

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

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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

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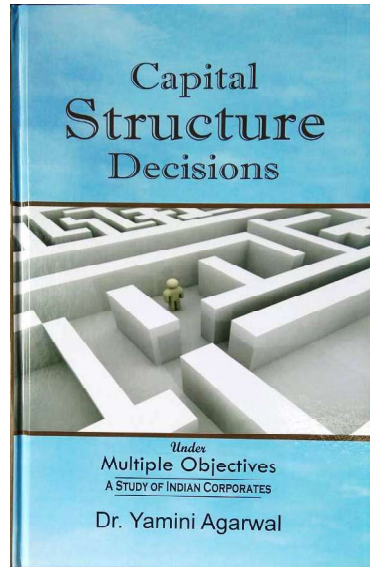
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Appendix I
Variables names, definitions and sources

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



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