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What Constrains Financial Inclusion for Women? Evidence from Indian Micro data

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Summary. — The role and relevance of gender in financial inclusion has been an evolving area of research in recent times. Although there are several cross-country studies on this aspect, few within-country studies have addressed this issue in a comprehensive manner. In this context, exploiting disaggregated household-level data for India, we analyze the interface between gender and finance. More specifically, we examine whether gender matters for financial inclusion and if so, what are the possible factors that influence this relationship. Our findings suggest significant disparity in both the access to as well as the use of finance by gender. On average, female-headed households are 8% less likely to access formal finance and 6% more likely to access informal finance as compared to households that are headed by males, after taking into account other relevant household and state-level characteristics that are important in explaining financial access by households. Similar evidence carries over to the use of finance: households headed by female use 20% less cash loans as compared to male-headed households. Subsequently, we investigate the possible channels which impede financial inclusion for female-headed households. Our analysis highlights that for female-headed households, education and wages are more relevant in explaining the access to finance whereas political and social factors are much more germane in explaining the use of finance.
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1. INTRODUCTION

The relevance of financial inclusion in improving economic growth has been widely discussed in the literature. Financial inclusion entails several benefits for poor households. It provides them with opportunities to build savings, make investments and access credit (Ellis, Lemma, & Rud, 2010). In addition, it also enables them to successfully handle income shocks and tide over unforeseen emergencies such as illness or loss of employment (Collins *et al*., 2009). Macroeconomic evidence suggests that economies with deeper financial intermediation tend to grow faster (Beck, Demirguc Kunt, & Levine, 2007).

Notwithstanding its beneficial effects and despite exhortations by the G-20, finance does not appear to have adequately permeated vast segments of the population.[1] In 2014, although 700 million adults became first time account holders during 2011–14, only 62% of adults globally had an account with a formal financial institution as compared with 51% in 2011 (Demirguc Kunt, Klapper, Singer, & Van Oudheusden, 2015). What this suggests is a discernible gap between the availability of finance and its accessibility and use.

One area where the disparity is quite pervasive and is receiving increasing attention is the gender gap in access to finance. Globally, 47% of women own or co-own a bank account, compared with 55% of men (Gender and Development Unit, 2013). How far does this gender gap in financial inclusion manifest itself in emerging economies remains an empirical question.

To inform this debate, the paper analyzes the gender differences in the access to (demand) and use of (supply) of financial services, using India as a case study. To be more specific, we examine three issues. Firstly, what does the evidence suggest regarding the access to and use of finance by gender of the household head? Second, how do these findings vary across household characteristics, such as size, asset base, employment and education? And finally, what are the possible channels which influence the attitude toward finance by gender? We posit several channels of discrimination, such as those relating to cost, social, political, educational and even in the sphere of employment. The findings suggest that there exists significant disparity in access to finance as well as the extent to which it is used. More specifically, households headed by a female are not only less likely to access formal finance than their male counterparts, but their use of finance is significantly lower as well.

The Indian case provides a compelling study to explore this issue in some detail. First, although women account for two-fifths of the workforce, access to finance among women is still very low. To illustrate, nearly 63% of men had an account at a formal financial institution in India in 2014 as compared with 43% for women (Demirguc Kunt *et al*., 2015). Likewise, as regards use of finance, of the estimated US $ 158 billion for the 3 million women-owned enterprises across India, formal sources have been able to provide only US $ 42 billion, leaving a significant unfinanced gap of US $ 116 billion, or 73% of total demand (Annual Report, 2014). Second, the marginalization of females with regard to opportunities has been no less important. Using a non-cooperative model of household behavior within an endogenous growth framework, Doepke and Tertilt (2014) show that bettertargeted transfers at women can ensure Pareto-optimal outcomes. Buvinic (1997) find that the children exhibit better nutritional and health outcomes when the household head is a woman. The 2011 Census data for India indicate that the female literacy rate is 20 percentage points lower than the male literacy rate of 85%. Third, both the Government and the Reserve Bank have undertaken

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several steps to enhance financial inclusion for women. For instance, loans to individual women beneficiaries up to Rs.100,000 per borrower are recognized as priority sector lending under the 'weaker sections' category by banks. The newly constituted Micro Units Development and Refinance Agency (MUDRA), a new institution established to promote lending to micro and small business entities, offers an interest rate concession to non-banking and microfinance institutions which provide loans to women entrepreneurs. In addition, both the Federal and the state governments offer several schemes to enhance financial inclusion of women. The *Sukanya Samriddhi Yojana* (literally, girl child prosperity scheme), a government-backed savings scheme targeted at the girl child, encourages parents to build a fund for the future education and expenses of the girl child. Likewise, several state governments also have conditional cash transfer programs for the empowerment of adolescent girls and women in general, such as those by West Bengal (Kanyashree Prakalpa), Madhya Pradesh (Laadli Laxmi Yojana), Andhra Pradesh (Bangaru Talli), Maharashtra (Bhagyashree) and Uttar Pradesh (Rani Laxmi Bai Pension scheme). Finally, India is one of the few important emerging economies for which a comprehensive and reliable household-level database has recently become available which provides detailed information on both access to and use of finance by gender. The granularity of the database and its rich information content makes it amenable to rigorous statistical analysis.

Our analysis adds to the literature in two distinct ways. First, to the best of our knowledge, this is one of the earliest studies to systematically investigate the issue of access to and use of finance by woman-headed households for an emerging economy. Empirical evidence suggests that gender is a significant determinant of broader macroeconomic outcomes, including economic development (Duflo, 2012).[2] Most studies are typically in the nature of cross-country research (Demirguc Kunt, Klapper, & Singer, 2013b; Lampietti & Stalker, 2000; Quisumbing, Haddad, & Pena, 1995). Even within-country studies do not adequately address the behavior of female-headed households, or even if they do, focus essentially on access alone (Fletschner, 2008; Hazarika & Guha-Khasnobis, 2008; Holvoet, 2005; Rawlings & Rubio, 2005). A broad thread running those these studies is the existence of a significant gender gap, which has been explained by lower financial literacy among women (Lusardi & Tufano, 2009), behavioral differences (Beck & Brown, 2011; Browne, 2006) or even institutional discrimination (Fletschner, 2009). Little, if any, systematic empirical evidence is available for India and this is one of the major concerns addressed by our study. The analysis appears to suggest that households with a female head are less likely to access formal finance, after taking into account several household characteristics and other state-specific controls.

Second, our analysis contributes to the literature on gender discrimination and in particular, the causes for such discrimination. We consider a broad spectrum of measures to understand which of these impede the access to and use of finance (Ashraf, Karlan, & Yin, 2010). Existing studies focus on only one or a few causes of discrimination, such as political (Beaman, Pande, Duflo, & Topolova, 2010; Chattopadhyay & Duflo, 2004; Iyer, Mani, Mishra, & Topalova, 2012), wage-related (Neumark & Stock, 2007), education-related (Coleman, 2002) or even cost-related (Shahriari, Danzer, Giovarelli, & Underland, 2009) factors. Papers that adopt a broader approach by focusing on multiple areas of empowerment are cross-national in nature (Chakrabarty, 2012). As it well recognized, cross-country studies exhibit several limitations (Honohan, 2007; Rodrik, 2012), which makes within-country studies much more appealing. Our findings suggest that political, employment and educational discrimination are relevant in explaining the differential approach toward finance by female-headed households.

The remainder of the analysis continues as follows. Section 2 provides the theoretical backdrop on the link between gender and finance and relatedly, on the interlinkage between financial inclusion and economic growth. Section 3 briefly surveys the recent literature. In Section 4, we provide an overview of the data, including the summary statistics. The empirical framework is detailed in Section 5, followed by a discussion of the results, including robustness checks. Section 7 examines policy concerns while the final section concludes.

2. THEORETICAL BACKDROP

(a) *Gender and finance*

Theoretically, it is possible to discern several ways in which to link the impact of gender on finance.

First, gender equality increases the stock of human capital. A more educated female labor force entails greater accumulation of skills and expertise, and raises the overall demand for finance. Additionally, more educated women are likely to have fewer children and possibly spend more time on work. Not only is this likely to lower the dependency ratio and engender a demographic dividend, but also improve their use of finance. A number of studies in recent times have examined these causal relationships. Klasen and Lamanna (2008) show that gender equality may account for 40% of the growth gap between East Asia and the Pacific. In the case of India, the evidence suggests that increasing the ratio of female to male managers by 10% could improve per capita output by 2% (Esteve-Volart, 2004).

A second channel through which gender equality matters is through its impact on capacity enhancement. By improving the overall skill set of the labor force, gender equality raises labor productivity and promotes investment. In addition to investment, improving women's income can raise domestic savings. This can increase the propensity of women to enter the formal financial system. Seguino and Floro (2003) find that a one percentage point rise in the female share of wages raises aggregate savings by 0.25% of GDP. This could indicate a higher female propensity to save, which can cause domestic savings to rise if income is redistributed from men to women. Higher domestic savings can be channeled through the financial sector, making capital available for firms.

Third, gender equality can improve agricultural output. According to the Food and Agriculture Organisation (FAO, 2011), greater access to farming resources for females can improve agricultural production on women farms in developing countries by as much as 4%. Provided that some of the income derived thereof also accrue to women, this is likely to empower them to access the formal financial system.

(b) *Financial access and development*

Development theory offers useful insights as regards the impact of financial inclusion on economic development. A lack of access to finance can engender inequality and lead to poverty traps (Aghion & Bolton, 1997; Galor & Zeira, 1993). To illustrate, Galor and Zeira (1993) show that financial market frictions impede investment in education by the poor, thereby fomenting a vicious cycle of low income and low productivity, which in turn, constrains development. Likewise, in the

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