

The Impact of Lending to Women on Household Vulnerability and Women's Empowerment: Evidence from India

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Summary. — Impact evaluation studies routinely find that lending to women benefits their households. However, a number of them also find that this may not empower the women concerned. This seemingly paradoxical conclusion is confirmed by our study with respect to a lending program in rural India. We investigate this result by examining a combination of loan-use data and borrower-testimonies. We find that loans procured by women are often diverted into enhancing household's assets and incomes. This combined with woman's lack of co-ownership of family's productive assets, we conclude, results in her disempowerment. If empowering women is a crucial objective, then the patriarchal hold on productive assets must be challenged.

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1. INTRODUCTION

Microcredit programs, an increasingly common intervention against poverty, generally target poor rural women. The basic argument behind lending to women is that they are good credit risks, are less likely to misuse the loan, and are more likely to share the benefits with others in their household, especially their children. In addition to the economic benefits, it is argued that women's increasing role in the household economy will lead to their empowerment. During the past few decades, microcredit has enjoyed tremendous growth and women continue to be the major beneficiaries. During December 1997–December 2005, the number of people receiving microcredit increased from 13.5 million to 113.3 million with 84% of them being women (Daley-Harris, 2006). It is anticipated that such programs will contribute to the achievement of the Millennium Development Goals which, among other things, aim to promote gender equality and empower women (see Kabeer, 2005).

Despite methodological variations, evaluation studies fairly widely accept that lending to women does improve household incomes

and is also linked with other associated benefits like increased livelihood diversification, more labor market activity, more education and better health (see, for instance, Hulme & Mosley, 1996, Vols.1 & 2; Khandker, 1998; Morduch & Haley, 2002; Mosley & Rock, 2004; Todd, 1996; Zaman, 2004). However, there is little consensus regarding the empowerment potential of such schemes and studies make diametrically opposite claims. Some find that microcredit has helped women increase their income earning capabilities, leading to greater confidence and ability to overcome cultural

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asymmetries (see, for instance, Hashemi, Schuler, & Riley, 1996; Kabeer, 2001; Pitt & Khandker, 1998; Pitt, Khandker, & Cartwright, 2006; Rahman, 1986). Others find that loans made to women are usually controlled by their husbands, leading to women's dependence on them for loan installments and at times in domestic dissension and violence (see, for instance, Goetz & Gupta, 1996; Leach & Sitaram, 2002; Rahman, 1999). Ignoring the conceptual and methodological differences among these studies, the suggestion here is that although lending to women benefits their households, its beneficial impact on women themselves is somewhat uncertain.¹ By focusing on a case study, this paper seeks to unravel some of the reasons behind this paradoxical conclusion.

In this study, we separately examine the impact of microcredit on beneficiary households and on the women concerned. We use data from two villages in Andhra Pradesh (AP), India, that participate in the Self Help Group (SHG) program which lends mainly to rural women. We find the same paradoxical results that haunt the microcredit literature: that while lending to women has helped households across income groups to diversify livelihoods and reduce their vulnerability to shocks, it has failed to empower the women concerned. We refer to this result as the "impact-paradox" and investigate the reasons behind it by examining a combination of loan-related data from a sample survey and borrower-testimonies. Our findings suggest that woman's loan may easily get diverted into enhancing household assets and incomes but given her lack of co-ownership of family's productive assets, access to credit may not result in her empowerment. In such a situation, the household may benefit, but the woman herself is likely to see further deepening of the resource division between her and her husband.

The remainder of this paper is organized as follows. Section 2 briefly discusses India's rural financial system and Section 3 discusses its microcredit program. Section 4 describes the questionnaires used in our fieldworks and the resulting data sets used in the empirical parts of this paper. The empirical analysis is carried out in two parts: in the first part we analyze the impact of microcredit on household vulnerability and female empowerment and in the second part, we examine loan-use and repayment data to understand the paradoxical results obtained. Section 5 presents the empirical models used to examine the impact of microcredit on

beneficiary households and the women concerned. It also provides the descriptive statistics of the variables and discusses the outcomes of the first part of the empirical analysis. Similarly, Section 6 presents the models used to investigate the "impact-paradox." In addition to providing the descriptive statistics of the sample and the results of the second part of the empirical work, it also summarizes the testimonial evidence collected from the loanee women. Section 7 concludes.

2. A BRIEF OVERVIEW OF INDIA'S RURAL FINANCIAL SYSTEM

India has a long history of rural credit institutions. The rural cooperatives were initiated in 1904 to be a major source of rural finance. These were unable to cope with the steep increase in rural credit requirements caused by the advent of green-revolution in the 1960s. Privately owned commercial banks also played only a very nominal role in rural finance, both in matters of outreach and share. This ostensibly led to the nationalization of 14 major commercial banks in 1969 which were then compelled to open rural branches. This marked the beginning of the state intervention which became a constant feature in India's rural financial system.

Intervention was justified mainly on grounds of market-failure, which was also the reason for making credit an integral component of the state's numerous poverty-alleviation schemes. Handing out credit was largely preferred over other politically sensitive measures like land redistribution and implementation of tenancy laws. State intervention in the banking sector, mainly driven by short-term political gains, resulted in policies for bank branching, directed credit, frequent loan waivers, subsidies, and the refinancing of loss-making institutions. Although these policies resulted in expansion of commercial banks into rural areas and significant lending to rural population they also contributed to erosion in borrower discipline and a weakened financial sector (Meyer & Nagarajan, 2000).

During the 1970s, two major initiatives with significant bearing on the rural financial system were launched. First, the Regional Rural Banks (RRBs) were established in 1975 as a subsidiary of the public-sector commercial banks to service the rural poor so far excluded from formal credit. This resulted in widening of the

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