# Role of Caste-Based Political Parties in Financial Inclusion of Minorities

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**Abstract**

Does minority representation in state legislative bodies improve financial access for minorities? To answer this question, I examine the impact of political parties dedicated to the welfare of ethnic minorities on household access to credit. By exploiting the outcomes of close elections between minority-favoring parties and mainstream parties as a source of quasi-random variation, I show that a 1 percentage-point increase in representation from a caste-based party increases the likelihood of having a formal loan by 0.94 percentage points and the amount of formal loans by 10 percent for low-caste households. The analysis of the channels reveals that an improvement in low-caste party representation in a district increases the rollout of bank credit from government-owned banks.

# 1 Introduction

Financial inclusion has been widely acknowledged as a prerequisite for empowerment, poverty reduction, and social cohesion among racial, ethnic, socioeconomic, and religious minorities (Burgess et al., 2005; Célerier and Matray, 2019; Stein and Yannelis, 2020). Yet, several countries struggle to provide access to affordable financial products and services to marginalized communities. In the Indian context, the inclusion of socially and economically deprived ethnic minorities—namely, Scheduled Castes (SCs) and Scheduled Tribes (STs)—in the formal banking and credit system has been a critical challenge. The inherited ethnic identities in India still determine access to resources, opportunities, and financial capital. These minorities have continuously faced large disparities in borrowing costs between formal and informal credit markets (Chavan, 2007). The factors contributing to effective financial inclusion in developing countries have been the subject of numerous studies (Somville and Vandewalle, 2018; Anson et al., 2013; Van Rooyen et al., 2012; Banerjee et al., 2015). However, the literature is relatively silent on how political representation from these disadvantaged groups can improve the provision of affordable credit and other financial services.

I attempt to bridge this gap by examining the role of political representation from ethnic minorities in addressing the financial needs of these groups. The literature on welfare gains from the political representation of minorities has extensively focused on the efficacy of electoral quotas in state and federal legislatures, with researchers obtaining conflicting results.[1] Explaining the lack of a robust relationship, Acemoglu et al. (2015) provided a theoretical framework proposing that reforms guaranteeing political representation to minorities (*de jure* power) need to be complemented with broader changes in the distribution of political power in society (*de facto* political power) to achieve socio-economic empowerment for minorities. In this paper, I depart from the existing literature concentrating on changes in *de jure* power and focus on the effects arising from changes in *de facto* power of low-caste citizens through the formation of caste-based political parties. I examine the impact of political party representation of India's disadvantaged caste groups (SCs,

[1] Pande (2003); Chattopadhyay and Duflo (2004); Chin and Prakash (2011); Dunning and Nilekani (2013) Jensenius (2017)

STs, and Other Backward Castes) on access to formal credit in two states, namely Uttar Pradesh and Bihar.

India witnessed the emergence of caste-based political parties with the political agenda of lower-caste socio-economic progress in the mid-1980s. Voters followed them for patronage and status, and these parties started gaining power in states like Uttar Pradesh and Bihar from the 1990s. These caste-based parties differ from mainstream parties like the Indian National Congress (INC) and the Bharatiya Janata Party (BJP)[2] because of their leaders' caste identities and specific policy goals of directing state resources towards low-caste voters (Jaffrelot, 2003).

There are a few reasons to hypothesize why political representation can influence the functioning of the credit market. State governments work in collaboration with the central bank and NABARD[3] to disburse recapitalization funds for credit societies and cooperative banks. They also work towards improving financial literacy in disadvantaged communities. Political leaders govern and implement reform programs for institutions like state cooperative banks, district central cooperative banks, and regional rural banks. They also facilitate payments under government credit and insurance welfare programs. The caste similarities between political leaders and borrowers from disadvantaged groups can provide direct benefits in the form of concerted efforts toward identifying and including these groups as beneficiaries under different government credit schemes and indirect benefits in the form of reduced administrative hassle, collateral requirements, and focused support from NGOs and self-help groups. A recent study by Fisman et al. (2017) also emphasizes how social connections and cultural proximity between lenders and borrowers can increase the quantity of credit for disadvantaged groups. There is also evidence indicating that political connections are closely tied to preferential bank lending to firms (Khwaja and Mian, 2005).

In this study, I gather several sources of administrative, household, and bank-level data from 1994 to 2013. The empirical challenge I face in estimating the causal impact of low-caste party

[2]The BJP is India's right-wing nationalist party, while the INC is India's oldest political party with a centrist ideology.

[3]National Bank for Agriculture and Rural Development

representation is that the areas represented by these parties may differ from those represented by mainstream parties along unobservable characteristics. To address this issue, this paper extends a regression discontinuity design based on the outcomes of close elections between low-caste and mainstream parties, leveraging the fact that within a few percentage points of victory margin, constituencies are likely to be comparable along most dimensions. I use a fixed-effect IV estimator that exploits district-level variation in the electoral strength of low-caste parties in state legislatures to estimate the impact on household credit access at intensive and extensive margins (Clots-Figueras, 2011).

The key empirical results of the paper suggest that low-caste party representation improves credit access for low-caste households at both extensive and intensive margins. In particular, a 1 percentage-point increase in the share of state-level low-caste party legislators in a district increases the likelihood of a household having a loan from a formal institution by 0.96 percentage points for low-caste households. Along the intensive margin, a 1 percentage-point increase in the share of elections won by low-caste party legislators generates a 10 percent increase in the loan amount taken by these households. I do not find any effects for high-caste households.

Next, I consider the channels underlying these results. I find that an improvement in low-caste party representation in a district increases the rollout of bank credit from nationalized banks. I find that a 10 percentage-point increase in the share of state-level low-caste party legislators in a district increases the credit outflow by 3 percent. On the other hand, I do not find any effects for private banks. Collectively, these results suggest that the political mobilization of low-caste citizens and the resultant change in *de facto* power improved the financial well-being of low-caste constituents.

This paper contributes to the literature on the political economy of financial inclusion in a few key ways. Firstly, it relates to research on the factors shaping the financial inclusion of disadvantaged groups. Existing research highlights factors such as the time and financial costs of opening and maintaining bank accounts, the cost of meeting documentation requirements for loans, financial literacy levels, digital technology-based mechanisms, regulatory policy changes,

and institutional innovations such as the use of bank correspondents (Karlan and Morduch, 2010; Aggarwal and Klapper, 2013; Karlan et al., 2016). Burgess et al. (2005) provide evidence that state-led credit and savings programs in India reduced poverty across Indian states and increased bank borrowings among the poor, particularly low-caste and tribal groups. I show that political institutions also impact financial inclusion by influencing the allocation of bank credit. Related to this, Cole (2009) presents evidence on how the allocation of credit is influenced by politicians through government-owned banks during election years.

This paper also adds to the extensive literature on the impact of minority representation in legislative bodies on the socioeconomic welfare of disadvantaged groups. Existing research in the context of India has produced mixed results, especially regarding the effect of caste-based reservations on group well-being (Pande, 2003; Besley et al., 2004; Chin and Prakash, 2011; Gulzar et al., 2020; Dunning and Nilekani, 2013; Jensenius, 2015, 2017; Bhavnani, 2017). Ao and Chatterjee (2018) find that political quotas for STs increase the likelihood of obtaining a loan, whereas for SCs, there is no effect. However, these studies have focused primarily on India's quota system. Instead, this paper diverges from mandated representation and causally examines how political parties in India with their caste-friendly policy agendas improve the economic lives of minorities. Recent research focusing on the politics of caste-based political parties (Aneja and Ritadhi, 2021, 2022) found that parties with explicit commitments toward minority interests improved the delivery of the public distribution system and reduced crimes against them. This paper also highlights the role of *de facto* power using a similar empirical strategy and how it can potentially advance the efficacy of the reservation system.

There is a strand of literature that theorizes and measures the extent of discrimination in access to bank credit and entrepreneurial opportunities due to the hierarchical system of caste (Chavan, 2007; Burgess et al., 2005; Kumar, 2013; Kumar and Venkatachalam, 2019; Deshpande and Sharma, 2013). The impact of political reservation on the targeting of subsidized credit under the Indian Rural Development Program (IRDP) has been studied by Bardhan et al. (2010). They found

that SC or ST reservations in village assemblies improved the targeting of IRDP credit for poor households in the entire village, but women's reservations did not produce similar results. This paper extends this literature by documenting the improvement in financial access for minorities through the electoral success of low-caste political parties.

# 2 Background

## 2.1 Indian Caste System and Electoral Success of Low Caste Parties

The Indian caste system is a system of social stratification that dates back as far as 1500-500 BCE, drawing its legitimacy from Hindu doctrine. This system historically segmented the Indian population into initially four, later five, hereditary, endogamous, mutually exclusive, and occupation-specific groups. In this hierarchy, 'Brahmins' (priests and teachers) and the 'Kshatriyas' (warriors and royalty) were at the top, followed by 'Vaishyas' (merchants and moneylenders), and finally the 'Shudras' (engaged in the lowest jobs). Later, another category, the 'Dalits,' who performed the most menial jobs and were considered untouchables, was included in the system. They were forced to live in segregation and denied access to basic amenities, opportunities, and places of worship attended by upper castes (comprising the first three groups). Additionally, there are some indigenous tribes (or Adivasis) who faced large-scale exclusion from normal Indian society due to geographical inaccessibility, primitive agricultural methods, and distinct social traditions (Sharma, 2015).

After independence, the Indian government worked intensively towards eradicating the embedded caste discrimination in society by extending affirmative actions to Dalits and Adivasis (officially termed Scheduled Castes (SCs) and Scheduled Tribes (STs)) in the form of reservations in national and state legislatures, local governments, institutions of higher education, and government jobs through a constitutional mandate in 1950. Additionally, a third category known as the

'Other Backward Classes' (OBCs) was also included in the ambit of reservation policies in the early 1990s, as this group, while not facing the stigma of untouchability, was still socially and educationally backward. These three caste groups constitute a 'low-caste' group.

Although political reservation provided de jure power, political allegiances and party configurations in India (specifically in Uttar Pradesh and Bihar) underwent a significant change in the mid-1980s, when low-caste groups mobilized under the auspices of three political parties: the Bahujan Samaj Party (BSP), the Samajwadi Party (SP), and the Janata Dal (JD). This shift brought forth de facto power to the disadvantaged groups (Jaffrelot, 2003). The SP and JD represented OBCs, while the former specifically catered to the SCs. These parties had similar objectives: to gain political power through elections, increase the representation of low-caste groups in public institutions, improve the targeted redistribution of public resources, and provide economic and social mobility to low-caste groups. These parties differ from mainstream parties (namely the Bhartiya Janata Party (BJP) and Indian National Congress (INC)) along two dimensions: first, most of the leadership of these parties came from the lower-castes; and second, a high proportion of electoral candidates from these parties also came from low-caste backgrounds.

The political party JD firmly established itself by leading a coalition government at the central level after the elections of 1989 and enacting legislation that set aside 27 percent of all central public sector positions for the OBC community. It also gained electoral majorities in state elections across the two most populous northern Indian states of Uttar Pradesh and Bihar in the 1990s. The BSP successfully obtained a majority in 2007 and remained in power in Uttar Pradesh until 2012. Similarly, the SP, after a political stint in 1993, gained a majority in 2012 in UP.[4] The policy effects resulting from such major changes in the overall distribution of political power are likely to differ from merely providing de jure power. The rationale is that even though mainstream parties nominate SC/ST candidates for reserved seats if elected, these politicians often have restricted

[4]I consider a few other caste-based political parties in the analysis. Their classification is drawn from the work of Jaffrelot (2003). The other parties considered are: All India Rashtriya Janata Party - AIRJP, Apna Dal - AD, Janata Party - JP, Lok Dal - LKD, Lok Janshakti Party - LJP, Rashtriya Janata Dal - RJD, Rashtriya Lok Dal - RLD, Communist Party of India - CPI, Communist Party of India (Marxist) - CPI(M)

power, are controlled by non-minority leaders, and are forced to follow party mandates that may not necessarily align with minority interests (Jensenius, 2017).

## 2.2 Financial Inclusion and Role of State Governments

Financial inclusion (FI) involves the provision of affordable financial services such as payments and remittance facilities, savings, loans, and insurance to those who have been neglected or underserved by the formal agencies of the financial system. It has become an essential component of overall economic development and requires substantial expansion of the geographical coverage and functional reach of formal banking institutions to disadvantaged groups and poor households in India. From formal savings accounts that lower transaction costs for daily economic activities to enabling long-term planning through credit and insurance, financial inclusion has multiple benefits. One important aspect of FI is that access to bank accounts is directly related to improved and efficient targeting of government welfare programs. For instance, transfers made directly to citizens' bank accounts can potentially eliminate corrupt and inefficient intermediaries (Muralidharan et al., 2016).

Caste plays an important role in shaping access to credit, specifically formal loans. According to NSSO 59th All India Debt and Investment Survey round results, lower-caste households in rural India obtained 47 percent of their total debt from informal sources, compared to 32 percent for high-caste households. This number is even higher for SCs, where 55 percent of rural households obtain their loans from informal sources. While this number is lower in urban lower-caste households at 29 percent, it is still higher than the 18 percent in high-caste households. The exploitation of disadvantaged groups by informal monetary institutions has been significantly highlighted. The first steps towards inclusive banking began in 1969 and 1980 in India with the nationalization of banks and the establishment of bank branches in areas with negligible banking infrastructure. However, the real push for financial inclusion in India came in 2005-06, when the banking system, and state, and federal governments started collaborating to provide financial access and financial

literacy to marginalized communities.

State legislators can impact both the demand and supply sides of the financial inclusion value chain. On the demand side, the state government is required to ensure that financial literacy, counseling services on savings, credit, and insurance, and training on micro-investment planning are provided to disadvantaged groups through community-based organizations like Self-Help Groups (SHGs). They are also responsible for appointing community relationship managers in banks to improve the quality of banking and insurance services for these groups. Since legislators possess considerable socio-political influence within their constituencies (Jensenius, 2017; Gulzar and Pasquale, 2017), they can catalyze local participation from community-based organizations and NGOs, which can positively affect low-caste households' knowledge and accessibility of financial services. On the supply side, state legislators are required to develop strategic partnerships with major banks and insurance companies to launch and disseminate federal or state government loan/insurance scheme benefits to underprivileged households. While the actual disbursement is handled by local banking institutions, state legislators are responsible for the identification and inclusion of beneficiaries in these schemes. Therefore, legislators can exert influence by expanding the coverage of low-caste households under such schemes. Moreover, state governments are also accountable for providing the administrative and physical infrastructure necessary for banks to reach out to marginalized groups. In this respect, state-level politicians can direct the banking infrastructure toward areas with a higher share of low-caste populations.

I consider access to credit from formal institutions as a suitable outcome to examine the impact of low-caste parties on financial inclusion for the following reasons: Firstly, as mentioned earlier, lower-caste households' borrowing rate from non-formal sources is considerably higher compared to that of higher-caste households. Therefore, they would gain more from access to formal banking sources. Second, low-caste households have historically been excluded and denied educational opportunities. They would invariably benefit more from financial literacy programs and counseling services managed by state governments. Additionally, the channels mentioned

above would potentially improve low-caste households' financial access across both intensive and extensive margins. Third, for the states of Uttar Pradesh and Bihar, the percentage of borrowing from formal sources increased from 24 percent in the $59^{th}$ AIDIS round to 37 percent in the $70^{th}$ AIDIS round for lower-caste households. I want to test whether this increase in access to credit can be causally attributed to the political victories of low-caste parties in Uttar Pradesh and Bihar.

# 3 Data

I study the impact of low-caste political party representation on access to credit by combining constituency-level electoral data from state elections in Uttar Pradesh and Bihar from the Election Commission of India (ECI) with household loan data from nationally representative household surveys. I focus on Uttar Pradesh and Bihar because both states have a high low-caste population share and have had powerful caste-based political parties.

**Financial Data:** The paper's primary outcome of interest is low-caste households' access to credit. Household-level data on credit access and sources of loans is obtained from the All India Debt and Investment Survey (AIDIS). The first wave of AIDIS was completed in 2003, and the second round was completed in 2013. These surveys are a set of repeated cross-sections covering over 60,000 households across all districts from Uttar Pradesh and Bihar. Since AIDIS data is not annual, I match the electoral outcomes for the closest election year preceding the year the loan was taken, as recorded in the two rounds of surveys. The debt and investment surveys collect quantitative information on the stock of assets, the incidence of indebtedness, capital formation, and other socio-economic indicators of households. I use access to formal loans and the amount of formal loans as my outcome variables. A limitation of the AIDIS data on household credit is that in the first round, the demographics and some of the household characteristics (for example, literate in the household, number of females in the household, and household size) are missing for

approximately 83% of high-caste households. I take this into account while analyzing the results for high-caste households.

**Election Data:** The main explanatory variable is low-caste representation from low-caste parties, which is defined as the share of legislators coming from these parties. The sample covers four electoral cycles in Uttar Pradesh and four electoral cycles in Bihar between 1990 and 2012. It covers 2,572 elections spanning approximately 400 constituencies in Uttar Pradesh and 270 constituencies in Bihar, of which 99 percent (2,555 elections) include at least one low-caste party. There are, on average, seven constituency-level elections per district during an electoral cycle, and low-caste parties have gained 50 percent of the vote share.

**Census Data:** I use district-level covariates from the decennial Censuses of India. I employ linear interpolation to construct the data for non-census years. The main controls are the fraction of the urban population and the fraction of SC/ST populations.

**Commercial Banks Data:** To determine the channels through which politicians from low-caste parties improve access to credit, I use data from RBI's Database of Indian Economy: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks (SCBs).[5] This contains district-wise numbers of reporting offices, aggregate deposit, and credit data by SCBs from 2004 to 2012.

[5]Scheduled Banks in India refer to those banks which have been included in the Second Schedule of the Reserve Bank of India Act, 1934. The Reserve Bank of India (RBI) in turn includes only those banks in this Schedule which satisfy the criteria laid down in section 42(6)(a) of the said Act. Every Scheduled Bank is eligible for debts/loans at the bank rate from the RBI. There are five categories of SCBs: Nationalised Banks, Development Banks, Regional Rural Banks, Private Banks, and Foreign Banks.

# 4 Empirical Methodology

## 4.1 Instrumental Variable Approach

To motivate my empirical strategy, I begin with an ordinary least squares framework:

$$Y_{idt} = \alpha_d + \delta_t + \beta ShLowCasteWin_{dt} + \mathbf{X}_{idt}\psi + \varepsilon_{idt}$$

where $Y_{idt}$: Outcome of interest for household i residing in district d surveyed in year t. The first outcome is a dummy equal to 1 if household i in district d has taken a loan from a formal institution: participation at the extensive margin. The second outcome is the amount of loan taken by household in Rupees determining the participation along intensive margin. The state election data is available at the constituency level whereas the household credit data is available at the district level. To address the mismatch in administrative levels of the two datasets, I aggregate the constituency-level election data to the district level. The independent variable here is *ShLowCasteWin* representing the share of low-caste party win in district d and election year y, defined as:

$$ShLowCasteWin_{dy} = \frac{LowCasteWin_{dy}}{TotalElections_{dy}}$$

where *LowCasteWin*: total number of constituency level elections won by low-caste parties in district d and electoral cycle y, scaled by the total number of elections in the district. $\mathbf{X}$ is a vector of household and time-varying district-level covariates.[6] $\alpha$ and $\delta$ denote district and survey round fixed effects controlling for time and district invariant characteristics.

Estimating the causal impact of lower-caste political parties through the OLS framework involves a particular methodological challenge: It may produce biased estimates of $\beta$ because of potential endogeneity between low-caste households' access to credit and the political success of

[6]The covariates included are: dummies for the caste category of the household – SC or OBC; dummies for religious minorities — Muslim, Christian; dummies for whether the household is rural, land ownership total assets; literate share in the household; female share in the household; district urbanization; district share of low-caste people; district share of male winners and district share of constituencies reserved for SC/ST candidates

low-caste parties within the state. Areas that are represented by politicians from low-caste parties may differ from areas that elect politicians from mainstream parties in various unobservable dimensions. For example, low-caste households might be in areas with poor financial infrastructure undermining their credit accessibility and low-caste parties might also have higher election victories from these areas. This would lead to a downward bias in the estimation of $\beta$. On the other hand, lower-caste households are in general poorer and on average need more financial resources through government credit schemes. If they are also more likely to vote for low-caste parties then it would lead to upward bias in $\beta$ estimation.

To address the identification issue arising from endogeneity, I adopt the framework of Clots-Figueras (2011) and use district-level variation in low-caste party representation occurring due to the outcome of close elections for these parties. I use a fixed effect instrumental variable approach where the fraction of elections won by low-caste parties is instrumented with the fraction of close elections won by these parties. The rationale for this strategy is: that when the difference in vote share between the two candidates is arbitrarily small, the election results can be determined by unanticipated changes in voter turnout and behavior and hence, such election outcomes can be deemed as quasi-exogenous (Lee, 2008). The regression framework is the following:
First Stage Equation:

$$ShLowCasteWin_{dt} = \alpha_d + \delta_t + \pi ShLowCasteCloseWin_{dt} + \gamma District\_CloseElection_{dt} + \mathbf{X}_{dt}\gamma + \theta_{dt}$$

Second Stage Equation:

$$Y_{idt} = \alpha_d + \delta_t + \beta \hat{ShLowCasteWin}_{dt} + \gamma District\_CloseElection_{dt} + \mathbf{X}_{idt}\psi + \varepsilon_{idt}$$

The instrument *ShLowCasteCloseWin* is defined as:

$$ShLowCasteCloseWin_{dy} = \frac{LowCasteCloseWin_{dy}}{TotalCloseElections_{dy}}$$

where *LowCasteCloseWin*: the total number of elections closely won by low-caste parties in district d and electoral cycle y and $TotalCloseElection$ is the total number of close elections contested by low-caste parties. Although the party affiliation of the winner in a close election may be random, the existence of close elections between low-caste parties and mainstream parties may not be. For instance, it may depend on the number of low-caste parties' candidates in the district which can be correlated with voter preferences. To solve this issue, I control for the total number of close elections in the district in both the first and second stage of the instrumental variable framework. Here, $District\_CloseElection$ represents the total number of close elections between low-caste and mainstream party in a district. In this paper, an election is defined as 'close' if the difference in the margin of victory between a low-caste party and a mainstream party is less than 5 percent of the total votes cast in the election.[7] As a robustness check, I use an alternative threshold of 3.5 percent.

## 4.2 Evidence on validity of the instrument

Firstly, I present the results to validate the exogeneity of the instrument. I will show the validity of the IV framework through two standard tests (Imbens and Lemieux, 2008). The first is the McCrary (2008) density test to examine for a discontinuity in the running variable - $WM$ (win margin of low-caste party)- at the cutoff point 0. This tests whether low-caste parties disproportionately win close elections. For instance, if low-caste parties' can somehow manipulate the election results, then there would be a larger share of low-caste party wins compared to mainstream party in the neighborhood of the cutoff and hence, we would find the evidence of selective sorting. The results are presented in Figure 1 & Figure 2, which reveals no threshold discontinuity or random sorting of low-caste party candidates. The estimates from the McCrary test are small and statistically

[7] Win margin is defined as following:

$$WM_{cy} = \begin{cases} WLCVS_{cy} - RMSVS_{cy} & \text{if Low Caste party wins election} \\ RLCVS_{cy} - WMSVS_{cy} & \text{if Low Caste party loses election} \end{cases} \quad (1)$$

where $WLCVS$ is vote share of winning low-caste party and $RMSVS$ is vote share received by losing mainstream party. Similarly, $RLCVS$ is the vote share of the runner-up low-caste party and $WMSVS$ is the vote share received by the winning mainstream party

insignificant.

Secondly, I test whether observed predetermined constituency-level characteristics are continuous around the cutoff. The results are presented in Figure 3. The dots in the scatter plot depict the averages over each successive 0.5% interval of the margin of victory. The curves are local linear regressions fit separately for positive and negative margins of victory using a triangular kernel and the optimal bandwidth calculator suggested by Imbens and Kalyanaraman (2012). The confidence intervals are the 95% confidence intervals. I do not find any discontinuity in the running variable across all 8 constituency-level covariates and confidence intervals also overlap.

Since I am aggregating low-caste party close wins to the district level, the share of close elections won by low-caste parties should not be predicted by other district level characteristics for the validity of identification strategy Clots-Figueras (2011). To examine this, I regress the instrument on district-level covariates individually after controlling for district and time-fixed effects. The results are shown in Table 1. I find that none of the district-level observables significantly predict the quasi-random variation in district low-caste party representation. All three tests, collectively suggest that assumptions underlying the IV framework are valid in this setting.

**Table 1:** Verifying District Covariates Don't Predict the Fraction of Close Elections Won by Low Caste Parties

| | (1) Share salaried worker | (2) Share Self Employed | (3) Share Secondary Educ. | (4) Share Literate | (5) Avg Hhld Size | (6) Share Female Head | (7) Share Female | (8) Share rural | (9) Share Low Caste |
|---|---|---|---|---|---|---|---|---|---|
| Fraction Close Win 5pc | -0.337 | -0.267 | 0.220 | -0.047 | -0.030 | -0.168 | 0.203 | 0.122 | -0.391 |
| | (1.078) | (0.358) | (0.319) | (0.249) | (0.030) | (0.378) | (0.519) | (0.146) | (0.236) |
| Observations | 429 | 429 | 429 | 429 | 429 | 428 | 429 | 428 | 428 |
| R-squared | 0.026 | 0.027 | 0.027 | 0.026 | 0.029 | 0.026 | 0.026 | 0.027 | 0.034 |
| District Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

**Note:** This table shows that the share of close elections won by low-caste parties in a district is not responsive to district-level covariates.

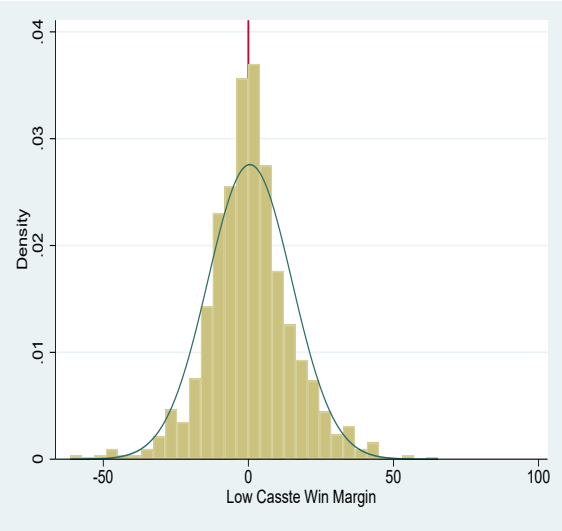



**Figure 1:** Histogram

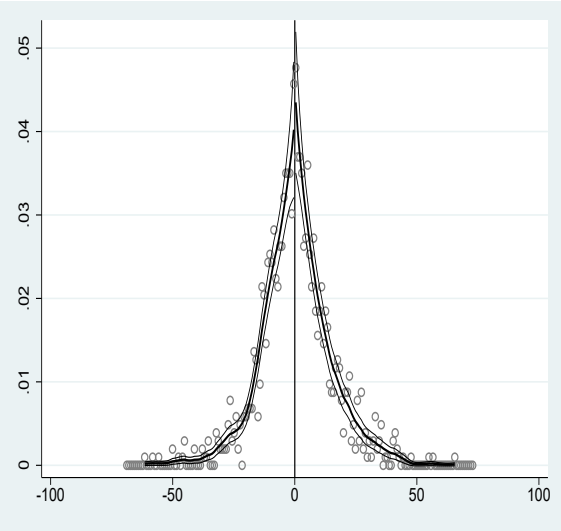
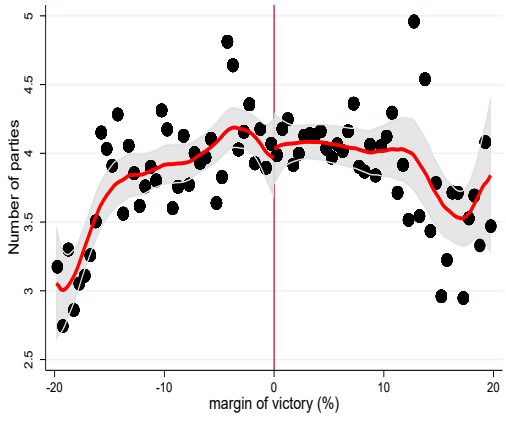
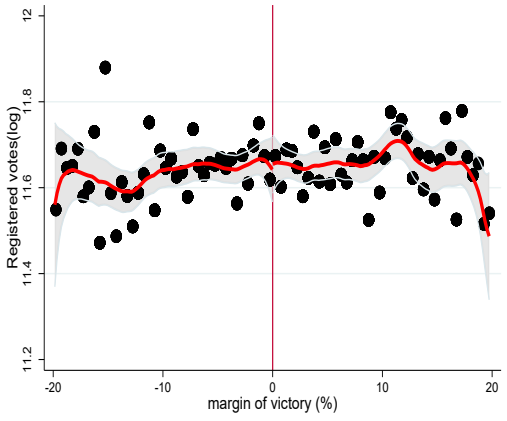


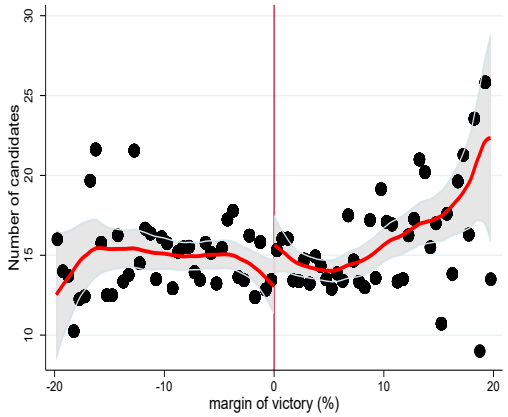

**Figure 2:** McRary Test

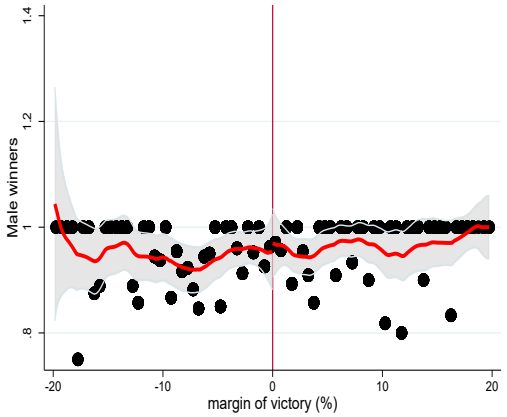
**Note:** Continuity of the Victory Margin between Low caste party and Mainstream party. The forcing variable is the margin of victory of a low-caste party. Negative values are the difference in the vote shares of a low-caste party runners-up and a mainstream party winner. Positive values are the opposite. The line segments indicate the test for a discontinuity in the low-caste party victory margin at the threshold of 0, as proposed by McCrary (2008). The estimated size of discontinuity in the margin of victory (log difference in height): is 0.1006 (se= 0.162).

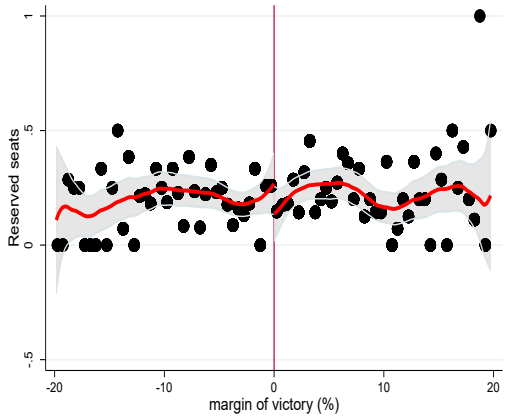
**Figure 3:** Check of covariate balance across low-caste party victory margin

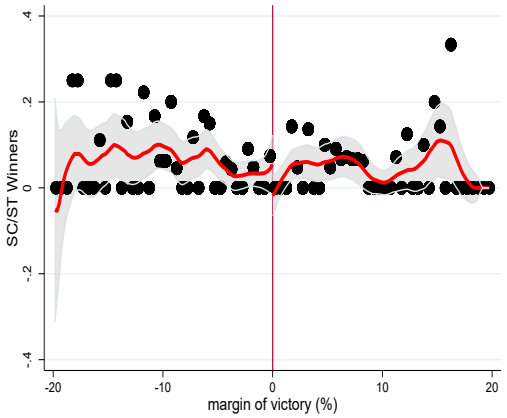


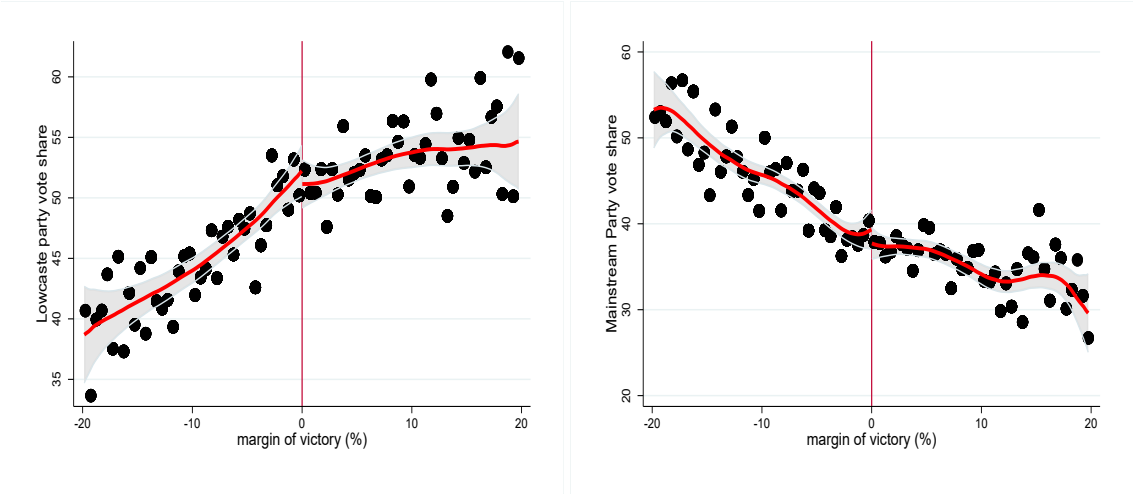




Number of candidates
10
15
20
25
30
-20
-10
0
10
20
margin of victory (%)


Male winners
.8
1
1.2
1.4
-20
-10
0
10
20
margin of victory (%)


Reserved seats
-.5
0
.5
1
-20
-10
0
10
20
margin of victory (%)


SC/ST Winners
-.4
-.2
0
.2
.4
-20
-10
0
10
20
margin of victory (%)




**Note:** Balance Test for Constituency Characteristics. The following covariates are checked: Low caste party vote share, total registered voters, voter turnout, constituencies reserved for SC/ST candidates, number of contestants, male winners in constituencies, winners from SC/ST group, and mainstream party vote share. The forcing variable is the margin of victory of a low-caste party. The dots in the scatter plot depict the averages over each successive interval of 0.5% of the margin of victory. The curves are local linear regressions fit separately for positive and negative margins of victory using a triangular kernel and an optimal bandwidth calculator as suggested in Imbens and Kalyanaraman (2012). The confidence intervals are the 95% confidence intervals.

# 5 Results

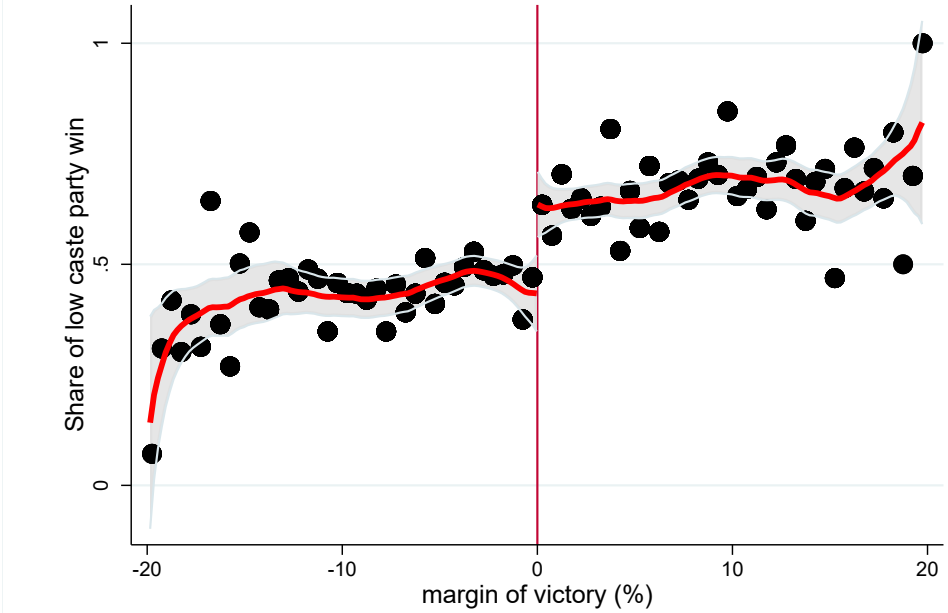
## 5.1 Reduced form and first stage

Low-caste party legislators increase low-caste household's access to credit (Table 2). Columns (1), (3) & (5) of Table 2 show reduced form coefficients which are statistically significant at 1 percent level irrespective of inclusion of district covariates. Keeping the total close elections contested by low-caste parties and total elections held in the district constant, 1 additional close election win by a low-caste party should result in $\beta \times \frac{TotalElections}{TotalCloseElections}$ wins for low-caste parties in the district.[8] From Table A3, the average number of total elections in a district is 7, and low-caste parties on an average contest 1.4 close elections (7.11*0.19). Column (2) & (4) of Table 2 show that $\beta$ =0.145. This implies that 1 additional close win for low-caste parties in the district generates

[8]This comes from total differentiation of $\frac{LowCasteWin}{TotalElections} = \alpha + \beta \frac{LowCasteCloseElection}{TotalCloseElections}$, keeping total elections and total close elections constant.

0.7 ($\frac{7.11}{1.4} * 0.145$) or approximately, 1 additional electoral win for low-caste parties in the district. Hence, the first stage coefficient essentially validates the exclusion restriction of the IV framework requiring that the share of close elections won by low-caste parties should affect outcomes for low-caste households solely through its impact on the share of total elections won by low-caste parties in the district.

**Figure 4:** Low Caste Party Win Margin and Share of Elections Won by Low Caste Parties in the District




**Note**: The above figure presents a graphical representation of the first stage of empirical specification. The forcing variable is the margin of victory of a low-caste party. Negative values are the difference in the vote shares of a low-caste party runners-up and a mainstream party winner. Positive values are the opposite. The dots in the scatter plot depict the unconditional mean of the fraction of close elections won by low-caste parties in the district over each successive interval of 0.5% of the margin of victory. The curves are local linear regressions fit separately for positive and negative margins of victory using a triangular kernel and an optimal bandwidth calculator as suggested in Imbens and Kalyanaraman (2012). The confidence intervals are the 95% confidence intervals for the local linear fit on either side of the cutoff.

**Table 2:** Low Caste Party Legislators and Loan from Formal Institutions: Reduced Form and First Stage Results

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| | Pr(Formal Loan=1) | Share of low-caste win | Pr(Formal Loan=1) | Share of low-caste win | Loan Amount (Logged) |
| Share of low caste close win | 0.140** | 0.145*** | 0.136** | 0.145*** | 1.449** |
| | (0.056) | (0.046) | (0.055) | (0.046) | (0.589) |
| Specification | RF | FS | RF | FS | RF |
| Observations | 32,567 | 32,567 | 32,541 | 32,541 | 32,541 |
| Household Controls | Yes | Yes | Yes | Yes | Yes |
| District Controls | No | No | Yes | Yes | Yes |
| District FE | Yes | Yes | Yes | Yes | Yes |
| Survey FE | Yes | Yes | Yes | Yes | Yes |

This table presents the reduced form and first stage results corresponding to the baseline results. The outcome of interest in columns (1) & (3) is a dummy equaling 1 if the household has taken a loan from a formal institution; in columns (2)&(4), the share of elections won by low-caste parties at the 5 percent win margin; in column (5) logged loan amount taken from formal institutions. The independent variable of interest is the share of close elections won by low-caste parties at the 5 percent win margin. All specifications include the number of close elections contested in the district, along with district and survey round fixed effects. Columns (1) & (2) only include household covariates whereas (3)-(6) include district covariates as well. Standard errors in parentheses are clustered by district.

## 5.2 Baseline results

The first category of results is for the extensive margins: impact on the probability of having a loan from formal institutions by low-caste households. Formal institutions here include the government, co-operative societies, scheduled commercial banks, insurance, provident funds, financial corporations, self-help groups, non-banking financial companies, and other institutional agencies. The results are presented in Table 3.

Columns (2) & (4) present IV results, where (2) doesn't include district covariates. The inclusion of district covariates doesn't change the magnitude and precision of coefficients and provides a statistically significant impact on extensive margin. Consequently, a 10 percentage point increase in the share of elections won by low-caste parties increases the likelihood of low-caste households having a loan from a formal institution by 9.4 percentage points. From Table A3, we know that the average number of elections in a district is 7 which implies that one additional legislator elected through an additional close election victory of the low-caste party leads to 14 $((1/7) * 100)$ percentage point increase in the share of elections won by low-caste parties. This results in a 12.6 percentage point increase in the likelihood of having a formal loan in low-caste

households.

The second category of results looks at the intensive margin: the outcome is logged amount of loan (in Rs.) taken by low-caste households. Columns (5) & (6) provide OLS and IV specification results respectively with both household and district controls. Along the intensive margin, 1 percentage point increase in the fraction of elections won by low-caste party increases the loan amount taken from formal institutions by 10 percent.

I also present the results for informal sources in Table A6. I do not find any effect of low-caste party representation on the likelihood of having a loan from informal sources in low-caste households.

**Comparison of OLS and IV coefficients**

Table 3 also shows OLS coefficients in columns (1), (3) and (5). While in Column (1) the estimate is positive but statistically insignificant, columns (3) & (6) show negative and statistically insignificant coefficients at both extensive and intensive margins. This coincides with the explanation mentioned in Section 4.1: downward bias can occur in the estimate of the impact of low-caste parties on access to credit by low-caste households due to omitted factors correlated with victories of low-caste parties.

## 5.3 Effects on high-caste households

I also examine whether the change in *de-facto* power due to the success of low-caste parties also benefited high-caste households. The results are presented in Table 4. Although I do not find any statistically significant impact of low-caste party success on credit access of high-caste households, these results are imprecisely estimated. As mentioned in Section 3, for NSS Debt and Investment $59^{th}$ survey round, the household characteristics like literate in the household, number of females in the households, and household size are not available for approx 83 % of high-caste households.

**Table 3:** Low Caste Party Legislators and Loan from Formal Institutions: Baseline Results for low-caste households

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Pr(Loan from Formal Inst.=1) | | | | Loan Amount (Logged) | |
| Share of low-caste win | 0.018 | 0.967*** | -0.009 | 0.936*** | -0.119 | 10.006*** |
| | (0.125) | (0.292) | (0.123) | (0.299) | (1.315) | (3.230) |
| # district close elections | 0.036 | 0.013 | 0.037 | 0.014 | 0.387 | 0.143 |
| | (0.026) | (0.029) | (0.023) | (0.026) | (0.246) | (0.279) |
| Share of literates in the household | 0.039** | 0.037** | 0.038** | 0.036** | 0.494*** | 0.478*** |
| | (0.017) | (0.017) | (0.016) | (0.017) | (0.173) | (0.179) |
| Household size | 0.004* | 0.004* | 0.004 | 0.003 | 0.044* | 0.043* |
| | (0.002) | (0.002) | (0.002) | (0.002) | (0.023) | (0.023) |
| Share of females in the household | -1.305* | -1.617** | -0.976 | -1.404 | -9.954 | -14.538 |
| | (0.753) | (0.798) | (0.810) | (0.903) | (8.820) | (9.849) |
| Total Assets | 0.022*** | 0.022*** | 0.022*** | 0.021*** | 0.247*** | 0.245*** |
| | (0.003) | (0.002) | (0.002) | (0.002) | (0.028) | (0.027) |
| Land Ownership Dummy | 0.031** | 0.031** | 0.039** | 0.040** | 0.413** | 0.417** |
| | (0.013) | (0.013) | (0.018) | (0.008) | (0.207) | (0.206) |
| Urban share in pop. | | | 0.040*** | 0.040*** | 0.452*** | 0.449*** |
| | | | (0.013) | (0.012) | (0.138) | (0.136) |
| SC share in pop. | | | -0.018 | -0.018 | -0.190 | -0.186 |
| | | | (0.016) | (0.016) | (0.167) | (0.166) |
| Share of male winners | | | -0.143 | -0.131 | -1.151 | -1.015 |
| | | | (0.229) | (0.233) | (2.511) | (2.552) |
| Share of reserved seats | | | -0.559 | -0.359 | -5.157 | -3.020 |
| | | | (0.473) | (0.506) | (5.014) | (5.324) |
| Observations | 32,567 | 32,567 | 32,541 | 32,541 | 32,541 | 32,541 |
| Mean of dep var | 0.239 | 0.239 | 0.239 | 0.239 | 2.489 | 2.489 |
| District FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Survey FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Specification | OLS | IV | OLS | IV | OLS | IV |

This table presents the baseline results estimating the impact of low-caste party legislators on low caste households' probability of having a loan from the formal institution and logged loan amount taken from these institutions. The unit of observation is the household. The sample is restricted to low-caste households. The specifications in columns (2), (4) & (6) are estimated using an IV specification where the fraction of elections won by low-caste parties in the district is instrumented by the fraction of close elections won by low-caste parties in the district. The remaining specifications are estimated using an OLS specification. All specifications include the fraction of close elections contested by low-caste parties, along with district, survey round. Columns (1)-(2) include household controls only (including the religious minority and rural/ urban sector dummy for households); whereas (3)-(6) also include district controls. Standard errors in parentheses are clustered by district.

Due to the unavailability of data in the first round, I redo the analysis for high-caste households for $59^{th}$ and $70^{th}$ rounds separately and also excluded the missing variables from the empirical exercise to gauge whether the coefficients still remain insignificant. The results are presented in Appendix Table A4 & Table A5. I do not find any statistically significant estimate either at extensive or intensive margin. Additionally, estimates of column (4) in both Appendix Table A4 & Table A5 show that the results remain insignificant even if we exclude the household characteristics in the same sample as in Table 4. These results indicate that the insignificance of low-caste party electoral success for high-caste households is not necessarily driven by the inclusion of these characteristics. However, it needs to be stressed that the coefficients for high-caste households are similar to what we observed for low-caste households and the insignificance is potentially arising from imprecise estimation.

Collectively, the results discussed in section 5 suggest that the electoral power of low-caste parties target does benefit low-caste households in terms of access to credit but positive spillovers towards high-caste households are not clearly evident.

## 5.4 Robustness of baseline results

The baseline results discussed above are based on the threshold of 5 percent for close elections. A natural concern regarding this is whether results are sensitive to this definition of close elections. To alleviate this concern, I test the validity of the results at a narrower margin of 3.5 percent. The results are presented inTable 5. Columns (1) & (2) show that the results are robust to redefining the close election at a 3.5 percent victory margin. I also present the intensive margin results from alternate regression specifications. Instead of using log-transformation, I adopt the inverse hyperbolic sine (IHS) transformation of the loan amount.[9]. The results are presented in column (3) and show that the baseline result for intensive margin is stable to alternative specification as well.

[9]I take the following IHS transformation for loan amount: $\text{IHS}_{loan} = log(loan + ((loan^2 + 1)^{0.5}))$

**Table 4:** Low Caste Party Legislators and Loan from Formal Institutions: Baseline Results for high-caste households

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Pr(Loan from Formal Inst.=1) | | | | Loan Amount (Logged) | |
| Share of low-caste win | -0.259 | 0.898 | -0.310 | 0.855 | -4.437 | 9.502 |
| | (0.207) | (0.573) | (0.226) | (0.566) | (2.897) | (6.385) |
| # district close elections | 0.025 | -0.020 | 0.028 | -0.015 | 0.412 | -0.109 |
| | (0.064) | (0.078) | (0.066) | (0.082) | (0.865) | (1.050) |
| Share of literates in the household | 0.111*** | 0.106*** | 0.123*** | 0.119*** | 1.491*** | 1.439*** |
| | (0.033) | (0.032) | (0.032) | (0.031) | (0.360) | (0.349) |
| Household size | 0.011*** | 0.012*** | 0.011*** | 0.011*** | 0.125*** | 0.130*** |
| | (0.004) | (0.003) | (0.003) | (0.003) | (0.041) | (0.041) |
| Share of females in the household | -2.293 | -1.562 | -1.818 | -1.305 | -21.466 | -15.326 |
| | (1.834) | (1.861) | (1.911) | (1.982) | (22.637) | (23.552) |
| Total Assets | 0.029*** | 0.029*** | 0.026*** | 0.026*** | 0.323*** | 0.324*** |
| | (0.005) | (0.005) | (0.004) | (0.004) | (0.049) | (0.050) |
| Land Ownership Dummy | 0.039 | 0.041 | 0.034 | 0.036 | 0.558 | 0.583 |
| | (0.037) | (0.038) | (0.032) | (0.034) | (0.462) | (0.489) |
| Urban share in pop. | | | 0.043*** | 0.043*** | 0.554*** | 0.549*** |
| | | | (0.012) | (0.011) | (0.143) | (0.140) |
| SC share in pop. | | | -0.008 | -0.009 | -0.117 | -0.118 |
| | | | (0.042) | (0.041) | (0.483) | (0.478) |
| Share of male winners | | | 0.320 | 0.087 | 4.075 | 1.285 |
| | | | (0.631) | (0.638) | (7.171) | (7.241) |
| Share of reserved seats | | | -0.060 | 0.002 | -0.216 | 0.537 |
| | | | (0.708) | (0.795) | (8.003) | (8.879) |
| Specification | OLS | IV | OLS | IV | OLS | IV |
| Observations | 9,507 | 9,507 | 9,504 | 9,504 | 9,504 | 9,504 |
| Mean of dep var | 0.335 | 0.335 | 0.335 | 0.335 | 3.690 | 3.690 |
| District FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Survey FE | Yes | Yes | Yes | Yes | Yes | Yes |

This table presents the baseline results estimating the impact of low-caste party legislators on high-caste households' probability of having a loan from the formal institution and logged loan amount taken from these institutions. The unit of observation is the household. The sample is restricted to high-caste households. The specifications in columns (2), (4) & (6) are estimated using an IV specification where the fraction of elections won by low-caste parties in the district is instrumented by the fraction of close elections won by low-caste parties in the district. The remaining specifications are estimated using an OLS specification. All specifications include the fraction of close elections contested by low-caste parties, along with district, survey round. Columns (1)-(2) include household controls only (including the religious minority and rural/ urban sector dummy for household); whereas (3)-(6) also include district controls. Standard errors in parentheses are clustered by district.

# 6 Channels

After demonstrating a significant relationship between low-caste party representation and access to credit in low-caste households, I now move towards explaining the channels through which minority politics contribute to credit access to minorities. To examine the potential channels, it is impor-

**Table 5:** Robustness to Alternate Threshold of Close Elections and Alternate Specification for Loan Amount

| | (1) | (2) | (3) |
|---|---|---|---|
| | 3.5 percent Threshold for Close Elections | | |
| Variables | Pr(Loan from Formal Inst.=1) | Loan Amount (Logged) | IHS Loan Amount |
| Share of low-caste win | 0.750* | 7.625* | 10.655*** |
| | (0.421) | (4.560) | (3.437) |
| # district close elections | 0.019 | 0.200 | 0.152 |
| | (0.027) | (0.282) | (0.297) |
| Share of literates in the household | 0.037** | 0.481*** | 0.503*** |
| | (0.017) | (0.179) | (0.191) |
| Household size | 0.003 | 0.043* | 0.045* |
| | (0.002) | (0.023) | (0.024) |
| Share of females in the household | -1.320 | -13.460 | -15.511 |
| | (0.817) | (8.807) | (10.472) |
| Total Assets | 0.021*** | 0.245*** | 0.259*** |
| | (0.002) | (0.027) | (0.029) |
| Land Ownership Dummy | 0.040** | 0.416** | 0.445** |
| | (0.018) | (0.206) | (0.219) |
| Urban share in pop. | 0.040*** | 0.450*** | 0.477*** |
| | (0.013) | (0.137) | (0.145) |
| SC share in pop. | -0.018 | -0.187 | -0.199 |
| | (0.016) | (0.166) | (0.177) |
| Share of male winners | -0.133 | -1.047 | -1.106 |
| | (0.227) | (2.477) | (2.713) |
| Share of reserved seats | -0.399 | -3.523 | -3.269 |
| | (0.505) | (5.306) | (5.674) |
| Observations | 32,541 | 32,541 | 32,541 |
| District FE | Yes | Yes | Yes |
| Survey FE | Yes | Yes | Yes |
| Specification | IV | IV | IV |

This table presents the robustness of baseline results to alternate definitions of close election and alternative specifications for intensive margin. The unit of observation is the household. Columns (1) & (2) show the results for a win margin of 3.5 percent and column (3) shows results for IHS specification for the loan amount. Standard errors in parentheses are clustered by district.

tant to understand where the state government is a stakeholder in financial inclusion. As described in Section 2.2, state governments drive both the demand and supply side of financial inclusion. The low-caste party elected representatives can influence financial access in several ways. Legislators can increase the hiring of low-caste community relationship managers at banks or actively focus on financial literacy initiatives and credit or insurance counseling services for disadvantaged minorities through community-based organizations like SHGs. Similarly, state governments also have the administrative authorities to identify and include underprivileged households in government credit or insurance schemes and coordinate with banks for the proper disbursement of funds. Furthermore, state politicians are also responsible for land allotments for setting up bank branches

and district offices for financial inclusion programs like RSETIs (Rural Self Employment Training Institutes). With the agenda of low-caste social and economic progress, the low-caste party politicians can aim for proper identification of low-caste households for government benefit schemes and allocate land to banks and RSETIs in areas where the low-caste population share is high.

Since state governments directly collaborate with banks and are involved in State Level Banker's Committees (SLBCs) for financial inclusion, I examine whether low-caste party legislators affect the outflow of credit by scheduled commercial banks of India. If low-caste party legislators are actively engaged in the inclusion of disadvantaged minorities in the formal banking system and facilitation of credit, then we would observe that an increase in the share of the electoral success of low-caste party would improve the flow of credit in the district. I re-estimate the IV framework using the RBI district-level data on Scheduled Commercial Banks. The outcome of interest is logged credit (in Rs.) outsourced by these banks.

From Table 6, we can see that the coefficients are positive and statistically significant for all Scheduled Commercial banks, nationalized banks, and regional rural banks. The results suggest that a 10 percentage point increase in the fraction of elections won by the low-caste parties will increase the credit outflow by approximately 3 percent from SCBs and nationalized banks and 2 percent from RRBs. It is important to note that the impact on the outflow of credit from SCBs is solely driven by government banks since I do not find similar effects for privately owned banks.[10] This indicates that the state-level politicians can influence the lending in government banks through their legislative power. [11]

[10]Note that the number of observations drops for private banks since branches of private banks were not present in many districts

[11]In this analysis, I have included election cycle fixed effects. This fixed effect controls for cyclical factors contributing to the relationship between legislators and bank role out of credit. Cole (2009) show that government-owned bank lending tracks the electoral cycle, with agricultural credit increasing by 5-10 percentage points in an election year.

**Table 6:** Low Caste Party Legislators and Credit Outflow from Scheduled Commercial Banks: IV Specification

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| | Credit Amount (Logged) | | | | |
| Variables | All Scheduled Commercial Banks (SCBs) | Nationalised Banks | Regional Rural Banks (RRBs) | SBI and Associates | Private Banks |
| Share of low-caste win | 0.304** | 0.345** | 0.216** | -0.078 | -1.412 |
| | (0.137) | (0.169) | (0.106) | (0.204) | (3.752) |
| Deposit (Logged) | 0.946*** | 0.874*** | 0.950*** | 0.880*** | 1.652*** |
| | (0.025) | (0.032) | (0.024) | (0.043) | (0.125) |
| # Reporting offices | 0.000 | 0.004*** | 0.000 | -0.016*** | -0.032 |
| | (0.001) | (0.001) | (0.001) | (0.005) | (0.025) |
| # close elections | 0.004 | -0.018 | 0.004 | 0.029** | 0.011 |
| | (0.008) | (0.011) | (0.007) | (0.012) | (0.119) |
| SC share in pop. | 0.040*** | 0.050*** | 0.037*** | 0.014 | 0.008 |
| | (0.012) | (0.018) | (0.009) | (0.015) | (0.051) |
| Urban pop. share | 0.027*** | 0.018* | 0.026*** | 0.049*** | 0.078 |
| | (0.009) | (0.011) | (0.008) | (0.011) | (0.095) |
| Share of male winners | 0.032 | 0.020 | -0.044 | -0.155 | -0.521 |
| | (0.109) | (0.121) | (0.083) | (0.125) | (1.341) |
| Share of reserved seats | 0.091 | 0.044 | 0.014 | -0.328 | -2.357 |
| | (0.168) | (0.230) | (0.139) | (0.241) | (3.492) |
| Observations | 3,392 | 3,360 | 3,360 | 3,356 | 1,630 |
| Election Cycle Fixed Effects | Yes | Yes | Yes | Yes | Yes |
| District FE | Yes | Yes | Yes | Yes | Yes |

This table presents the impact of low-caste parties on bank roll out of credit. The dependant variable is the log amount of credit (Rs.). All specifications control for election cycle effects and include district-fixed effects. Standard errors in parentheses are clustered by district.

# 7 Policy implications and next steps

The paper provides important evidence on the effects of *de-facto* power through the electoral success of low-caste parties on household access to credit in Uttar Pradesh and Bihar. The results put emphasis on how government initiatives and policy preferences of political parties can have significant positive effects on marginalized groups. This paper also highlights that the de-facto political power to the lower-caste population can provide much-needed push to increase access to banking for lower-caste households. The collaboration and coordination arising from caste networks between political parties and low-caste citizens can deliver better outcomes for marginalized communities with negligible cost to society overall.

The analysis presented in this paper relies on identity-based politics of Uttar Pradesh and Bihar, but it gained momentum in other states of India in the early 2000s. I plan on extending the same analysis for other states and gauging whether the effect persists for them as well. I will also do the

analysis to isolate party effects from quota effects. If reservation policy solely contributes towards financial inclusion, then we should expect the effects of quota-elected politicians to be similar for mainstream and low-caste parties. Election Commission pre-determines which constituencies in each district will be reserved for SC/ST candidates. Holding the caste identity constant in reserved constituencies, I will examine how different the impact of the marginal legislators from caste-based parties on household access to credit compared to the mainstream parties.

Next, I plan on segregating the effects of low-caste parties for SCs and OBCs since these parties align majorly either with SC/STs or OBCs (For example: BSP aligns with SCs and SP aligns with OBCs). In the analysis, I have only included two parties under the umbrella of mainstream parties, namely BJP and INC. I would re-examine the results by comparing low-caste parties with non-low-caste parties (all parties that are not categorized as low-caste including mainstream parties).

Additionally, I will use the Indian Human Development Survey (Round 2004-05 and 2011-12) and the National Financial Inclusion Survey (2016-17) for rigorous study on the impact of low-caste party representation on loan approvals of low-caste, access to bank and post office accounts and borrowings from moneylenders vis à vis formal sources, access to ATMs and financial literacy outcomes.

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# Appendix

**Table A1:** Summary Statistics of Electoral Data

| | N | Mean | Std. Dev. | Min. | Max |
|---|---|---|---|---|---|
| Total elections | 38565 | 7.11 | 2.66 | 1 | 14 |
| Share of close elections | 38565 | 0.19 | 0.19 | 0 | 1 |
| Share Low Caste Party win | 38565 | 0.60 | 0.28 | 0 | 1 |
| Share Low Caste Party close win, 5pc | 38565 | 0.31 | 0.40 | 0 | 1 |
| Low caste party vote share | 38410 | 51.0 | 18.8 | 0.16 | 100 |
| Mainstream party vote share | 37494 | 32.5 | 19.2 | 0.35 | 97.3 |
| Voter turnout | 38565 | 0.53 | 0.078 | 0.27 | 0.77 |
| Share of reserved seats | 38565 | 0.20 | 0.13 | 0 | 1 |
| Effective No. of parties | 38565 | 4.03 | 1.22 | 1.30 | 12.5 |

This table presents the summary statistics of electoral data

**Figure A.1:** Caste composition of legislators in Political Parties: Uttar Pradesh

**Table A2:** Summary Statistics of Households in the $70^{th}$ NSS AIDBI Survey

| | Total Sample | | | Sample with atleast 1 close election | | |
|---|---|---|---|---|---|---|
| | Low Caste | High Caste | Diff. | Low Caste | High Caste | Diff. |
| Probability of having a loan | 0.728 | 0.701 | -0.032*** | 0.729 | 0.697 | -0.032*** |
| | (0.445) | (0.458) | (0.010) | (0.445) | (0.460) | (0.010) |
| Probability of having a formal loan | 0.355 | 0.477 | 0.121*** | 0.363 | 0.484 | 0.121*** |
| | (0.479) | (0.500) | (0.010) | (0.481) | (0.500) | (0.010) |
| # of formal loan | 0.419 | 0.575 | 0.161*** | 0.428 | 0.589 | 0.161*** |
| | (0.638) | (0.690) | (0.014) | (0.642) | (0.704) | (0.014) |
| Loan Amount (Logged) | 10.856 | 11.498 | 0.661*** | 10.834 | 11.495 | 0.661*** |
| | (1.225) | (1.333) | (0.040) | (1.204) | (1.346) | (0.040) |
| # of assets | 4.817 | 5.212 | 0.387*** | 4.853 | 5.240 | 0.387*** |
| | (2.773) | (2.844) | (0.059) | (2.741) | (2.872) | (0.059) |
| Asset Value (Logged) | 11.780 | 12.381 | 0.597*** | 11.856 | 12.453 | 0.597*** |
| | (1.959) | (2.063) | (0.040) | (1.838) | (1.972) | (0.040) |
| Population share in rural area | 0.699 | 0.551 | -0.145*** | 0.696 | 0.552 | -0.145*** |
| | (0.459) | (0.497) | (0.010) | (0.460) | (0.497) | (0.010) |
| Population share owning land | 0.924 | 0.873 | -0.053*** | 0.928 | 0.876 | -0.053*** |
| | (0.264) | (0.334) | (0.006) | (0.258) | (0.330) | (0.006) |
| Land Value (Logged) | 11.838 | 12.240 | 0.425*** | 11.984 | 12.410 | 0.425*** |
| | (3.187) | (3.945) | (0.069) | (3.054) | (3.773) | (0.069) |
| Literates in the household (share) | 0.561 | 0.761 | 0.203*** | 0.559 | 0.762 | 0.203*** |
| | (0.304) | (0.268) | (0.006) | (0.302) | (0.268) | (0.006) |
| Household Size | 5.628 | 5.318 | -0.361*** | 5.651 | 5.290 | -0.361*** |
| | (2.717) | (2.794) | (0.058) | (2.705) | (2.800) | (0.058) |
| Salaried in the household (share) | 0.036 | 0.082 | 0.049*** | 0.034 | 0.083 | 0.049*** |
| | (0.117) | (0.178) | (0.003) | (0.111) | (0.183) | (0.003) |

This table presents the summary statistics for entire low-caste population

**Table A3:** Summary Statistics of Households in the $59^{th}$ NSS AIDBI Survey

| | Total Sample | | | Sample with atleast 1 close election | | |
|---|---|---|---|---|---|---|
| | Low Caste | High Caste | Diff. | Low Caste | High Caste | Diff. |
| Probability of having a loan | 0.505 | 0.529 | 0.020*** | 0.524 | 0.544 | 0.020*** |
| | (0.500) | (0.499) | (0.006) | (0.499) | (0.498) | (0.006) |
| Probability of having a formal loan | 0.150 | 0.187 | 0.035*** | 0.162 | 0.197 | 0.035*** |
| | (0.357) | (0.390) | (0.004) | (0.368) | (0.398) | (0.004) |
| # of formal loan | 0.161 | 0.217 | 0.059*** | 0.174 | 0.233 | 0.059*** |
| | (0.400) | (0.500) | (0.006) | (0.414) | (0.525) | (0.006) |
| Loan Amount (Logged) | 9.585 | 9.936 | 0.365*** | 9.641 | 10.007 | 0.365*** |
| | (1.134) | (1.288) | (0.034) | (1.129) | (1.299) | (0.034) |
| # of assets | 11.689 | 7.795 | -3.839*** | 11.782 | 7.943 | -3.839*** |
| | (4.380) | (4.137) | (0.049) | (4.408) | (4.268) | (0.049) |
| Asset Value (Logged) | 10.756 | 9.212 | -1.513*** | 10.767 | 9.253 | -1.513*** |
| | (1.160) | (1.590) | (0.017) | (1.166) | (1.611) | (0.017) |
| Population share in rural area | 0.803 | 0.741 | -0.071*** | 0.787 | 0.716 | -0.071*** |
| | (0.398) | (0.438) | (0.005) | (0.410) | (0.451) | (0.005) |
| Population share owning land | 0.959 | 0.169 | -0.782*** | 0.956 | 0.174 | -0.782*** |
| | (0.199) | (0.374) | (0.004) | (0.205) | (0.379) | (0.004) |
| Land Value (Logged) | 10.403 | 2.547 | -7.819*** | 10.437 | 2.618 | -7.819*** |
| | (2.557) | (4.168) | (0.042) | (2.603) | (4.243) | (0.042) |
| Literates in the household (share) | 0.391 | 0.628 | 0.237*** | 0.395 | 0.632 | 0.237*** |
| | (0.314) | (0.327) | (0.006) | (0.314) | (0.327) | (0.006) |
| Household Size | 5.780 | 5.935 | 0.145*** | 5.758 | 5.904 | 0.145*** |
| | (2.990) | (3.192) | (0.056) | (2.967) | (3.218) | (0.056) |
| Salaried in the household (share) | 0.027 | 0.058 | 0.034*** | 0.030 | 0.064 | 0.034*** |
| | (0.102) | (0.138) | (0.002) | (0.108) | (0.147) | (0.002) |

This table presents the summary statistics for entire low-caste population

**Table A4:** Low Caste Party Legislators and Loan from Formal Institutions: Baseline Results for high-caste households

| Variables | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| | Pr(Loan from Formal Inst.=1) | | | |
| Share of low-caste win | 0.947 | 1.437 | 0.901 | 0.834 |
| | (0.688) | (1.438) | (1.050) | (0.545) |
| # district close elections | -0.024 | 0.026 | 0.034 | -0.014 |
| | (0.106) | (0.088) | (0.061) | (0.080) |
| Share of literates in the household | 0.120*** | 0.054** | | |
| | (0.032) | (0.021) | | |
| Household size | 0.011*** | 0.008** | | |
| | (0.003) | (0.003) | | |
| Share of females in the household | -1.437 | -2.699 | | |
| | (2.513) | (2.939) | | |
| Total Assets | 0.027*** | 0.009*** | 0.011*** | 0.030*** |
| | (0.005) | (0.002) | (0.002) | (0.004) |
| Land Ownership Dummy | 0.035 | 0.008 | -0.052*** | 0.043 |
| | (0.035) | (0.024) | (0.011) | (0.032) |
| Urban share in pop. | 0.043*** | 0.246** | 0.173*** | 0.043*** |
| | (0.011) | (0.103) | (0.058) | (0.011) |
| SC share in pop. | -0.009 | -0.120 | 0.027 | -0.009 |
| | (0.042) | (0.149) | (0.049) | (0.042) |
| Share of male winners | 0.078 | 0.206 | 0.483 | 0.209 |
| | (0.826) | (1.206) | (0.702) | (0.620) |
| Share of reserved seats | -0.010 | -1.900 | -1.969 | -0.182 |
| | (0.909) | (2.572) | (1.405) | (0.835) |
| Observations | 4,199 | 5,305 | 29,062 | 9,504 |
| R-squared | 0.139 | -0.239 | -0.134 | 0.129 |
| District FE | Yes | Yes | Yes | Yes |
| Survey FE | Yes | Yes | Yes | Yes |
| Specification | IV | IV | IV | IV |

This table presents the baseline results estimating the impact of low-caste party legislators on high caste households' probability of having a loan from formal institution. The unit of observation is the household. The sample is restricted to high-caste households. All the estimates are for IV specification where the fraction of elections won by low-caste parties in the district is instrumented by the fraction of close elections won by low-caste parties in the district. All specifications include the fraction of close elections contested by low-caste parties, along with district, survey round. Columns (1) shows impact only for $70^{th}$ AIDIS round, (2) shows effect for $59^{th}$ AIDIS round, (3) shows effect for entire sample excluding the missing household characteristics and (4) shows effect taking the same sample as in **??** but excluding the impact on missing characteristics. Standard errors in parentheses are clustered by district.

**Table A5:** Low Caste Party Legislators and Loan from Formal Institutions: Baseline Results for high-caste households

| Variables | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| | Loan Amount (Logged)) | | | |
| Share of low-caste win | 10.516 | 16.944 | 10.127 | 9.277 |
| | (7.774) | (16.205) | (11.246) | (6.104) |
| # district close elections | -0.184 | 0.299 | 0.364 | -0.089 |
| | (1.361) | (0.988) | (0.644) | (1.028) |
| Share of literates in the household | 1.453*** | 0.537** | | |
| | (0.353) | (0.216) | | |
| Household size | 0.130*** | 0.076** | | |
| | (0.041) | (0.032) | | |
| Share of females in the household | -16.786 | -25.772 | | |
| | (29.782) | (33.483) | | |
| Total Assets | 0.332*** | 0.105*** | 0.128*** | 0.372*** |
| | (0.052) | (0.026) | (0.017) | (0.049) |
| Land Ownership Dummy | 0.573 | 0.106 | -0.592*** | 0.659 |
| | (0.492) | (0.261) | (0.118) | (0.460) |
| Urban share in pop. | 0.549*** | 2.382** | 1.700*** | 0.544*** |
| | (0.141) | (1.031) | (0.586) | (0.140) |
| SC share in pop. | -0.127 | -1.062 | 0.311 | -0.123 |
| | (0.480) | (1.527) | (0.505) | (0.481) |
| Share of male winners | 1.049 | 1.148 | 4.490 | 2.738 |
| | (9.461) | (13.313) | (7.399) | (7.040) |
| Share of reserved seats | 0.452 | -22.805 | -20.652 | -1.621 |
| | (10.124) | (28.834) | (14.914) | (9.306) |
| Observations | 4,199 | 5,305 | 29,062 | 9,504 |
| R-squared | 0.154 | -0.321 | -0.168 | 0.144 |
| District FE | Yes | Yes | Yes | Yes |
| Survey FE | Yes | Yes | Yes | Yes |
| Specification | IV | IV | IV | IV |

This table presents the baseline results estimating the impact of low-caste party legislators on amount of loan (logged) taken by high caste households. The unit of observation is the household. The sample is restricted to high-caste households. All the estimates are for IV specification where the fraction of elections won by low-caste parties in the district is instrumented by the fraction of close elections won by low-caste parties in the district. All specifications include the fraction of close elections contested by low-caste parties, along with district, survey round. Columns (1) shows impact only for $70^{th}$ AIDIS round, (2) shows effect for $59^{th}$ AIDIS round, (3) shows effect for entire sample excluding the missing household characteristics and (4) shows effect taking the same sample as in **??** but excluding the impact on missing characteristics. Standard errors in parentheses are clustered by district.

**Table A6:** Low Caste Party Legislators and Loan from Informal Sources

| | Pr(Loan from informal Sources=1) | |
|---|---|---|
| VARIABLES | Low Caste | High Caste |
| Share of low-caste win | 0.943 | 0.762*** |
| | (0.626) | (0.247) |
| # district close elections | 0.064* | 0.035** |
| | (0.036) | (0.014) |
| Share of literates in the housheold | -0.087*** | -0.175*** |
| | (0.031) | (0.050) |
| Household size | 0.010*** | 0.006 |
| | (0.003) | (0.005) |
| Share of females in the household | -2.615 | -0.496 |
| | (1.724) | (1.212) |
| Total Assets | -0.008** | -0.002 |
| | (0.004) | (0.005) |
| Land Ownership Dummy | 0.052 | -0.055 |
| | (0.035) | (0.037) |
| Urban share in pop. | 0.099*** | 0.057*** |
| | (0.028) | (0.012) |
| SC share in pop. | -0.032 | 0.038 |
| | (0.025) | (0.048) |
| Share of male winners | 0.581* | 0.579** |
| | (0.295) | (0.271) |
| Share of reserved seats | 0.737 | 0.343 |
| | (0.782) | (0.566) |
| Observations | 32,541 | 9,504 |
| R-squared | 0.105 | 0.131 |
| District FE | Yes | Yes |
| Survey FE | Yes | Yes |
| Specification | IV | IV |

This table presents the results estimating the impact of low-caste party legislators on households' probability of having a loan from informal sources. The unit of observation is the household. All specifications include the fraction of close elections contested by low-caste parties, along with district, survey round. Standard errors in parentheses are clustered by district.

**Figure A.2:** Caste Composition of voters: Uttar Pradesh

| Party | Caste | 1996 | 2002 | 2007 | 2012 | | Caste | 1996 | 2002 | 2007 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BSP | Brahmins | 3.70% | 6.00% | 16.70% | 19.00% | BJP | Brahmins | **70.70%** | **48.70%** | **39.10%** | **37.80%** |
| | Rajputs | 5.30% | 4.80% | 11.90% | 13.60% | | Rajputs | **74.80%** | **45.70%** | **43.50%** | **29.40%** |
| | Vaishyas | 4.90% | 3.40% | 13.60% | 14.90% | | Vaishyas | **81.10%** | **48.30%** | **44.60%** | **41.80%** |
| | Others Ucs | 1.20% | 5.20% | 12.00% | 17.10% | | Others Ucs | **78%** | **44.80%** | **39.30%** | **16.90%** |
| | Yadav | 3.30% | 5.20% | 7.70% | 10.70% | | Yadav | 5.40% | 5.20% | 3.90% | 9.30% |
| | Other OBCs | 14.50% | 19.20% | 26.50% | 18.80% | | Other OBCs | 47.30% | 27.10% | 19.00% | 18.90% |
| | Jatavs | **64.90%** | **78.50%** | **84.80%** | **61.90%** | | Jatavs | 5.30% | 2.00% | 3.00% | 4.70% |
| | Other SCs | **60.60%** | **55.10%** | **55.00%** | **47.90%** | | Other SCs | 7.90% | 11.40% | 10.50% | 8.20% |
| | Muslims | 12.30% | 9.70% | 17.60% | 30.40% | | Muslims | 1.90% | 1.70% | 2.40% | 6.60% |
| | Others | 20.10% | 13.00% | 29.20% | 23.40% | | Others | 36.80% | 13.00% | 13.70% | 15.60% |
| SP | Brahmins | 5.50% | 2.60% | 10.30% | 18.80% | INC | Brahmins | 4.00% | 26.50% | 18.70% | 12.90% |
| | Rajputs | 1.90% | 8.10% | 20.60% | 25.50% | | Rajputs | 4.50% | 9.70% | 9.40% | 13.30% |
| | Vaishyas | 3.70% | 15.50% | 12.00% | 11.90% | | Vaishyas | 3.70% | 12.10% | 9.80% | 20.90% |
| | Others Ucs | 5.80% | 13.80% | 14.90% | 14.10% | | Others Ucs | 2.30% | 22.40% | 12.00% | 12.90% |
| | Yadav | **60.70%** | **70.80%** | **72.50%** | **65.80%** | | Yadav | 6.60% | 4.70% | 4.10% | 4.30% |
| | Other OBCs | **15.90%** | **17.60%** | **19.60%** | **29.30%** | | Other OBCs | 5.70% | 7.10% | 7.90% | 12.60% |
| | Jatavs | 6.00% | 1.60% | 3.50% | 14.70% | | Jatavs | 14.30% | 4.00% | 2.10% | 4.50% |
| | Other SCs | 9.90% | 14.40% | 13.60% | 18.50% | | Other SCs | 12.50% | 9.00% | 5.10% | 13.60% |
| | Muslims | **48.00%** | **53.00%** | **47.70%** | **39.40%** | | Muslims | 12.20% | 10.00% | 14.10% | 18.00% |
| | Others | 14.60% | 13.00% | 23.00% | 30.60% | | Others | 6.30% | 4.30% | 12.40% | 9.10% |