How Institutionalized is India’s Rural Finance across Farm and Non-farm Households: A Public Policy Perspective

SIMRIT KAUR*
CHESHTA KAPURIA**

Abstract
The present paper empirically examines the determinants of participation in institutional and non-institutional credit across farm and non-farm sector in Rural India. Multinomial Logistic Regression has been applied for categorizing households’ participation in credit markets in the following four categories viz. Participation in only Institutional Credit (PIC), Participation in only Non-Institutional Credit (PNIC), Participation in Both Sources of Credit (PBC), and Participation in Neither Source of Credit (PNC). Both household and state-level determinants have been analysed as correlates of participation in credit markets. Household dataset is sourced from the Situation Assessment Survey (NSSO, 70th round), and state-level datasets from Basic Road Statistics 2016, Agricultural Statistics at a Glance 2016, Rainfall Statistics of India 2014, Database on Indian Economy RBI, 2013 and Census 2011.

JEL Code: G21, Q12, Q10, Q1
Keywords: Farm; Non-farm, Credit, Bank Household, Infrastructure, Rainfall, Rural, Economic Policy, Development, India

I. Introduction
AGRICULTURE HAS AN important place in the Indian economy. It holds a substantial part of the Gross Domestic Product (GDP) 15 percent and employment (49 percent). The importance of this sector in India’s economic and social fabric goes well beyond this indicator (GDP) due to its strategic importance to poverty reduction and food security. However, agriculture remains a risky enterprise as it is exposed to exogenous climatic shocks, production risks, and inadequate availability of inputs, credit, infrastructure, and technology leads to diminishing income in farming

* Principal, Sri Ram College of Commerce and Professor of Economics and Public Policy, Faculty of Management Studies, University of Delhi, University Enclave, Delhi 110007, INDIA
** Senior Research (Ph.D.) Scholar, University of Delhi, Faculty of Management Studies, University Enclave, Delhi 110007, INDIA

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References


India Meteorological Department (IMD), (2013), "Rainfall Statistics of India", Ministry of Earth Sciences, Delhi.


### Appendix I

#### Variables names, definitions and sources

<table>
<thead>
<tr>
<th>Variable code</th>
<th>Variable name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>F_hhead</td>
<td>Female Household Head.</td>
<td>The head of the family is female. The Base category: Male household head.</td>
</tr>
<tr>
<td>Age Reference category:</td>
<td>Age</td>
<td>Age of the household head</td>
</tr>
<tr>
<td></td>
<td>Illiterate</td>
<td>Below primary level of education</td>
</tr>
<tr>
<td>Primary</td>
<td>Primary education</td>
<td>Literate without formal schooling; through EGS/NFEC/AEC, through TLC, others; literate with formal schooling; below primary, primary education.</td>
</tr>
<tr>
<td>Middle Secondary</td>
<td>Middle school</td>
<td>Middle education</td>
</tr>
<tr>
<td>H_secondary</td>
<td>Higher secondary &amp; above</td>
<td>Higher Secondary, diploma/certificate course, graduate, postgraduate and above.</td>
</tr>
<tr>
<td>Reference category:</td>
<td>General</td>
<td>Unreserved caste</td>
</tr>
<tr>
<td></td>
<td>ST</td>
<td>Disadvantaged tribe as a reserved category</td>
</tr>
<tr>
<td>SC OBC</td>
<td>Scheduled Caste Other Backward Classes</td>
<td>Disadvantaged caste of the country, A collective term used by the Government of India to classify castes which are socially and economically disadvantaged.</td>
</tr>
<tr>
<td></td>
<td>Religion: Hindu</td>
<td>It includes religions like Jainism, Buddhism, Zoroastrianism, others.</td>
</tr>
<tr>
<td>Reference category:</td>
<td>Others</td>
<td>Landless households</td>
</tr>
<tr>
<td></td>
<td>Landless</td>
<td>Size of the land between 0.02 hectares and 2 hectares.</td>
</tr>
<tr>
<td></td>
<td>Marginal. 0.02-2.00ha</td>
<td>Land between 2.01 hectares and 4 hectares.</td>
</tr>
<tr>
<td></td>
<td>Small 2.01-4.00 ha</td>
<td>Land between 4.01 hectares and 10 hectares.</td>
</tr>
<tr>
<td></td>
<td>Medium 4.01-10.00 ha</td>
<td>Land more than 10 hectares.</td>
</tr>
<tr>
<td></td>
<td>Large  More than 10.00 ha</td>
<td>The size of the household is 6 or less</td>
</tr>
<tr>
<td>HS 1, 2, 3</td>
<td></td>
<td>1 = The size of the household is 6 or less (Reference category) 2 = The size of the household is &gt;4–&lt;83 = The size of the household is 12 or more</td>
</tr>
<tr>
<td>MHCE 1, 2,3,4,5</td>
<td>Monthly Household Consumption Expenditure 1, 2,3 and 5 respectively</td>
<td>1 = lowest quintile class (20 percentile) (Reference category) 2 = 20 quintile class (40 percentile) 3 = 30 quintile class (60 percentile) 4 = 40 quintile class (80 percentile) 5 = highest quintile class (100 percentile)</td>
</tr>
<tr>
<td>Road density</td>
<td>Road density</td>
<td>Total surfaced road density per 1000 population</td>
</tr>
<tr>
<td>Irrigated area</td>
<td>Irrigated area</td>
<td>Area (million hectares) under irrigation</td>
</tr>
<tr>
<td>Exogenous Climatic</td>
<td>Rainfall recorded in State</td>
<td>Percentage rainfall from average rainfall based on 1951-2000. (Deviations)</td>
</tr>
<tr>
<td>SCB</td>
<td>Scheduled Comm. bank</td>
<td>A commercial bank accepts deposits, provides loans, and offers investment products per 1000 people.</td>
</tr>
</tbody>
</table>
About the Author

Prof. Yamini Agarwal, Ph.D. (IIT Delhi), SBM (SIDA Sweden), M. Com. (Delhi School of Economics, MBF (Indian Institute of Finance), B.Com Honours (SRCC, University of Delhi)

Prof. Agarwal is currently working as Director and Professor of Finance, BVIMR, Delhi. She is Professor of Economics and Finance, Indian Institute of Finance. She had also served as Director, IIF Business School. She has done her Ph.D. on Capital Structure Decision under Multiple Objectives : A Study of Indian Corporates from IIT, Delhi. She has two international books to her credit published by John Wiley & Sons (Singapore & USA) and IIF Publications (India). She has 38 Research Papers and 57 Book Reviews published in international and national refereed journals. She has supervised over 78 MBA level dissertations. She has developed 79 Case Studies in Corporate Finance and Managerial Economics. She has also presented 12 research papers in international and national conferences and seminars. She is also on the referee and review board of several well known publishers. She is also Associate Editor of Finance India. She is Regional Council Members of the Indo American Chambers of Commerce. She has delivered seminars at Central Banks and National Universities of different countries. She has travelled over 22 countries as part of the international academic collaborations. She is on the editorial board of the journal Sub-Saharan Review of Economics and Finance Paris, France. She has a research bent of mind. Her areas of interest are Corporate Finance and Valuations, Micro and Macroeconomic Perspective on Global Issues, Security Analysis and Portfolio Management. She appears frequently for her expert views as an economist on All India Radio, TV, Magazines and National Dailies.

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