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Caste Affiliation of Establishment Owners and Access to Finance: Evidence From Jharkhand

Renjith Ramachandran¹^a¹ Indian Institute of Management Ranchi, India

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This study analyses the role of the caste of firms in getting finance or credit from different financial sources in Jharkhand. We find that establishments belonging to Scheduled Tribe (ST) and Scheduled Caste (SC) owners have a lower probability of getting credit from different financial sources like the government, financial institutions, non-financial institutions, or money lenders.

I. Introduction

It is well established in the existing literature that access to finance/credit is vital for firm growth, specifically for small and medium-sized firms (Green et al., 2006). It is also well established that firms which have access to finance, perform better than those which do not have access to finance (Fowowe, 2017; Oliveira & Fortunato, 2006). However, interestingly, many firms do not have access to finance or credit. Existing literature identifies different firm characteristics as plausible reasons for firms' access to finance, including the ownership of firms, gender of the owners, size of the firms, location of the firms, etc. (Aterido et al., 2013; Kebede & Abera, 2014; Raj SN & Sasidharan, 2018). Recent literature on the determinants of access to finance include the caste of the enterprise as a new determinant (Raj SN & Sasidharan, 2018). Different studies argue that social group affiliation (caste) affects economic outcomes. Studies in India observe that caste plays a significant role in the availability of inputs like labour and capital (Banerjee & Munshi, 2004). The theoretical arguments of discrimination began from the seminal work by Becker (1957). Furthermore, statistical discrimination theories by Arrow (1972) argue that agents with imperfect information discriminate based on the belief that individuals from a specific social group have high credit risk. Even though caste plays an essential role in access to finance for establishments, studies which pertain to caste affiliation of firms and access to finance remain scant in the literature. Therefore, this study seeks to analyse the impact of caste affiliation of firm owners on access to finance, specifically the probability of accessing finance for firms whose ownership belong to the backward castes category, namely Scheduled Tribes (ST) and Scheduled Castes (SC). We use evidence from the state of Jharkhand.

Jharkhand is not randomly picked for this study. Jharkhand was created as a neighboring state of Bihar to meet the demands of the tribal people. Nearly two-fifths of the population of Jharkhand consist of various indigenous people classified as members of Scheduled Tribes and members of the Scheduled Castes. Agriculture is the primary source of livelihood on which about 63% of the rural population is engaged. Based on self-employment, forest resources, particularly minor forest produce (MFP), play a vital role in the livelihood of the rural people. The forest and its resources provide ample opportunity to propose and formulate alternative livelihood opportunities for the tribal people, specifically to build enterprises by adding value to MFPs. However, access to finance or availability of credit becomes a significant hindrance to the backward caste people. According to the Jharkhand Government, out of the total tribal population of Jharkhand, only 2.5% are engaged in businesses, which may be because of the financial/credit constraints they face. Given this backdrop, our study analyses the probability of accessing finance for business owners belonging to SC and ST.

Even though the existing literature analyses caste of owners on access to finance, this has been limited to formal finance or credit. Compared to this, our study classifies access to finance into four categories: financial assistance from government sources, borrowings from financial institutions, borrowings from non-financial institutions/money lenders and loans from self-help groups. Considering these four finance sources helps us to analyse the impact of caste affiliation on access to finance from both formal and informal sources.

The remaining part of the paper is presented as follows: Section 2 discusses the data source, Section 3 lays out the estimation strategy, Section 4 provides the empirical results, and section 5 concludes the paper.

a Corresponding author email: renjith.r@iimranchi.ac.in

II. Data Source

We access data from the Sixth Economic Census of India, provided by the Ministry of Statistics and Program Implementation, Government of India. This database incorporates information about all entrepreneurial units within the country's geographical boundaries; it contains details on the number of establishments, number of employees, ownership details of firms, social group of the firm owners, source of finance for the firms, etc. According to the Sixth Economic Census of India, 58.5 million establishments are in operation across India. Among these, 34.8 million establishments (59.48%) are in rural areas, and nearly 23.7 million establishments (40.52%) are in urban areas. In terms of their activity, 77.6% of establishments (45.36 million) are classified under non-agricultural activities (excluding Public Administration, Defense, and compulsory social security activities), and the remaining 22.4% of establishments (13.13 million) are engaged in agriculture and allied activities. Furthermore, based on ownership, the enterprises classified as firms under Government ownership (3.59% with 2.10 million establishments), private proprietorship (89.29 % with 52.29 million establishments). The remaining establishments are classified as firms under private partnership, private companies, private self-help groups, private cooperatives, private non-profit institutions and other private entities. Among private proprietorship establishments, 11.4% of the establishments are owned by scheduled castes, 5.4% by scheduled tribes, 40.8% by other backward classes and 42.4% by others.

Since our study focuses on Jharkhand State, we access the information about all the enterprises in the state. According to the Sixth Economic Census, Jharkhand accounts for 638,713 establishments across different sectors. Out of these establishments, 7.8% fall under Government ownership (49,827 establishments), 83.82% of establishments are classified as private proprietorship (535,339 establishments), and the remaining fall under other categories. Based on our objectives, we prioritize two important aspects of the database: i) social group of available establishments and ii) the source of finance of the establishments. The details of these two aspects are reported in Tables 1–3.

III. Estimation Strategy

Since our dependent variable (Access to finance) is a binary variable, to assess the impact of caste affiliation of

Table 1. Social group details of establishments in Jharkhand

Social Group	No. of Establishments	Percent
SC	44744	7.01
ST	49046	7.68
OBC	238682	37.37
Others	202867	31.76

Notes: This table shows the social group details of establishments in Jharkhand based on Sixth Economic Census.

establishments on access to finance/credit, we rely on the probit regression and estimation strategy, given as follows:

$$\Pr(Access\ to\ Finance_i) = \Phi(\alpha + \beta_1 SCST_i + \beta_2 Size_i + \beta_3 Location_i + \gamma_j + \epsilon_{it}) \quad (1)$$

Where $Access\ to\ Finance_i$ stands for the probability of the establishment having access to finance, represented with value one if the establishment has access to finance, or zero if the establishment does not have access to finance. $SCST_i$ represents the caste affiliation of the establishment owner, denoted with value one if the establishment owner belongs to the SC/ST category, or zero otherwise (i.e., if the establishment owner does not belongs to the SC/ST category). In our estimation, Φ stands for the standard normal cumulative distribution function. Further, we incorporate different establishment-level controls, including size of the establishment (proxied with log of number of workers in the establishment) and location of the establishment (whether the firm is located in a rural or urban area). Finally, we integrate the sector effect (γ_j) in the model.

IV. Results

Table 4 presents the probit estimation results for the model described in equation 1. For the analysis, we classify the sources of finance into four categories: financial assistance from government sources, borrowings from financial institutions, borrowings from non-financial institutions/money lenders and loans from self help groups. Therefore, to analyse the impact of caste affiliation of establishment owners on access to finance/credit, we take each category as a dependent variable in the analysis reported in Table 4. In the case of financial assistance from the government, SC- and ST-owned establishments have a lower probability of accessing finance compared to non-SC or non-ST owned establishments. This might be because of prejudice against

Table 2. Source of finance of establishments

Source of Finance	Number of establishments	Percentage
Self finance	440130	68.91
Financial Assistance from Govt Sources	70068	10.97
Borrowing from Financial Institutions	8619	1.35
Borrowing from non institutions/ Money lenders	2445	0.38
Loan from Self Help Group	1827	0.29
Donations/Transfers from other agencies	115624	18.10

Notes: This table reports sources of finance for establishments in Jharkhand. This information is sourced from the Sixth Economic Census.

Table 3. Source of finance for establishments under different social groups.

Major Sources of Finance	ST		SC		Non- SC/ST	
	Number	Percent	Number	Percent	Number	Percent
Self Finance	41903	85.44	37971	84.86	402159	67.17
Financial Assistance from Govt. Sources	1577	3.22	924	2.07	69144	11.64
Borrowing from Financial Institutions	682	1.39	441	0.99	8178	1.38
Borrowing from Non Institutions/ money lenders	215	0.44	151	0.34	2294	0.39
Loan from self help group	274	0.56	121	0.27	1706	0.29
Donations/ Transfers from agencies	4395	8.96	5136	11.48	110488	18.60

Notes: This table reports the information on the amount of SC-ST owned and Non-SC-ST owned enterprises having an access to finance from different sources namely, financial institutions, non-financial institutions/money lenders, self help group, and donations from other agencies.

Table 4. Probit model estimations

Variables	Financial Assistance from government (1)	Borrowing from financial institutions (2)	Borrowing from non-institutions/ money lenders (3)	Loan from self help group (4)
SCST	-0.077 (0.001)***	-0.0018 (0.0004)***	-0.0003 (0.0002)***	0.0009 (0.0001)***
Size	0.006 (0.0007)***	0.014 (0.0002)***	0.002 (0.0001)***	0.0012 (0.0001)***
Location	0.040 (0.0007)***	0.002 (0.0009)***	0.0004 (0.0001)***	0.002 (0.0001)***
Sector Effects	Yes	Yes	Yes	Yes
No.of Observations	638713	638713	638713	638713
Pseudo R ²	0.239	0.054	0.0188	0.032

Notes: This table reports results from the probit model. Four models are established and each model reports the probability of getting finance from different sources. All columns report the marginal effects and its corresponding robust standard errors are reported in parenthesis. *** and ** denotes statistical significance at 1% and 5% levels, respectively.

a certain social group (Becker, 1957). Our result confirms the claims of existing literature that SC- and ST-owned firms face difficulty accessing finance (Raj SN & Sasidharan, 2018).

Similarly, the scenario is not different in the case of borrowings from both financial institutions and non-financial institutions or money lenders, which reports a lower probability for SC- or ST-owned businesses getting finance from either group. However, in the case of loans from self help groups, SC- or ST-owned business establishments have a higher probability of getting finance compared to non-SC and non-ST owned firms. This may be because self-help groups in Jharkhand mainly focus on the upliftment of the tribal population in the state. Except for loans from self-help groups, the probability of getting finance or credit for SC- or ST-owned establishments is low for all other options of financial support. Furthermore, our control variables are in line with earlier studies. Bigger firms have a higher probability of accessing financial support from different financial sources. Similarly, firms in urban areas are more likely to access various financial sources.

V. Conclusion

This paper analyses the role of the caste of business owner in access to finance. Our probit estimation, based on all the enterprises in Jharkhand, makes it evident that establishments with SC and ST owners have a lower probability of getting finance from both formal and informal sources than non-SC and non-ST business owners. However, loans from self-help groups, which are primarily meant for SC and ST categories, can be considered as the one arena where SC- and ST-owned firms have a higher probability of accessing finance. Even though the government of Jharkhand encourages tribals to become entrepreneurs, only 2.5 percent of tribals step into the sphere of business. Our results reveal that the failure of SC- and ST-owned enterprises to access finance could be the reason for the minimal number of tribal entrepreneurs in Jharkhand. Therefore, it is essential that access to finance and credit is facilitated for SC- and ST-owned enterprises.

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