Does Social Identity Matter for Rural Entrepreneurship? The Role of Financial Inclusion

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Important to understand whether financial inclusion can overcome social exclusion in self employment.

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  - Structural transformation and financial markets at the village-level (Banerjee and Newman, 1993; Rajan and Zingales, 1998; Ross, 2005)

- Impact on under-privileged groups driven by entry into General-dominated sectors (General category share > 50%)

  - Contrasting to Oh (2023) finding of workers exhibiting intrinsic desire to protect caste identity

  - Our result indicate preference may vary in self-employment vis-a-vis paid employment.

Mechanism: Why should proximity benefit under-privileged?

Proximity allows creditworthiness assessment through soft information collection (Liberti and Petersen, 2019)

More valuable for poorer, under-privileged groups; unable to offer collateral. Discriminated by informal credit markets (Khanna and Majumdar, 2020)

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We conduct two tests to show the role of credit uptake and soft information:

- Impact higher in regions where entrepreneurs lack assets; asset rich households can avail credit from a distant bank branch.

- Impact attenuates when we control for credit uptake; i.e. credit uptake intermediates the role of financial access.

Outline

- Institutional Background and Methodology
- Data
- Results
  - Mechanisms
- Conclusion

Institutional Background: Castes in India

Indian society graded by several castes, classified into four categories for public purposes:

- General: comprising of privileged groups

- SCs: historically and traditionally discriminated group comprising 16.8% of the popn.; under-privileged

- STs: tribal groups outside the *Hindu* system; 8.6% of the popn.

- Other Backward Castes (OBCs): segmented in early 90s out of the General category; traditionally considered as entrepreneurial and middle tier castes (Iyer et. al. 2013).

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SCs and STs recipient of affirmative action policies since 1947 but still lag economically.

Bank Branch Expansion and Proximity

1990-2005: Villages allotted to Service Area Branches; borrowers required no-objection certificate to borrow from non-SAA branch Adverse impacts recorded by Devarajan (2004) and Basu (2005)

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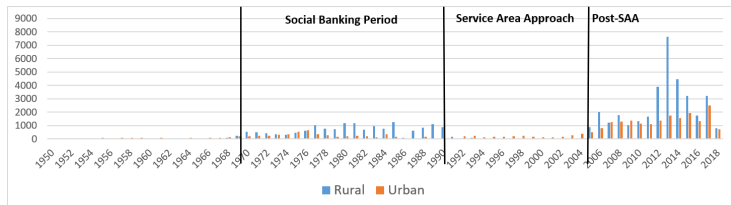
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Computed for each year from 1951 to 2019 (Garg and Gupta, 2020).

- RBI Directory of bank branches from October 2019 with date of opening and location Includes 154,505 bank branches and offices

- Matched 151,104 branches with 45,911 unique villages and towns (PC 2011) - a match rate of 97.4

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Other village-level characteristics: PC of 2001 and 2011 Literacy rate, distance to the nearest town, population size, dummies for paved road, cooperative bank, post office, agricultural credit society, electricity for commercial purpose

Merge Financial Access Data with Village-level Panel using SHRUG Identifiers (Asher et al. 2020)

Summary Statistics

	Obs	Mean	SD	Min	Max
	Non-agriculture				
General	6,34,173	7.4	54.7	0	18,917
OBC	6,34,173	9.4	37.9	0	8,632
SC	6,34,173	2.3	9.9	0	1,275
ST	6,34,173	1.5	10.2	0	6,227
	Agriculture*				
General	6,34,173	3.7	19.9	0	1,939
OBC	6,34,173	5.2	25.5	0	2,114
SC	6,34,173	1.1	7.4	0	1,738
ST	6,34,173	1.2	10.4	0	1,362

Includes non-farm, agro-processing enterprises.

Methodology

Identification Issues: Endogeneity of bank branch location

- Unobservable time-constant village characteristics and macro changes

- Unobservable time-trend of villages

- Confounders which affect entrepreneurship and bank branch proximity

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Difference-in-Difference (D-I-D) estimation technique

- Control Group: Unbanked villages which did not have a bank branch within 5km in 1998, 2005, and 2013.

- Treatment Group: Unbanked villages which did not have a bank branch within 5km in 1998 and 2005, but received a new branch within a 5km between 2006 and 2013.

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Choice of threshold as 5km: RBI's National Strategy of Financial Inclusion 2019-2024: A bank branch within 5 km of each village.

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Distribution of Treatment

	Number	Proportion
Treatment Group	74,444	13.90
Control Group	187,814	35.06

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Intensity of treatment: Distance to the nearest banked centre

	1998	2005	2013
Treated	8.45	8.3	3.23
Control	9.81	9.84	8.42

Empirical Specification

We use the following difference-in-difference specification:

$$y_{vdt}^c = \gamma \cdot Treat_{vd} * Post_t + \phi_v + \phi_{dt} + Z_{vd(2001)} * tt + \epsilon_{vdt}$$

where,

- y_{vdt}^c is the outcome variable (Number of caste-wise enterprises in ag, non-ag sector) in village v, district d and at time t.

- $Treat_{vd} = 1$ for villages which received treatment; 0 otherwise,

- $Post_t = 1$ for year 2013; 0 for 1998, 2005.

- ϕ_v, ϕ_{dt} are village, and district-year fixed effects

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γ measures the impact of bank branch becomes proximity within 5kms after 2005.

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	Gen	OBC	SC	ST
Panel A: Agr. Entrepreneurship				
Treated*Post 2005	-0.047	-0.168*	0.016	-0.089***
	(0.075)	(0.098)	(0.03)	(0.02)
Panel B: Non-Agr. Entrepreneurship				
Treated*Post 2005	0.261***	0.243**	0.088**	-0.015
	(0.081)	(0.1)	(0.036)	(0.02)
Observations	634,145	634,145	634,145	634,145

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- Financial access equally impactful for SC communities.

- ST agr. enterprises decline but no effect on non-agr.

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Financial access mitigates social norms but entry deterred when the share of Gen-ownership increase (proxy for stricter norms).

Mechanism: Proximity and Soft Information

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We divide our sample into two sets of districts based on pre-treatment asset ownership of SC households —

- **Asset Rich**: where the value of land owned by SC households **above** national average.

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Mechanism: Role of Soft Information

Columns 1 and 2 show the results for no. of non-agr. SC-owned enterprises in asset rich and asset poor districts, resp.

Column 3 and 4 show the results for no. of SC-owned enterprises in Gen-dominated sectors.

Dpdt. Var.: SC-owned	Non-Agr.	Non-Agr.	Gen-dom	Gen-dom
Treated*Post 2005	0.039	0.141**	0.021	0.095***
	(0.047)	(0.054)	(0.03)	(0.033)
Observations	306,385	292,317	306,385	292,317
	Asset Rich	Asset Poor	Asset Rich	Asset Poor

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	Asset Rich	Asset Poor	Asset Rich	Asset Poor

Impact on SC-households present only in asset poor districts indicating the importance of proximity for lending.

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Sample restricted to ST majority villages from PC 2001 and PC 2011. Two-way fixed effects model used.

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	Agr Labourer	Other occupations
Treatment_5km	-7.308***	4.23***
	(1.478)	(0.769)
Obs	97,478	97,478

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Obs	97,478	97,478

Financial access may allow ST-owned non-agr. enterprises to become bigger.

Robustness Checks

We assess the robustness of our results to the following:

- Parallel Pre-Trends Pre-Trends

- Changing threshhold of proximity to 3km and 10km Test

- Using a matched control group; we use PSM and CEM method

Conclusion

SC and ST groups in India under-represented, present in less productive sectors, operated using lower capital base.

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- Results for SCs inter-mediated by credit uptake at the extensive margin

Data on credit uptake at the extensive margin; other areas of credit rationing could be interest rate or loan contracts.

Thank you!
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Gen-Dominated Sectors

Sector	Share of General-owned enterprises in 1998
Health and Social Work	0.506
Financial Intermediation	0.508
Real Estate	0.521
Manufacture of Wood Products	0.525
Manufacture of Other Non-Metallic Mineral Products	0.527
Manufacture of Other Transport Equipment	0.532
Computer and Related Activities	0.537
Auxiliary Activities to Financial Intermediation	0.587
Other Retail Trade	0.596
Retail Trade	0.611
Air Transport	0.618
Other Business Services	0.624
Manufacture of Precision Instruments	0.625
Land Transport	0.627
Insurance	0.654
Recycling	0.678
Water Transport	0.688
Manufacture of Fab Metallic Products	0.697
Manufacture of Electrical Machinery	0.719
Auxiliary Transport Activities	0.719
Manufacture of Furniture	0.734
Manufacture of Textiles	0.750
Hotels and Restaurants	0.826

Back

Parallel Pre-Trends

To check parallel pre-trends, we limit our data to pre-treatment period and use this specification

$$y_{vdt} = \gamma.Treat_{vd} * I(2005) + \phi_v + \phi_{dt} + \epsilon_{vdt}$$

where, $I(2005) = 1$ for 2005 and 0 for 1998

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Number of SC-owned enterprises	All	Ag	Non-Ag
Treated*I(2005)t	0.022	0.0	0.032
	(0.05)	(0.018)	(0.038)
Observations	3,57,330	3,57,330	3,57,330

3 kms and 10 kms Threshold

	Non-Agr. Sector	Gen-Dominated Sectors
	Panel A: 3km	
Treated*Post 2005	0.155***	0.089***
	(0.04)	(0.026)
Observations	9,83,341	9,83,341
	Panel B: 10km	
Treated*Post 2005	-0.035	-0.033
	(0.049)	(0.029)
Observations	1,83,114	1,83,114