

# Rural Women's Access to Credit: Market Imperfections and Intrahousehold Dynamics

DIANA FLETSCHNER\*  
University of Washington, USA

**Summary.** — Credit rationing studies carried out at the household level and based on responses from male heads of households present an incomplete and biased assessment of who is likely to be constrained, why they are constrained, and what is the extent of the constraints. They ignore possibly conflictive intrahousehold dynamics and assume that imperfections in rural financial markets are gender-neutral.

This paper addresses both issues theoretically and empirically. The Semi-Cooperative Household model developed for this analysis formalizes the conditions under which spouses', and particularly women's, individual access to credit can be affected by their own position in the financial market as well as by intrahousehold dynamics. These notions are then explored empirically using husbands' and wives' individual perceptions of their access to credit in rural Paraguay. The most significant empirical findings of the paper are that (i) compared to men, women are more likely to be credit constrained; (ii) women's rationing status responds to a different set of factors than men's; and (iii) husbands may choose not to intermediate capital to their wives even when they are able to do so. Results from this exercise provide empirically sound support for the assumptions underlying women-targeted credit programs.

Published by Elsevier Ltd.

**Key words** — credit, intrahousehold, decision-making, women, Latin America, Paraguay

## 1. INTRODUCTION

In settings where obtaining information about a potential borrower's creditworthiness is very costly and enforcing contracts difficult, resource poor households may be constrained in their access to credit even when the projects for which they seek funding are profitable (Besley, 1995; Ghosh, Mookherjee, & Ray, 2001). Improving their access to credit would enable these households to undertake profitable projects, increase their income, and insure against negative shocks (Sadoulet & de Janvry, 1995; Singh, Squire, & Strauss, 1986).

The recognition that credit market imperfections can have severe consequences for poverty alleviation and growth has motivated empirical researchers to try to identify which households are more likely to be constrained, why they are constrained, and the extent of the constraints [see Petrick (2005) for a recent review of the approaches employed]. It has also led to the extraordinary growth of the microcredit industry, fueled by governments, NGOs, and donors who embraced microcredit as an innovative approach for reaching out to poor rural households and addressing the obstacles poor families face in the credit markets.

Most of the rigorous assessments of rationing in credit markets and the policy recommendations emanating from those assessments are based on empirical studies that use data gathered at the household level and rely on the perceptions of survey respondents who are typically the male heads of household. However, many of the microcredit programs targeting the poor have deliberately reached out to women, and these efforts have been largely driven by two premises. First, unless specifically targeted, women face legal, social, cultural, and economic restrictions that further limit their access to credit compared to men (Almeyda, 1996; Lycette & White, 1989; Ospina, 1998; Sisto, 1996). Second, it does matter who in the household receives the loan. Access to capital may influence who controls income within the household, and a number of studies have found that women's relative control over resources has a positive impact on their families' nutrition, edu-

cation, and health (Pitt, Khandker, Chowdhury, & Millimet, 2003; Pitt & Khandker, 1998; Thomas, 1997). Moreover, recent empirical work demonstrates that women's credit constraints have a negative impact on their households' economies (Fletschner, 2008).

Underlying these two premises is the implicit notion that family members may not intermediate resources effectively. Specifically, a male household member may obtain a loan, but not use it in a way that is best for the family. Supporting this view, and consistent with a separate spheres perspective of the intrahousehold economy (e.g., Carter & Katz, 1997 and Lundberg & Pollak, 1993), empirical evidence suggests that spouses leave unexploited opportunities for the exchange of factors of production (Udry, 1996) and for the intermediation of risk (Duflo & Udry, 2004).

After reviewing credit market conditions that can have a special impact on women, I propose a household decision-making model that explicitly incorporates spouses' access to credit and their possible intermediation of capital. I then use data from a survey applied to 210 couples in rural Paraguay to identify spouses' individual credit rationing status and propose a replicable method to explore intrahousehold financial intermediation. Survey findings indicate that rural women in this region experience different and more severe credit constraints than

\*The empirical work in this paper was supported by the John D. and Catherine T. MacArthur Foundation and by all the institutions involved in the Credit Project for Northeast Paraguay: the International Fund for Agricultural Development (IFAD), the Paraguayan Center for Sociological Studies (CPES), the Fund for Peasant Development (FDC), the Department of Agriculture (MAG), and the Department of Charity (DIBEN). The author would like to acknowledge and thank Brad Barham, Steve Boucher, Michael Carter, Maria Floro, Dina Mesbah, Pedro Olinto as well as participants at the CSDE seminar at the University of Washington and the NEUDC and PACDEV conferences, for their helpful suggestions. Any errors are the sole responsibility of the author. Final revision accepted: August 7, 2008.

men: 23% of the women were credit constrained compared to 17% of their husbands, and more importantly, 15% of the women surveyed reported being credit constrained even though their husbands claimed to have adequate access to credit.

These findings provide initial support for the notion that when spouses have conflicting preferences, women may not be able to count on their husbands' intermediation to help them overcome their insufficient access to credit. Furthermore, they suggest that the standard classification of households into two regimes, constrained or unconstrained, assuming perfect financial intermediation within the family is, indeed, inadequate and may lead to flawed policy recommendations.

## 2. RURAL FINANCIAL MARKETS AND POOR WOMEN'S DIRECT ACCESS TO CAPITAL

In rural settings, obtaining information about a potential borrower's creditworthiness can be very costly and enforcing contracts difficult. Consequently, some lenders might find lending to be too risky and choose not to offer loans at all. Others, who do lend, might design contracts that rely on indirect mechanisms to screen borrowers and to induce them to undertake actions that reduce their likelihood of default. When lenders use instruments other than the interest rate to address these problems of adverse selection and moral hazard in the credit market, some households are unable to meet their needs for capital to finance profitable projects. These households are credit constrained and as a result they are unable to put their resources to the most efficient use: they underinvest and they produce and earn less. It is therefore generally agreed that improving these households' access to credit should be a critical element of rural development strategies.

However, the extensive body of empirical research on credit rationing, valuable and informative as it is, has been carried out at the household level and researchers have relied almost exclusively on the perceptions of the survey respondents, typically the male heads of the household.<sup>1</sup> Whether or not their findings adequately address the women of the households' need for credit depends on the answer to the following two questions. First, is there a gender bias in women's direct access to credit or can it be assumed that the constraints encountered by resource poor rural women are similar in type and severity to those that affect the men? Second, if women are indeed more severely restricted in their direct access to credit, can we assume that husbands with adequate access to credit will act as financial intermediaries and help their wives overcome these constraints? This second question, in other words, deals with the way resources (including credit) are allocated within households. I propose an analytical framework to explore this second question in Section 3 and devote the remainder of this section to examine in more detail the first question, namely, how women's direct access to credit may differ from men's.

While poverty alone seriously handicaps creditworthy borrowers' access to capital, women may be even more constrained because of their gender. Biases in legal regulations or social norms may limit women's ability to obtain funds directly from formal financial institutions. This is the case in societies in which women are limited in their access to or control over property because inheritance laws give preference to male relatives, because the agrarian reforms in the past have generally allocated land to "household heads," or because in poor households any property that could be offered as collateral is likely to have already been pawned by the men of the household since they are often perceived to be engaged in more profitable activities (Deere & Leo, 2001, 1997; Lycette

& White, 1989; Ospina, 1998). It is also the case in societies in which women cannot apply for loans unless they are represented, explicitly authorized, or supported by their husbands or a male relative (Almeyda, 1996; Alvear Valenzuela, 1987; Berger, 1989);<sup>2</sup> or societies in which women do not have access to the same sources of information as men and are less aware of funds available to them and of the conditions for obtaining a loan (Almeyda, 1996; Baydas *et al.*, 1994; Lycette & White, 1989; Weidemann, 1992).<sup>3</sup>

Biases in lending practices can also affect how much capital women can access directly from formal financial institutions. Women are at a disadvantage when financial institutions do not fund the type of production activities typically run by women (Fletschner & Ramos, 1999); when financial institutions require collateral but do not accept the type of assets that women are likely to own; when financial institutions do not accept female guarantors (Baydas *et al.*, 1994; Ospina, 1998);<sup>4</sup> or when their requirements are not clear or widely known and bank employees responsible for loan approvals frame them as special favors which women are unable to repay. The most common forms of repaying such favors—such as inviting loan officials for a drink or for dinner, or the giving of bribes—are not considered acceptable behavior for women (Lycette & White, 1989; Ospina, 1998).

This suggests that in a given household  $i$ , husband and wife may differ in the amount of capital directly available to them ( $S_i^m \neq S_i^f$ ), where  $S_i$  represents the supply of credit available to them at a given interest rate and the superscripts  $m$  and  $f$  denote male and female partners.  $S_i^f$  should thus be interpreted as the formal borrowing ceiling for the wife in household  $i$ . If the amount of capital she demands,  $D_i^f$ , is lower than her formal borrowing ceiling,  $D_i^f \leq S_i^f$ , she can meet her needs for capital directly with loans from financial institutions. However, if  $D_i^f > S_i^f$ , she is credit constrained. The goal of this paper is to shed light on factors that may have a systematic impact on women's ability to meet their needs for credit and on how these factors may differ from the obstacles that restrict men's access to credit.

Before we proceed, however, it is important to highlight that women's access to credit may not be limited from the supply side alone. In fact, women may face demand-side constraints that make them less likely than their husbands to apply for loans, even when they have profitable projects and funds are available to them. For instance, demand-side constraints can arise when long travel distances and inconvenient schedules become greater obstacles for women due to their reproductive roles in the household, thereby increasing their transaction costs of applying for and repaying loans (Baydas *et al.*, 1994; Lycette & White, 1989; Moser, 1993; Restrepo Chebair & Reichmann, 1995); when women are unable to prepare adequate feasibility studies;<sup>5</sup> when women are more averse to risk (Almeyda, 1996; Morris & Meyer, 1993);<sup>6</sup> or when applying for a loan contravenes what is considered socially acceptable behavior for women (Fletschner & Carter, 2008). If these demand-side constraints are sufficiently strong, they can hamper women's effective demand for capital, leading to the almost perverse result where they are classified as having adequate access to capital when in fact they do not have access to funds.

But why should we be concerned about women's direct access to credit? After all, even if women are not able to meet their own needs for credit directly ( $D_i^f > S_i^f$ ), their constraints need not have economic relevance if, as is often assumed, spouses pool their resources to achieve shared goals. I examine this proposition next by relying on household decision-making models that help explain how couples may respond to imperfections in rural financial markets.

Download English Version:

<https://daneshyari.com/en/article/992105>

Download Persian Version:

<https://daneshyari.com/article/992105>

[Daneshyari.com](https://daneshyari.com)