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Household bargaining and microfinance

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Abstract

This paper examines a household bargaining problem where one household member can use external finance to invest in an uncertain business project. Faced with limited income generating opportunities, we show that the household member will consistently choose safe investment projects. We also explain why other members of the household can be made worse off from investment, even when aggregate household consumption is expected to rise. In a dynamic version of the bargaining problem, we study incentives for the household to contribute towards loan repayments and identify conditions under which the borrower will transfer control over her loan to her partner.
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1. Introduction

Throughout the developing countries, innovative lending programs have emerged that specialize in supplying small capital loans to low-income entrepreneurs. In many of these programs it is common to find that a large percentage of borrowers are women. For example, based on a 1996 survey of microfinance institutions around the world, the World Bank estimated that 61% of all clients were women (World Bank, 1997). In two rather well documented lending programs, the Grameen Bank in Bangladesh and BancoSol in Bolivia, the percentages are 95% and 72%, respectively.[1] These high female participation rates have raised a number of research questions and have in turn, inspired a growing number of empirical investigations.

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[1] These figures are calculated as of year 2000 and can be found at www.accion.org (BancoSol) and www.grameen-info.org (Grameen Bank).

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One question that is commonly raised is how a woman's borrowing impacts household consumption. For example, using data from Bangladesh, Pitt and Khandker (1998) estimate how participation in a credit program impacts household consumption, depending on the participant's gender. They conclude that household consumption increases more if a woman takes out a loan rather than a man. On the other hand, Morduch (1999) finds that participation in a credit program in Bangladesh, everything else equal, tends to imply lower household consumption. It turns out that disagreement such as this is rather common in the literature.[2]

Another area of debate surrounds the question of whether a woman's participation in a credit program raises her "bargaining power" or "empowerment" in the household. Hashemi et al. (1996) for example, attempt to measure a woman's empowerment using indicators such as level of mobility, ability to make large purchases, and political and legal awareness. Based on a study in Bangladesh, the authors find that a woman's participation in a credit program raises her empowerment level in the household. However, in other studies, such as Goetz and Sen Gupta (1996) and Rahman (1999), evidence is offered that a woman's participation in a credit program reinforces her dominated role in the household, and in some cases, the loan ends up under the control of her husband.

Analysts have also raised questions about why microfinance programs target women, and why in some cases women exhibit higher repayment rates than men. While a growing number of empirical studies have started to tackle these questions, far fewer attempts have been made at modeling the same research questions.[3] The purpose of this paper is to develop such a model. In doing so, this paper offers a stylized theoretical framework for studying questions that are commonly raised in the empirical literature. For example, we illustrate how a woman's tendency to invest in safer investment projects can be linked to her desire to raise her bargaining position in the household. We also identify a tension in the household regarding investment choice and show how this tension can generate incentives for men to pressure women to make choices not in their best interest.

The foundation of our paper is a stage game with two parts. In the first part of the game, two household members make a few noncooperative production decisions regarding a credit contract and risky business projects. In the second part of the game an aggregate household consumption good is produced, which is then divided between the two members of the household. Under an assumption that there are gains from being household partners, the division of the consumption good is modeled using a Nash bargaining framework.[4] This implies that a player's payoff is sensitive not only to the size of the aggregate consumption good, but also the player's outside option or bargaining strength.

The adoption of the Nash bargaining model is motivated by an implicit assumption that the players cannot commit ex ante, to a specific division of the consumption good. Unable to commit, a player can always demand to renegotiate after production outputs are realized. This aspect of our game fits into the context of the incomplete contracts

[2] Kabeer (2001) surveys some of the literature and points out a number of conflicting conclusions.

[3] Ligon (2001) is an exception, which we discuss below.

[4] See Manser and Brown (1980) and McElroy and Horney (1981). Lundberg and Pollak (1996), Behram (1997), and Haddad et al. (1997) describe various applications of household bargaining models.

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