashree-NHGs, which they confirm by checking minute book and an account book of the group before sanctioning loan. On group liability, they gave Rs. 50,000 to each one of us, with the condition that, if something happens to one of us, they will waive Rs. 25,000. The remaining amount the group has to pay back".*

The study also explored the penetration of private MFIs[42] among different socio-economic groups. From Table 4.17, it is evident that penetration is similar among very poor households and poor households. However, a social group-wise classification reveals deeper MFI penetration among SC households in comparison with other categories. Majority of the women quoted easy availability of loan without much documentation formalities as the reason that attracts them to MFI loans despite high interest rate charged by them.

Table 4.17: MFI Penetration among Households

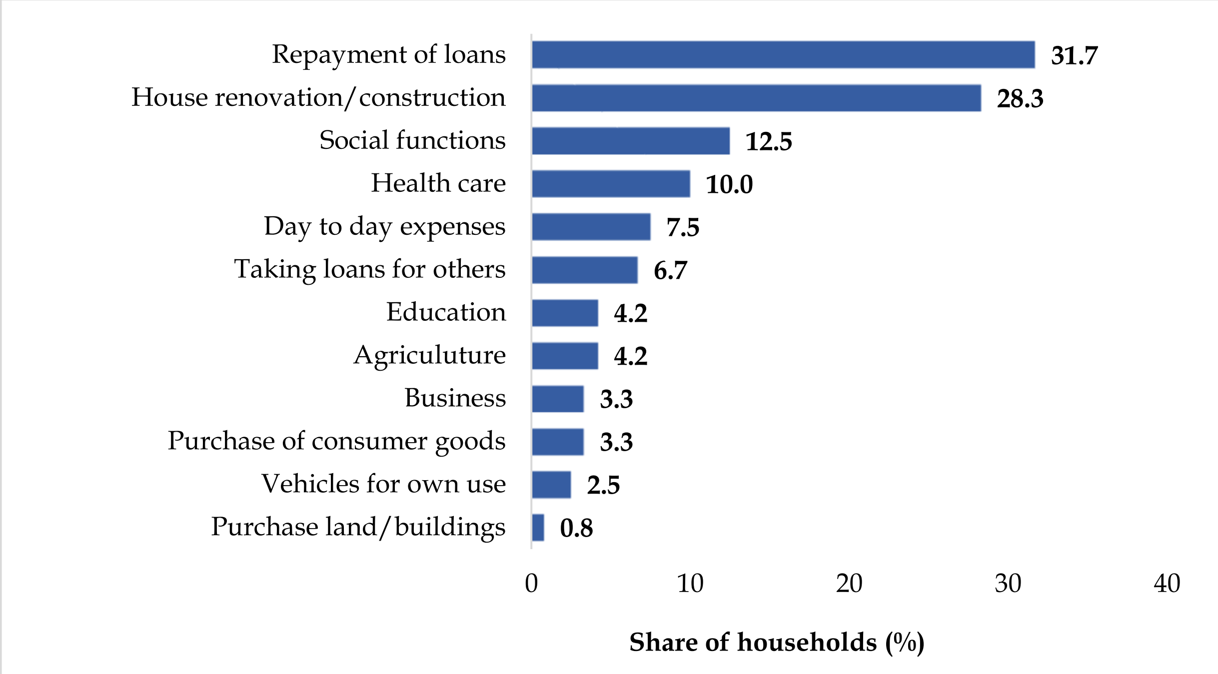
Household Characteristics	Share of Households having MFI Membership (%)
Economic Group	
Very poor	25.2
Poor	25.2
Social Group	
SC	37.8
ST	5.7
OBC	23.5
General	11.8
Overall	**25.2**

Base= Total number of indebted households= 476.
Source: Primary Survey

As evident from Figure 4.6, the largest share of MFI clients utilised their borrowed amount for repaying previous loans followed by house maintenance or construction. This shows that in contrast to the original concept of microfinance, a very meagre share is allotted towards direct income generating activities such as business or agriculture.

[42] Category wise penetration of MFI is defined as the percentage of households in each category having at least one outstanding loan from a private MFI.

Figure 4.6: Purpose for which Private MFI Loans are Utilised



Base: Number of households having loans from private MFIs= 120.
Source: Primary Survey

4.4.6 Product Loans by MFIs

Most of the private MFIs offer different consumer durables on an instalment basis to the borrowers. Fans, vessels, phones, mixi, solar lamp, emergency lamps, water purifier, stove are some of the products offered by the MFIs. In the sample, 21 households have such loans currently. More than half of such households purchased the products only because it was mandatory to get loans, which is clearly against the code of conduct prescribed by SROs that products should not be bundled[43] (MFIN & Sa-Dhan, 2015). In the case of one-third of the respondents, items were bought as they were really in need of them. It was noted that strategies adopted to sell products by MFI varied for different regions. However, MFI officials stated their field staff are clearly instructed not to force the borrowers to buy the products.

However, the response of women who have availed loans from MFIs differed. Here are some of their responses:

> *"Even though we do not require these products, we buy them, as the field agents say that they won't give us loans if we don't purchase them."*

> *"I was denied the second loan of Rs. 50,000 from an MFI as I refused to buy the mobile phone offered by the company at Rs. 15,000".*

"An upcoming MFI is forcing borrowers to buy an inverter worth Rs. 18,000 to release a loan of Rs. 50,000. For a loan of Rs. 25,000, the same MFI forces borrowers to buy Rs.10,000

[43] Bundling in this context means making purchase of a product or service conditional for provision of another product or service

Box 4.3: Private MFIs and Debt Burden

The average outstanding debt per household from MFI (for those households having outstanding MFI loans) is Rs. 45,236 and the average number of MFI loans per household is 1.7. More than one-third (35%) of the sample households having loans from private MFIs have an outstanding debt amount of more than Rs. 50,000 from the private MFIs alone. Nine households had an outstanding loan of more than Rs. 1,00,000 from MFIs. These households were making additional borrowing for repayment of existing financial commitments.

Radhika's life is a typical illustration of how loan recycling through microfinance pushes households into a debt trap. Radhika's husband took a loan of Rs. 3.5 lakhs from KSFE chit fund (loan from 8 chit funds) for house construction eight years back. During the period, his business suffered loss and was forced to quit the business. Meanwhile, Radhika also lost her temporary contract job in the Panchayat office. Due to these unforeseen contingencies the monthly payment of Rs. 10,500 to the KSFE loan became due. They paid back Rs. 1.4 lakhs to KSFE when they received Rs. 2,00,000 from a chit fund of the co-operative bank. This is the only amount the family paid back to KSFE till now.

The tenure of the KSFE loan was five years, but it has been overdue for more than eight years. *"We took a loan of Rs. 3.5 lakhs, but now we must pay almost Rs. 8 lakhs"*. KSFE officials are in the process of initiating revenue recovery. The family is willing to sell their 17 cent property to clear the debt. However, *"as it has been provided as security for the loan taken from KSFE, it is also not possible"*, Radhika said.

The family has also taken loans from other sources, including Kudumbashree and private MFIs. Currently, Radhika has outstanding debt from four MFIs, and her mother-in law has taken loans from 3 MFIs. The family has an outstanding debt of Rs. 1,50,000 from private MFIs, which would mean they have to pay more than Rs. 13,000 as monthly instalments towards MFI loan repayments. The family also lost the little gold they had. "*I had some gold ornaments with me. In my efforts to manage the debt, I pledged them. Since I could not repay the amount, I lost all the gold.*" Radhika's family is making all kinds of adjustment to manage household expenditure like cutting down food intake, delaying seeking medical care etc. Despite such efforts, they find it difficult to buy school uniform for their children. Additionally, Radhika's mother-in law has taken a loan of Rs. 25,000 from SNDP group thrift.

> *"We cannot delay MFI instalments even for a few hours. Field agents will make sure that we pay the amount on time. We have even taken an MFI loan to make a weekly payment of another MFI. Even in such a distressing situation, the family was forced to purchase vessels worth Rs. 2400 from an MFI to release the loan. In our desperation to get money, we agreed to all their conditions"*, Radhika reported.

Due to the shortage of work opportunities for her husband, the family is finding it difficult to make monthly loan repayments to MFIs. To bridge this gap, they are searching for more and more credit options and thus drowning into a deeper and deeper debt trap.

worth prestige vessels. Due to their compulsion, we were forced to buy four prestige cookers which remain unutilised".

"A locally formed MFI owns a textile and jewellery shop. When they sanction Rs. 25,000 loan to a customer, they give Rs. 20,000 in cash, and a voucher of Rs. 5000 which they could utilise to purchase any item from the textile or jewellery owned by the MFI".

"There are five solar lamps in my home, which I was compelled to buy avail loans. MFI officials put intense pressure on field agents by providing them targets on the number of groups/members and products they must sell each month. And field agents transfer their pressure on us. The group member who desperately needs money, buy more than one piece of the same product to make other women agree to join the group".

When the respondents were asked whether they think the products are being given at a higher price than that prevails in the market, 13 out of 21 (62%) respondents said that they do not think so. However, most of the customers are not sure about the actual price of these products in the market. Concerns regarding the low quality of the products were also raised by some women..

Several respondents noted that ease of securing a loan from MFIs is encouraging women to take additional borrowings. Similarly, the loan disbursal policy of MFIs does not take into account borrowers' cash requirements. It is the MFI which decides the loan amount to be sanctioned, and in several cases, the sanctioned amount is more than the financial needs of the individual. As Raji from Kottayam, Kerala opined:

"When money is available, needs are automatically being created. Even though I need only Rs. 10,000, I should take Rs. 25,000 as it is the amount allotted according to their loan cycle. Usually, the extra Rs. 15,000 will also get spent, but mostly not for any essential purposes".

4.5 Gender and Group Loans

The primary goal behind the concept of group loan is to empower women by making credit accessible to them. There exists a plethora of literature that documents the critical role of microfinance in empowering women, especially socially and economically disadvantaged (Ajwani-Ramchandani, 2017; Addae, 2015; Christabell, 2009 and; Ann, Schuler & Riley, 1996). Lending to women also seems to be working well for microfinance providers. For instance, the study which analysed gender differences in microfinance repayment rates, using a global dataset covering 350 MFIs in 70 countries, indicates that women demonstrate lower portfolio-at-risk, lower write-offs and lower credit-loss provisions (D'Espallier, Guérin, & Mersland, 2011). Further, limited mobility and fewer alternative borrowing possibilities for women compared to men, solve the problem of ex-post moral hazard (i.e., fear that clients will "take the money and run") (Morduch, 1999). The micro credit providers, with whom the research team interacted during the study, also noted the credit worthiness of women and the ease to put peer pressure on women as major factors that motivate them to provide credit to women groups. This section attempts to explore decision making power exercised by women with respect to group loans—how do they decide on whether to take group loans and how to utilise the loan amount—and seeks to capture their perspective about the impact of such loans on their day to day life.

4.5.1 Group Loans and Women's Decision Making

The websites of prominent MFIs express their commitment in improving the lives of their customers, mostly women, not only by delivering credit but also by providing them with entrepreneurship training and community development support. The vision statements of various MFIs are given below:

> **ESAF:** "…. ventured into micro-financing and creation of self-sustainable groups to address the issues of poverty alleviation and employment generation. Today, ESAF has grown by leaps and bounds in the microfinance sector, promoting microfinance as a viable, sustainable and effective means for creating jobs and reducing poverty."
>
> **Bharat Microfinance**: "Bharat Financial Inclusion Ltd. (BFIL) distributes small loans to poor women so that they can start and expand simple businesses and increase their incomes. Their micro-enterprises range from raising cows and goats in order to sell their milk, to opening a village tea stall".
>
> **Muthoot Microfinance**: "The microfinance operations of the company are designed to promote entrepreneurship among women and inclusive growth. The institution provides financial assistance through micro loans such as income generating loans to women engaged in small businesses".
>
> **L& T**: "We have since been actively involved in helping the Indian women get a sustainable livelihood through micro unsecured loans."
>
> **Asirvad**: "Our mission is to organise groups of committed poor women and provide innovative financial services in a sustainable manner with a view to alleviating poverty through viable income generation activities."

For majority of the MFIs, the first cycle of loan is called income generating loan, which is provided to help the women to earn a livelihood by investing in income generating activities. As noted earlier, only a very small portion of MFI loans are being utilised for income generating activities. Interactions with field staff and key officials of MFIs reveal that, although the loans are provided for income generating purposes, no stringent regulations or any monitoring mechanism exist to confirm the loan utilisation. As quoted by an official of a prominent MFI:

> *"We all know that majority of the women utilise the loans for repaying their earlier debt or for meeting their emergency needs."*

The study explored women's role[44] in deciding to take and spend group loan. Results provide interesting insights. Usually, women consult spouse or family members before deciding to take group loans (Figure 4.7). Only one-tenth of women claim to have decided independently to take group loans. However, when it comes to who decided on how to spend the loan amount, the picture changes. The share of women who reported that the decision on how to spend the loan amount was taken by spouse alone or by any other family member is 29 per cent and 27 per cent respectively. However, 17 per cent of women claimed to have decided independently on how to spend the money.

It is indeed worrying to note that in a majority of the cases, women do not have any role in deciding on how to spend the loan amount. In fact, this partially negates the very purpose of providing microfinance to women. The requirement imposed by many private MFIs to produce the copy of the Aadhar of the spouse for sanctioning group loan might be affecting the autonomy of women on how to spend the group loan amount accessible exclusively by them.

Figure 4.7: Individual with Whom Women Discusses Before Taking Group Loan

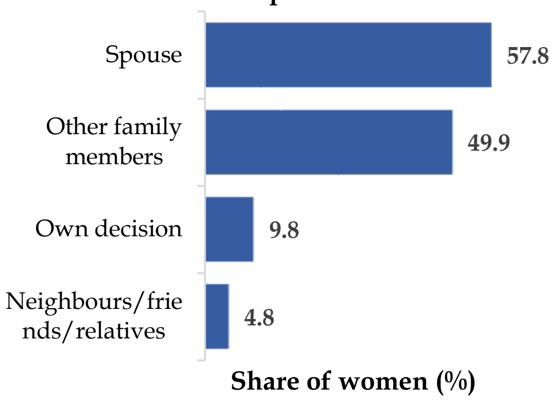
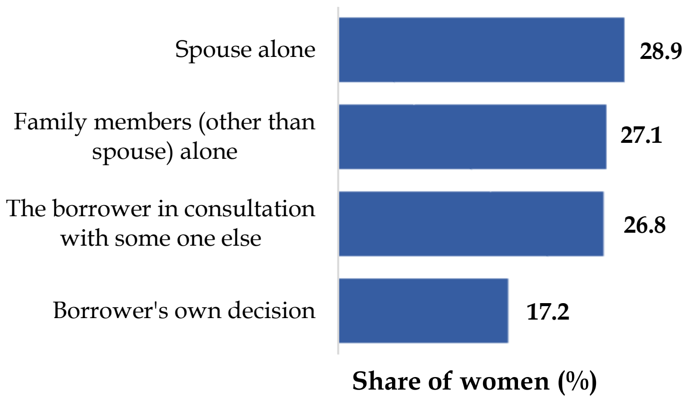


Figure 4.8: Decision on Spending Group Loan Amount



Base= Total number of female respondents who has availed group loans at least once= 377.
Note: Multiple response questions
Source: Primary Survey

To capture the perception of women with respect to the role of private MFIs in their lives, the following questions were asked: (a) has participation in private MFI groups improved your living standard?; (b) has increased accessibility of credit through private MFIs enhanced your economic independence?; (c) have group loans of private MFIs improved your dignity within the household, as a woman who could easily access such loans and; (d) do you feel that borrowing from private MFIs has pushed you into a debt trap? Responses from the sample survey are summarised in Figures 4.9 to 4.12.

[44] Addressed to those women who have some experience with group loans—SHG-Bank linkage loans including Kudumbashree NHG-bank linkage loans and loans from private MFIs.

Figure 4.9: Has Participation in Private MFI Groups Improved Your Living Standard?

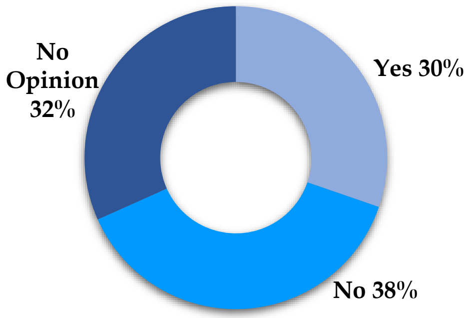


Figure 4.10: Has Increased Accessibility of Credit through Private MFIs Increased Your Economic Independence?

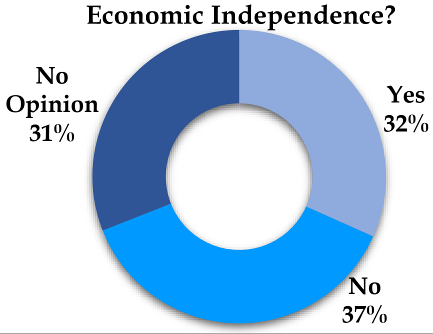


Figure 4.11: Have Group Loans of Private MFIs Improved Your Dignity Within the Household

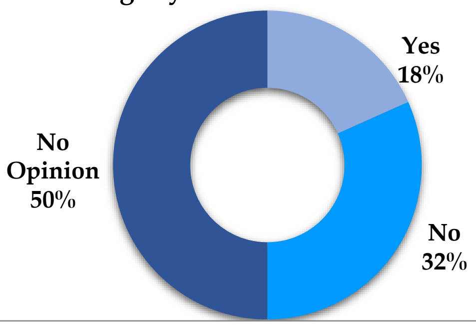
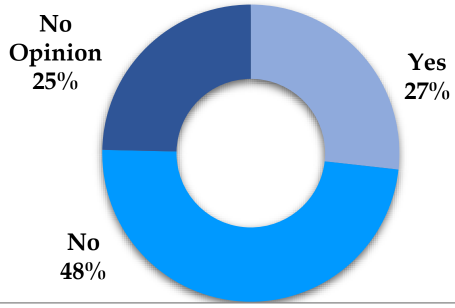


Figure 4.12: Do You Feel that Borrowing from Private MFIs has Pushed You into a Debt Trap?



Base: Number of respondents having some experience with private MFI group loans= 142.
Source: Primary Survey

Nearly one-third of the respondents acknowledged that group loans from private MFIs helped in improving their living standard and making them economically independent. However, only less than one-fifth of the respondents feels that as a woman, their capacity to raise funds through group loans of the MFIs increased their dignity in the household. More than one-fourth of the respondents feel the unmanageability of debt burden as they resort to group loans of the private MFIs. It needs to be stressed that, half of the women who participated in the microfinance programme of private MFIs did not feel improvement in their living standard, economic independence or dignity within the households (Figures 4.9, 4.10 and 4.11) as envisaged in the 'Vision' statements of various MFIs mentioned above. This calls for a need to review the existing structure of microfinance programmes as the major theoretical underpinning of microfinance programmes is the eradication of poverty through the empowerment of women (Strandberg, 2001).

4.5.2 Pressure from MFIs

Of late, a plethora of news reports and magazine features have come up on the immense debt pressure faced by women who borrowed from private MFIs. As noted in Chapter 2, a severe crisis in the microfinance sector in Andhra Pradesh resulted in suicides of more than 60 persons. This crisis was found to be primarily caused due to unregulated lending to the poor; multiple companies lending to the same borrower. Similar incidents have been reported from Varanasi, Uttar Pradesh in 2015 (Dogra, 2016) and

Vidarbha, Maharashtra (Quazi, 2016). In Kerala, such incidents occurred in Thenkurissi, Palakkad (Chandra, 2018) and in Kodungallur (Mullappatt, 2019). Recently, in a seminar, Prabhat Patnaik referred such institutions as "old moneylenders in new attires" (Deshabhimani, 02/06/2018). Apart from media reports and region-specific anecdotes, not many serious academic works on the extent and intensity of debt pressure faced by households in Kerala who borrowed from MFI is available

Almost all the respondents the researchers interviewed reported that they have not defaulted any periodical payments of private MFIs. Responses of women, noted below, who have taken group loans from MFIs indicate mounting financial pressure and harassment which has become part of their daily life:

> *"Somehow, every week, we manage to arrange the required amount. If someone in the group defaults, the entire group will not get loans from any MFI in the future. This is what the field agents told us. Therefore, if someone in the group does not have money, if we could, we share for her. If we are also not able to pay, then we pressurise her to borrow from somewhere. These MFIs are the only source for poor women like us to borrow money for our emergency needs without complex terms and procedures. Therefore, we don't want to shut that option for someone's failure". -Radha noted.*

> *"No one in our group ever defaults. Many days due to lack of jobs, the family may not have enough money for daily expenditure. Still, we cannot opt not to repay MFI loan. Several times I have borrowed from moneylenders at exorbitant interest rates to meet the MFI instalment obligations."- Julie reported.*

> *"Due to the huge debt obligation to different MFIs, I have to shift my children from a private school to a Government school. I have defaulted several loan repayments of Kudumbashree thrift loan and loan taken from a commercial bank, as they do not put pressure on me as badly as MFIs. I have to make payments to different MFIs almost every day of the week. Every night I go to sleep worrying, how to arrange the required amount the next day. I am having sleepless nights due to this tension. The field agent would not leave the Sangham centre until all the members of the group pay instalments. Therefore, other members put immense pressure on the defaulter. If someone fails to arrange money, the field agent goes to that person's home, sit there and abuses the family until he/she receives the money." – Sneha mentioned.*

> *"Even if I am unwell and physically tired, I cannot afford a leave because if I do not go for work even for one day, I will not be able to arrange enough money to meet my weekly commitments in private MFIs." – Raji noted.*

> *"I prefer to work near my home. It is just because such jobs do not meet my loan repayment requirements I am forced to work as a medical representative who needs extensive travel. Even in this job, I work overtime to make sufficient money."-Sini said.*

Very rarely, we did come across positive stories on group lending by MFIs, as the case of Kunjani.

Kunjani, who works as a manual labourer, is living in an SC colony. He suffers from a severe heart problem, which was diagnosed four years ago. The family got plunged into a debt trap due to his treatment. His wife had borrowed money from a private MFI, which she used to repay from the earnings of their son who works as a daily wage manual labourer. When Kunjani required an emergency hospitalisation, his family could not pay timely instalments. However, the field agent was so co-operative and friendly. He did not harass the family or other group members but extended their loan repayment period. Now only Rs. 16,000 is outstanding, Kunjani's family plans to repay it at the earliest.

Box 4.4: *Muttathe Mulla* Short-Term Rural Loan Scheme

Muttathe Mulla is the short-term rural loan scheme announced by the Co-operative Department of Kerala State Government in June 2018 with the intention to save the rural poor from the exploitation of illegal moneylenders and private MFIs. The scheme is being implemented by PACSs in cooperation with Kudumbashree.

Under this scheme, a person is eligible to avail a loan amount that may vary between INR 1,000 and INR 25,000. The loan would be given to close the older loans on a one-time basis borrowed from individual moneylenders and private moneylending companies. The scheme is being implemented in each ward through three Kudumbashree NHGs selected on the basis of efficiency and credibility. PACSs sanction a maximum amount of Rs. 10 lakhs to each selected NHG at an interest rate of nine per cent for distribution to the needy at the rate of 12 per cent. The three per cent difference in the interest rate would go to the Kudumbashree group. The entrusted NHG members distribute the amount and collect the weekly repayments at the doorsteps of the borrowers.

On a pilot basis, the scheme was implemented in Palakkad district from where the stories of harassments of poor by moneylenders and private MFIs have already come out (see, Circular No. 33/2018 dated 2018, June 22 [Office of the Registrar of Co-operative Societies] for more details of the scheme).

4.5.3 Strategies followed by MFIs

During the field work, it was noted that unlike Kudumbashree NHGs or other types of SHGs, the structure of JLGs formed by private MFIs is not well-defined. This is particularly true with respect to the group structure and liability within the group. In the group, women are not sure of the extent of liability they must share. Information gathered by the researchers from field interaction and discussion with key informants regarding the liability structure of JLGs formed by private MFIs is as follows.

Five members constitute a JLG, and five to ten JLGs form a Sangham/Centre. Thus, a Sangham consists of at least 25 members. Such 25-30 Sanghams constitute a cluster. If one member from a JLG defaults, the other members of the same JLG are liable to make her payment. Interestingly, in worst cases where a JLG fails to honour the commitment of member(s), the field staff of the MFI make other members of the Sangham liable.

Discussion with field staff revealed that, if a member wants to join an existing Sangham, she must find four more persons, and these five members would constitute a new JLG and they can together join an existing Sangham. However, in an endeavor for expansion, this basic condition for the successful functioning of microfinance, i.e., the acquaintance between the members is violated. In the process, women are made liable for loan repayment of other members in the Sangham, some of whom they have never met before. A women respondent noted that:

> *"Although there is a regulation that only the members of the same neighbourhood should constitute a group, the field agent has added 15 more members from an area which is far away from here. I don't have any previous connection with them. Then why am I made liable for their debt?"*

Several women reported that before the commencement of the group meeting, all members are supposed to greet each other and recite a pledge. As noted by Simi:

> *"They asked us to say Namaste and wish each other and to recite that 'we pledge that we will participate in weekly group meetings and will pay the instalments without fail. If someone in the group defaults, the rest of us will pay her amount...........'. Further, we were asked to address the MFI field staff as Sir/Madam to maintain the hierarchy."*

When researchers verified these with officials of MFI, they also shared the view that such practices are necessary to build allegiance and emotional attachment among members towards the institution, which are essential for ensuring smooth and successful functioning of the group loans.

Yet MFIs ensure timely repayment also by threatening denial of future loans to members of the Sangham if any member defaults (extended liability). In certain cases, they even threaten that Sangham members will not be able to join any other MFI and borrow money in the future. A similar, but more aggravated liability spreading the practice of MFIs has been noted in the study by Solli et al. By studying the operational modalities of several private MFIs functioning in India, the authors suggest that the concept of joint and several liabilities of MFIs may extend beyond the group to the village level. This implies that several hundred persons could be held liable as guarantors for each other's loans (Solli et al., 2015).

Interestingly, it seems that MFIs would allow women to clear their debt only in instalments. As noted by Zeenath:

> *"Seeing my worsening financial condition, some of my relatives arranged money to repay loans I have taken from MFIs. But when we went to their office with money, they refused to settle our account in one go. They said we could only clear loans in instalments. Their intention is clear. They want us to remain in this vicious circle of indebtedness."*

However, a few women could successfully clear their accumulated debts in one go in Kodungallur[45], a region worst affected by Kerala floods in 2018. A few women who have taken a loan from the MFIs decided not to pay back the amount in instalments but initiated an alternative mechanism to close all the MFI debts in one go. Knowing this plan, the MFI staff tried to discourage them by threatening that these women would not get loans from any MFI in the future. But the women did not backtrack from their decision, and finally, the MFIs were forced to agree to their conditions. The incapability of MFIs to seek legal remedy if someone defaults is evident from responses of the key officials of two different MFIs:

> *"Women hold moral obligations than men. That is why we are lending only to women groups. But if they decide to default, we do not have any alternative other than putting pressure on the defaulter through other group members. We cannot go for any legal measures to ensure their repayment. However, since the concept of group loans functions on the mutual trust between these women, very rarely do we encounter such a situation."*

Negative feelings held by women against MFI seems to be strong in certain localities. This may be due to increasing awareness regarding the malpractices followed by MFIs and how they dealt with people in difficult situations. Most of the women we met after the field visit recalled that after demonetisation and 2018 Kerala floods, most of the MFIs put additional pressure on the already shattered poor. Responses of women on these issues were as follows:

> *"They do not have any humanitarian consideration. We experienced it at the time of demonetisation. They even did not think that we have been associated with them for more than ten years. They were not ready to accept the withdrawn currency or even cheques. At the same time, they were not willing to give any holiday period considering the unforeseen contingency and the criticality of the situation".*

> *"Although our place was the worst flood affected area, MFIs started compelling us to pay back all the dues just one month after the flood, strictly following one month holiday as per the Government instruction. They know that we do not have jobs, and we have not recovered yet from the loss we suffered. But they were not ready even to extend our loan duration for one more month. Just after floods, one company forced a loan of Rs. 10,000 upon us at the same interest rate to close the previous loan. They deducted the due amount and its interest initially and credited only the remaining to our account."*

[45] This region was not part of the household survey. However, the research team visited this area and had a detailed discussion with the people in the locality following an article published in *Dool News*, an online news portal (Mullappatt, 2019).

4.6 Conclusions

This Chapter narrated the dependence of rural poor households in Kerala for credit requirements on formal and informal sources as well as their preference for individual and group loans. Survey results indicate how formal group lending has derailed from its stated objective—promoting women empowerment by attaining economic independence. On the contrary, it merely functions as yet another source of credit. Findings in this Chapter calls for a serious retrospection from the part of policy makers and civil society on the ways to strengthen women's empowerment by microfinancing.

CHAPTER 5

CONCLUSION AND SUGGESTIONS

5.1 Introduction

The central concern of this study has been to understand the magnitude and nature of indebtedness experienced by rural poor households in Kerala and the role played by various sources in meeting the credit requirements of this group. The study was situated in the context of Kerala as the state presents certain distinct patterns, in comparison with all India average, in income, expenditure and indebtedness among its population. Some of them include: (a) despite having a high average monthly income-expenditure surplus among rural households, the proportion of households indebted in rural Kerala is quite high; (b) during the last 20 years, indebtedness in rural Kerala have grown at a higher rate than all India rates; (c) although post 1991 rural areas in Kerala witnessed rising income inequality, as captured through consumption expenditure, the same period experienced a sharp decline in rural poverty and; (d) Kudumbashree microfinance system has emerged as a significant component in influencing the livelihood of poor households in Kerala. In addition, last one decade witnessed increased penetration of private microfinance institutions and it is essential to examine the operations of these institutions and its implications on the rural credit market structure in Kerala especially in the context of micro-finance crisis occurred elsewhere, 2010 crisis in Andhra Pradesh is a case in point (Sarangi, 2011). The peculiar situation emerging in rural Kerala—high income and high incidence of indebtedness, together with rising inequality and declining poverty, deep rooted role of Kudumbashree programme and increasing prevalence of private microfinance institutions—necessitated an in-depth study to understand the financial life of people, particularly poor segments.

The study primarily relied on primary data to assess indebtedness among rural poor households in Kerala. Apart from data collection relying on the household survey—540 households spread across 12 districts (36 wards)—through a structured pre-tested questionnaire, in-depth interviews, FGDs and case studies were conducted. Specifically, the study aimed to understand: the framework that regulates the operation of financial institutions; borrowing pattern, credit choices and coping strategies of rural poor households and the magnitude of household indebtedness; operational modalities adopted by major credit providers catering to rural poor and; suggest recommendations to address the over-indebtedness among rural poor.

As the concluding chapter, an attempt is made to discuss the themes that are central to understand indebtedness among rural households in the study area and findings emerging from the research. Key points emerging from the study are centered around the following themes: pattern of borrowing and choice of credit sources, loan type and purpose of borrowings, the role of group lending in the lives of rural poor, awareness on terms and conditions of borrowings, debt pressure, sacrifices and coping up mechanism, and burden of debt on women. These themes individually as well as in combination influence each other and are relevant in understanding indebtedness among rural poor households in Kerala and elsewhere.

5.1.1 Pattern of Borrowing and Choice of Credit Sources

Results from the sample survey indicate that 88 per cent of rural poor households are currently indebted. The level of indebtedness is almost same across socio-economic categories ranging between 85 to 90 per cent. Among the indebted households, more than 80 per cent are indebted to multiple sources. In contrast to the existing literature the study noticed a higher dependence among rural poor on formal sources (93% of indebted households) in comparison with informal sources (56% of indebted households). Across social and economic categories, the proportion of households borrowed from formal sources is higher than those borrowed from informal sources.

It is relevant to note that despite the expansion of commercial bank networks and the emergence of MFIs, the prominent source relied on by the target population to fulfil their credit requirements are cooperative financial institutions followed by Kudumbashree. But the poor recovery rates of loans from PACSs and DCCBs and the irregularity in the repayment of Kudumbashree thrift loans pose threat to the financial sustainability of these institutions, which requires immediate intervention from the side of Government. In contrast to the literature suggesting moneylenders as the most prominent and dominant credit source, especially among rural poor, survey data reveals a lesser dependence of rural poor households on moneylenders compared to the formal sources irrespective of socio-economic categories. A relatively higher reliance of socially and economically deprived sections (very poor or SC/ST households) on moneylenders, compared to other categories, to meet their demands for consumer durables is also evident from the survey. Such informal arrangements, without any proper documents or without specifying the terms could become exploitative, as the poor borrowers do not have idea about the total amount they ultimately pay to such sellers as price.

5.1.2 Loan Type and Purpose of Borrowings

Among the loan types, gold loans have a prominent role in the lives of rural poor across socio-economic categories. Similarly, except for DCCBs, majority of the loans from all other financial institutions are gold loans. However, variations in the dependence on institutions for gold loans according to socio-economic background of households are revealed from the survey data; a higher preference or accessibility of commercial banks by the relatively better sections compared to the deprived households.

House renovation/construction, followed by health care and loan repayment needs are the prominent purpose for which the rural poor utilise the loan amount. No source-wise difference was observed in the case of loan utilisation purposes. While the share of households utilising loans for directly productive purposes/income generating activities such as agriculture and business is less, a significant share is observed to spend borrowed amount for conspicuous consumption such as for marriage and purchase of consumer durables. It is also a matter of concern that more than one-fourth of the indebted households have borrowed for repaying old debts, increasing the risk of insolvency. It is also observed that the poor approach moneylenders mainly to cover unexpected expenses and to satisfy consumption smoothing requirements—to meet day to day expenditure. Therefore, the borrowers seemed to be unconcerned about the higher interest rates of moneylenders as during emergencies their primary consideration is to get money immediately.

5.1.3 Increasing Role of Group Lending

Survey results, FGDs and key respondent interviews indicate the significant role played by group loans in satisfying the credit requirements of rural poor and thus making traditional moneylenders unattractive to the people. Microfinance in the form of group loans is emerging as an important source of credit in the lives of poor women. Based on the method of credit delivery, microfinance models in Kerala was classified into: (a) Self Help Groups (SHGs)—include those formed by Kudumbashree commonly known as Neighborhood Groups (NHGs) and SHGs formed by NGOs, caste and religious groups and; (b) Joint Liability Groups (JLGs)—majorly include those formed by private microfinance institutions.

It is a matter of concern that being the prominent poverty eradication programme under the Government of Kerala, more than one-fourth of the rural poor households are still outside the Kudumbashree network. However, no socio-economic difference could be observed in Kudumbashree membership. For instance, the share of households having membership in Kudumbashree is the highest among SC households and the lowest among general category households. But reverse seems to be true with respect to membership in SHGs formed by NGOs, caste or religious groups. A similar trend is visible if households are analysed by economic groups—Kudumbashree NHG membership is higher and membership in other types of SHGs is lower among very poor in comparison with poor households. The mode of operation of Kudumbashree NHGs and other SHGs partly explains this difference. As a programme of the State Government, Kudumbashree makes special efforts to encompass all sections of the population which results in higher membership in Kudumbashree NHGs. In contrast, other types of SHGs in Kerala are more selective in choosing their members, resulting in the possibility of a caste/class wise differentiation.

Although Kudumbashree is envisaged as a programme to bring women into entrepreneurship, as per the survey data, currently only 12 per cent is involved in some form of income generating activities, which calls for immediate attention. A large section of women considers Kudumbashree NHGs mainly as a source of credit and means to obtain Government benefits, which might defeat one of the major objectives of the Kudumbashree programme. It needs to be noted that roughly one-fifth of the households which have taken Kudumbashree loans utilised them for repayment of earlier loans. A significant share of Kudumbashree members considers thrift loan as a type of loan which does not have a stringent repayment schedule and therefore gives low priority for its repayment. Such attitude of beneficiaries towards the repayment of Kudumbashree loans, combined with the utilisation of such loans for repayment of previous liability might affect the viability of the Kudumbashree NHGs in the long term.

In contrast to popular perception, no socio-economic discrimination could be established with regard to private MFI penetration. However, region-wise differences in MFI penetration and operations were observed. It was noted that, in places where already some private MFIs exist, more and more MFIs penetrate using the same group. In the Panchayats where the private MFIs have early and deep intrusion, the public including the ones who never approached these institutions for loans is observed to have a general feeling that the MFI loans with higher interest rate and stringent repayment schedule are exploitative in nature. In such areas, the authorities also seem to be aware and concerned about the operations and practices of these institutions. The largest share of private MFI clients utilised their borrowed amount for repaying previous loans followed by house maintenance or construction. This shows that in contrast to the original concept of microfinance, a very meagre share is being allotted towards direct income generating activities such as business or agriculture.

Most of the private MFIs offer different consumer durables such as fans, vessels, phones, mixi, solar lamp, emergency lamps, water purifier and stove on an instalment basis to the borrowers. Operations of MFIs without registration and without observing the regulations of RBI continue to be rampant in rural Kerala. For instance, some MFIs are found to be imposing product loans on its customers as a primary condition for releasing cash loans.

5.1.4 Awareness on Terms and Conditions of Borrowings

The respondents in the sample had limited information about the terms and conditions of the loan. Many were not even aware of basic information such as the duration of the loan, the frequency of repayment or interest rate. It was more evident in the case of gold loans, thrift loans and loans from moneylenders. In the case of SHG thrift loans, most of the borrowers were not aware that there exist certain regulations regarding interest rate, repayment period and periodical instalments. In contrast, all the respondents who have taken group loans with joint liability (such as SHG-Bank linkage loans and MFI loans) are found to be very much aware of the basic terms and conditions such as periodical repayment amount, the period of loan and interest rates. Stringent terms of repayment, shorter repayment period, peer pressure and the pressure exercised by MFI field staff could be the reasons that make them more careful about such loans.

Although there is a general feeling that private MFIs impose higher interest rates and heavier pressure than Kudumbashree, the quick approval of MFI loans and the simple procedure followed by these institutions for loan delivery make them ideal for emergency requirements which is a major concern of the poor.

Despite being the most important credit source of the rural poor, cooperative financial institutions are not being given priority by the borrowers in loan repayment. It is also seen that compared to the loans from commercial banks or cooperative financial institutions (backed by collateral), a lower default rate and a higher priority for repayment among borrowers exist in favour of group loans, which RBI views as unsecured debts. Therefore it emerges that, more than the collateral, the nature of debt sources including the kind of pressure imposed by them determines the lenders' recovery rate and borrowers' repayment preferences.

5.1.5 Debt Pressure

Survey results indicate that more than half of the indebted households (52%) are currently in default of at least one loan. It is found that socially and economically (relatively) privileged sections shoulder a higher average outstanding debt than others. For instance, the average amount of outstanding debt among general category households is five times that of ST households. Although the outstanding debt is the highest among the general category households, the average number of loans possessed by those households is found to be less than that of OBC and SC category households. A similar pattern is visible in the case of poor and poor very households. This could indicate lower accessibility of deprived population towards high value loans or choice for lower value loans as their needs are lesser.

Based on the measurement of debt burden using an objective index, the sample households were categorised into four categories: not over-indebted, at risk of being over-indebted, critical and insolvent. As per the index, nearly two-thirds of households are either over-indebted or at the risk of becoming over-indebted. The fact that more than one-third of the rural poor households are already insolvent/over-indebted calls for immediate attention.

As the number of loans and the number of sources of loans augments, the proportion of insolvent households also increases which implies that multiple borrowing and over-indebtedness go hand in hand (it is actually a two way relationship— multiple borrowing leads to over-indebtedness and over-indebtedness leads to multiple borrowing).

To understand the perception of the respondents about the current debt situation of their households, the respondents were directly asked to categorise their perception on the household's debt burden into manageable and unmanageable. More than half of the indebted households reported that the current debt situation of their household is manageable with their economic status.

The study also attempted to examine the relation between objective and subjective measures of the debt burden. It is observed that as the households move from not over-indebted category to insolvent category, their perception about the unmanageability of debt rises. However, it is relevant to note that, a significant share (around 40 per cent) of the households classified as insolvent/over-indebted consider their debt burden as manageable. While such a scenario can be due to the absence of clear idea prevailing among the poor regarding their debt burden, it could also arise due to the non-inclusion of several factors such as household assets in the objective assessment of debt burden.

5.1.6 Sacrifices and Coping up Mechanism

Three-fourths of the indebted households reported that they have faced difficulties in meeting other household expenditure after making the periodical loan repayments. Almost the proportion made at least one sacrifice to manage debt. Sacrifices varied from reducing the quality of food (56%), adjusting quantity of food or skip meals (41%) to taking up additional jobs or working extra hours (50%). More than one-third of the households borrowed money from other sources to repay some other debt, thus giving rise to a condition of loan recycling.[46] Confirming the positive linkage between the possibility of debt trap and the multiple borrowing, it is noted that the number of sacrifices the rural poor is forced to make for loan repayment increases as the number of loans rises.

5.1.7 Gender and Debt

The number of loans in the name of a female member of the household is found to be 2.5 times the number of loans in the name of a male member. But this wide difference could be mainly attributed to the fact that certain loans such as Kudumbashree loans and MFI group loans are available only to women. There are also differences in the type of loans taken in the name of men and women. While around 64 per cent of the total gold loans are in the name of women, men have almost twice the number of loans from moneylenders compared to women. Although the average number of loans in the name of men is less than that of women, the average credit amount per loan in the name of men is double that in the name of women. This could be due to multiple reasons; the smaller amount of the loan the women borrow at one time or that sources which women depend, mainly group loans, only offer relatively smaller amount as loans. This might also arise due to the fact that given the social structure of Kerala, the immovable property assets of a household are often in the name of men, therefore, the possibility of availing high value loans requiring collateral backing is higher for men than women.

However, what is more troubling is the limited power enjoyed by women even over loans exclusively available for women such as from MFIs and Kudumbashree. Usually, women consult spouse or family members before deciding to take group loans. Women who claim to have decided independently on whether to take group loans is 10 per cent. Further, a little more than 50 per cent of the women respondents do not have any role in deciding the spending pattern of the money borrowed in their name. It also needs to be stressed that half of the women who participated in the microfinance programme of private MFIs did not feel any kind of empowerment in the form of improved living standard, economic independence or increased dignity. This calls for a need to review the existing structure of microfinance programmes as the major theoretical underpinning of microfinance

[46] Taking loan for paying a previous debt as one of the major purposes of borrowing by the rural poor as mentioned above can be read together with this.

programmes is the eradication of poverty through the empowerment of women. Lack of mechanism to monitor the purposes for which the group loans are being utilised could be a major hindrance in this regard.

5.2 Suggestions

5.2.1 Improving Household Income

Low and irregular income are principal factors that compel rural poor households to resort to borrowing; pertinent in the context of agrarian distress and limited scope for employment generation in rural areas. Therefore, any discussion on solutions to mounting household indebtedness, especially among rural poor, is incomplete without pointing out measures to enhance their income. The perception of this group regarding Kudumbashree, merely as a source of credit should be changed. Efforts should be made to revitalise the role of Kudumbashree in facilitating income generating activities. Unless Kudumbashree gives much higher attention to income generating activities of its members, the programme will continue to remain as another source of credit for the poor. Understanding the factors limiting the involvement of Kudumbashree NHGs in income generating activities is essential for developing a strategy for making headway in improving the livelihood of the rural poor. Learning from the failure of some of the NHGs which were earlier engaged in income generating activities is also necessary to develop support systems required for them.

The capacity building of rural poor, considering the local peculiarities and the market needs, shall be given due importance to motivate them to engage in income generating activities. A scheme shall be devised in partnership with the local self-governments, Kudumbashree and co-operative institutions to boost employment and entrepreneurship at the Panchayat level.

As pointed out elsewhere, more than one-fourth of the rural poor households are currently outside the Kudumbashree network. Conscious and concrete steps are needed address their concerns and to bring them into the Kudumbashree fold. Another tendency noted in the study was the utilisation of Kudumbashree JLG loans provided at a subsidised interest rate for encouraging group farming for non-productive purposes such as loan repayment. Strict monitoring mechanism should be devised to ensure that such loans are utilised for intended purposes.

5.2.2 Strengthening the Role of Co-operative Financial Institutions

Considering the prominent role played by co-operative financial institutions in the life of rural poor in Kerala, their wide network could be made use of in a` variety of ways. The co-operative financial institutions should be encouraged to make interventions for the development of the local economy rather than concentrating only on banking activities.

An effort to consolidate and document the successful models (eg: Palliayakkal Service Co-operative Bank Ltd.)[47] of such interventions can be undertaken at the state level.

The poor recovery rate of co-operative financial institutions and the irregularity in the repayment of loans from such institutions should be given critical attention as it may affect the financial viability of the institutions. While it may sound practical to have stringent lending standards and repayment policies, consideration should be also given to the fact that co-operative institutions are a major credit source relied on by the rural poor. So, it is important to strike a balance between financial viability of co-operative institutions and their accessibility to rural poor. The tendency to postpone the regular repayment of loans from co-operative institutions should be discouraged. The financial position of the co-operative institutions and the need to keep those institutions viable for the benefit of the poor borrower should be communicated to the people regularly in simple and uncomplicated language. A JLG model microfinance programme under every co-operative financial institutions at a lower rate of interest can also be considered.

5.2.3 Regulation of Lending Activities at the Grassroots

It is observed that many times even elected representatives of local self-governments are unaware of the debt situation of households in their area and the presence and functioning of various credit arrangements (including private MFIs) in the locality. To devise efficient policies to save the poor from a debt trap and from the exploitation of different financial institutions, it is essential for the local governments to have a better idea about financial sources relied on by rural poor and obstacles they face. The elected representatives of the Panchayats shall be capacitated for the same.

Although the operation of illegal moneylenders is substantially reduced after the implementation of *Operation of Kubera*, as evident from the study results, they continue to operate in rural areas. With the help of local self-governments and Kudumbashree networks, such moneylending activities shall be identified, and stringent action shall be taken against them. There should be clear guidelines prohibiting linking of loans with the purchase of products from the lender. Penal provisions should also be included.

In the scenario of the growing presence of private MFIs among women, the study recognises the need to regulate the practice of these institutions. Taking advantage of the immediate financial needs and ignorance of poorer sections, several malpractices are found to be adopted by these institutions to increase their profit and to expand their customer base. These include the operation of MFIs without registering with a credit information company (CIC) and harassing group members in case of defaults in making payments. It is also seen that in many places the field agents of such institutions force group members to purchase products offered by them as a mandatory requirement to release loan amount. Similarly, as per the RBI guidelines, an individual cannot join more

[47] This co-operative society, situated in North Paravur in Ernakulam district, is engaged in a variety of income generating activities and in the skill training for the local residents, there by supporting the overall development of the locality.

than two MFI groups or take loan amount of more than Rs. 1 lakh. It was found that these guidelines are not adhered by MFIs leading to mounting debt burden of households. Therefore, it is important to make the local authorities aware of the operational modalities of such institutions. The state government can play a key role in this. The women taking loans should also be made aware of the existing official regulations on MFI group loans to resist the malpractices followed by these institutions. The possibility to devise an enforcement mechanism at the state level to ensure the compliance of these institutions to the existing regulations and guidelines may be explored.

Currently, RBI regulates only those MFIs registered as NBFCs or NBFC-MFIs. However, numerous institutions involved in group loan delivery through JLG model are operating at the ground level. It is not clear whether all these institutions are registered and licensed. But it is sure that some institutions are operating outside the legal framework and acting as a modified and refined version of illegal and unlicensed moneylenders. In view of this, there is a need to identify such institutions and restrain their operations.

5.2.4 Strengthening Regulations on the Operation of MFIs

Apart from the malpractices followed by MFIs, there is considerable scope to improve their functioning by introducing certain key regulations. For instance, it was found that several MFI members do not understand the terms and conditions of MFI loans. There is a strong case to improve the content of the orientation to group members, provided before joining an MFI group. RBI should prepare a module in simple language for the orientation programme that could be adopted in different regional contexts. Yet another issue is with respect to the extent of liability of a JLG member. Currently, the extent of liability of a group member is ambiguous, which needs to be defined by the regulator, more precisely.

It is important to recognise that RBI regulations and directions applicable to NBFC-MFIs have been made less stringent over the years. Absence of stringent regulations over MFI institutions might result in repeating microfinance crises in Kerala as occurred in other states of India (Karnataka and Andhra Pradesh) or in other developing countries (Pakistan, Morocco, Nigeria, Nicaragua Bosnia and Herzegovina). Already grave situation prevails in Kodungallur (Thrissur) and Thenkurissi (Palakkad) regarding the operation of private MFIs. Considering the higher recovery rate of group loans, a reduction in the interest rate limit charged by these institutions can be considered to relieve the borrowers from the unbearable debt burden. The private MFIs shall be mandated to allocate a certain proportion of their profit for the capacity building and skill training of the group members.

5.2.5 Formation of a Comprehensive Credit Information Repository

As suggested by RBI Task Force, the formation of a comprehensive credit information repository covering all types of credit facilities extended by all credit institutions – commercial banks, co-operative financial institutions, NBFCs and NBFC-MFIs shall be implemented with immediate effect to avoid the issues of multiple lending. Currently, the borrowers do not have access to the credit data base. The possibility to provide borrowers with free access to these databases to assess their total debt burden can be explored.

5.2.6 Enhancing the Financial Management Capacity of Individuals

Adequate financial literacy and access to better financial instruments could play a pivotal role in improving the lives of the rural poor. There is an urgent need to enhance the capacity of individuals to understand the terms and conditions of loans from different credit sources. Rural poor households also tend to lack proper assessment of their actual financial position. The wide network of Kudumbashree could provide an ideal platform for such capacity building initiatives. A module could be developed by the state Government to improve financial management and awareness of rural poor households, which could be used for capacity building initiatives.

5.2.7 Special Packages for Over-indebted Households

Considering that a significant share of rural poor households is indebted, steps should be taken to identify the over indebted households of a Panchayat. Insolvent households could be identified by adopting a comprehensive assessment criterion that considers household income and asset position. Devising special packages such as *Muttathe Mulla* – the *s*hort-term rural loan scheme announced by the State Government of Kerala with the intention to save the rural poor from the exploitation of illegal moneylenders and private MFIs (see Chapter 4 for details) – can be considered.

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Appendix

Appendix I

Surveyed Grama Panchayats and Wards

Sl. No	District	Gram Panchayats	Wards
1.	Thiruvananthapuram	Kilimanoor	3, 8, 13
2.	Pathanamthitta	Kalanjoor	1, 7, 14
3.	Alappuzha	Cherthala South	3, 10, 17
4.	Kottayam	Kangazha	3, 8, 13
5.	Ernakulam	Mookkannur	3, 7, 11
6.	Thrissur	Erumappetty	4, 10, 16
7.	Palakkad	Pookkottukavu	4, 7, 11
8.	Malappuram	AR Nagar	1, 8, 15
9.	Kozhikode	Thikkody	2, 7, 13
10.	Wayanad	Thirunelly	3, 8, 13
11.	Kannur	Muzhappilangad	4, 9, 14
12.	Kasaragod	Karadukka	5, 10, 15

Appendix II

Terms Prescribed by the Major Commercial Banks on Gold Loan

Bank	Quantum of Loan (Rs.)	Interest Rate (%)	Processing Charges	Penal Interest Rate
Canara Bank	10000-1000000	11.95	1% of the loan amount, with a minimum of Rs. 1,000/- subject to a maximum of Rs. 5,000/- per loan	
SBI	20000-2000000	10.45	0.50% of the Loan amount + applicable GST, minimum Rs.500/-+ applicable GST	
HDFC	Minimum of Rs 50,000/- onwards. Gold Loans for less than Rs 50000/- also available for rural markets.	11.43	1.5% of the loan amount + GST+ 250 valuation fee	2% p.a. as penal interest over and above applicable rate of interest
Federal Bank	1000-150 lakhs	13.25		
Union Bank of India	Upto 10 lakhs	9.95 - 10.95		
Axis Bank	25000-2000000	14.75 - 17.25	1% of the loan amount + GST + 500 valuation fee	2% per month on overdue amount
SIB	5000-10 crore	10.50	.1% of the loan amount	2% p.a. for the defaulted amount for the defaulted period.
IndusInd Bank		11.87 - 13.28	Upto 1% of loan amount subject to a minimum of INR 750 + 500 valuation fee	24% p.a.
Central Bank		9.45 - 10.95	0.5% of the loan amount plus tax plus applicable Appraiser Fee	
ICICI Bank	10000-15 lakhs	12.68	1.0% of loan amount+ GST+ 199 documentation charge	6% p.a. over original loan interest rate on overdue amount
Bank of Baroda	25000-10 lakhs	11.55	0.5%+GST	
Punjab National Bank	Upto 10 lakhs	10.05 - 11.05	0.70% of loan amount + GST	

Source: Compiled from the websites of different banks on August 03, 2018

Appendix III
Terms Prescribed by the Major Commercial Banks on Education Loan

Bank	Quantum of Loan (Rs.)	Interest Rate (%)	Tenure	Security
Canara Bank	10-20 lakhs		10-15 years	
SBI	5000-1.5 crores	8.65-10.7	3-15 years, after the course completion + 6/12 months	Parent/Guardian as co borrower, tangible collateral security
HDFC	Upto 10 lakhs	9-13.35	10-15 years	Parent/Guardian as co borrower, tangible collateral security
Federal Bank	10 lakhs -1 crore	10.9 - 15.3	5-15 years, after the course completion + 6/12 months	Third party guarantee acceptable to bank, collateral security
Union Bank of India	20-30 lakhs		15 years, after the course completion + 12 months	Third party guarantee acceptable to bank, collateral security
Axis Bank	50000-75 lakhs	13.7-15.2		
SIB	5000-1.5 crores	9.85-15.65	5-15 years, after the course completion + 6/12 months	Third party guarantee acceptable to bank, collateral security
Central Bank	50000-30 lakhs	8.6-10.6	3-15 years, after the course completion + 3/12 months	Parent/Guardian as co borrower, tangible collateral security
ICICI Bank	Upto 1 crore	11.5	5-10 years, after the course completion + 6 months	As per the institute. Collateral-free loans for select institutes: Up to Rs 20 lakh for UG and up to Rs 40 lakh for PG courses.
Bank of Baroda	7.5 lakhs- 80 lakhs	9.05-11.05	10-15 years, after the course completion + 12 months	Co-obligation of parents / guardian along with assignment of future income of the student for payment of instalments, tangible security
Punjab National Bank	Need based Finance subject to repaying capacity of the parents/students		3-15 years, after the course completion + 6-12 months	Parent/Guardian as borrower, tangible collateral security

Source: Compiled from the websites of various commercial banks on August 03, 2018

Appendix IV
The Interest Rate Limits Mandated to be followed by Co-operative Credit Institutions in Kerala

Type of loan	Loan limit	Maximum Rate of Interest (%)		
		SCBs	DCCBs	PACSs
Marriage loan	Upto Rs. 1 lakh	10.75	10.75	10.75
	Above 1 lakh	11.75	11.75	11.75
Health loan	1 lakh	11.75	11.75	11.75
House maintenance loan	2 lakhs	10	10	10.5
	Above 2 lakhs	10.75	10.75	11.75
Consumer loan		11.75	12.25	12.75
Job loan for going abroad		11.75	12.25	12.75
Vehicle loan		10.5	10.75	11.5
Cash credit/over draft		11.75	12.75	13.25
Housing loan	Upto 3 lakhs	9	9.5	10.5
	3-5 lakhs	9	9.5	11
	5-10 lakhs	9.5	9.5	11.5
	Above 10 lakhs	9.75	10.25	11.5
Housing loan for those who have land upto 3 cents within the local body limit	1 lakh	9	9.5	10
Housing loan under EMS housing scheme	1 lakh	9.75	9.75	9.75
Mortgage loan for purchasing land		12.5	13	13.5
Loan to purchase land for house construction for those who don't possess land	Upto 5 lakhs	11.75	11.75	11.75
	Above 5 lakhs	12.25	12.75	13.25
Traders loan		12.25	12.75	13.25
Business loan		12.75	12.75	13.25
Self-employment loan		11.25	11.25	11.25
Loans to Kudumbashree		9	9	9
Education loan		12.25	12.25	12.25
Gold loan	Upto 3 months	10	11	11.5
	Upto 6 months	10.25	11	11.5
	Above 6 months	10.5	11	11.5
Loans to educational institutions		11-12.5	11-12.5	11-12.5
Mangalyasootra loan		5	5	5
Loan for animal husbandry	Upto 3 lakhs	10	10	10

Source: Circular No. 51/17 (Office of the Registrar of Co-operative Societies, 2017

Appendix V
Terms of Group Loans Prescribed by Major Private MFIs

MFI	Loan Type	Description of loan	Amount (Rs.)	Tenure	Rate of Interest	Processing Fee
ESAF	Income Generation Loan	To create assets or provide working capital for any lawful income generation activities	10000 – 100000	1-3 years	24.92% on diminishing basis.	1.5% of the loan amount + service tax
	Business Loan	For customer who has already availed the Micro Banking service, and requires higher loan for their business	Up to 25,000	6-24 months		
	Ultra Poor Loan	Designed for rural areas where loan requirement is less than 10,000/- for undertaking any micro business	10000 – 100000	1-3 years		
	Nirmal Jeevandhara Loan	For construction of latrine cum toilets	10000 – 100000	1-3 years		
	Micro Energy (Suryajyothi Loan, Grihajyothi Loan)	This is designed for accessing clean energy products like solar lamps, energy efficient cooking stoves, Water purifiers, etc. among members for better environment friendly life	10000 – 100000	1-3 years		
	General Loan	Loan provided for any purposes or for top up loan are broadly categorized under this loan. Consumption purpose loans	15000-20000	1/2 years		
	Vidyajyothi Loan	For the educational purpose of sangam members' children for meeting tuition fee and non-tuition fee.	5,000 – 50,000	6-24 Months		

	Income Generating Loan (IGL)	Loans for initial investment in micro enterprises	Rs. 10,000 – Rs. 60,000	52/104 weeks or 12/24 months	22.00% p.a. (Diminishing)	1%
	IGL- Dairy loan	Loan for the dairy development activities of the clients including purchase of new cattle	Rs. 30,000 – Rs. 50,000	104 weeks/24 month		1%
	Sewing Machine Loan	Muthoot Microfin has tied-up with major vendors for financing sewing machines – facilitating credit and easy repayment for the product loan	Rs. 4,124/9,229	52 weeks		1%
	Mobile Phone	the organisation provides easy credit facilities to our clients for buying mobile phones	Rs. 6,898	52 weeks / 12 months	24 % p.a. (Diminishing)	1%
Muthoot	Solar Lantern Loan	he division has tied-up with major vendors for sale of solar lanterns to rural households, while facilitating credit and easy repayment for the product loan	Rs. 2,270	30 weeks / 8 months		1%
	Muthoot Shiksha Loan	Education Loan	Rs. 30,000	104 weeks / 24 months	22.00 % p.a. (Diminishing)	1%
	Water Purifier Loans	Muthoot Microfin will provide loans to IGL clients for purchasing top quality water purifying products of the brand	Rs. 2,832/3,100 /4,078	24 weeks / 6 months (Rs. 2,832), 52 weeks / 12 months (Rs. 3,100/4,078)	24 % p.a. (Diminishing)	1%
	Cooker		Rs. 1752	30 weeks		1%

Ujjivan	Business Loan Family Loan Agriculture and Allied Loan Education Core Loan Business Top-up Loan Emergency Loan Education Loan (Top up) Loyalty Loan	2000-50000	1 year/1.5 years/2 years	21.25% p.a on a reducing balance method	1% of loan amount (excluding applicable GST) (applicable for loans above `25, 000)
Asirvad	Income Generation Programme Loan (IGP Loan)	20000-350000	1 year/1.5 years/2 years	23%	
	Product Loan	1875/1899/1950/2790	1 year/1.5 years/2 years	24%	
Madura	Entry Level Loans	30000	1 + 20/24/30 (Tenure in Months)	21.9% (diminishing)	1.18%
	Activity Term Loans	36000-48000	1 + 24/30		
	CAL 1	12000	1 + 20		
	CAL 2	15000	1 + 24		
	BDL	10000	1 + 20		

Source: Compiled from the websites of various private MFIs on August 05, 2018

Indebtedness among the rural poor in Kerala

The focus of the Report is the magnitude and nature of indebtedness experienced by rural poor households in Kerala and the role played by various sources in meeting the credit requirements of this group. Specific themes addressed in the study include:the framework that regulates the operation of financial institutions; borrowing pattern, credit choices and coping strategies of rural poor households and the magnitude of household indebtedness; operational modalities adopted by major credit providers catering to rural poor and; recommendations to address the over-indebtedness among rural poor.

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