



## Gender and the impact of credit and transfers

*Ignoring gender in the planning and evaluation of credit and transfer programs can lead to erroneous conclusions about who benefits from them.*

Access to institutional credit and targeted transfers can be an important mechanism in poverty reduction, social protection, and income redistribution programs. These formal sources of financing, however, may undermine traditional sources of support, such as inter-household transfers and informal credit from neighbors. The likelihood and the consequences of this happening depend in part on whether institutional transfers and credit target men or women, whether men and women have access to the same sources of financial support, and whether using institutional credit or transfers challenges conformance to traditional gender roles.

The gender dimensions of public transfers and credit discussed in this note have the following policy implications:

- When deciding to whom to target public transfers or credit, placing resources in the hands of women may benefit households more than targeting men.
- Depending on the current sources of financial support for men and women, institutional credit and public transfers may have to compensate them differently for the potential loss of informal financial support.
- Evaluation of public transfer and credit programs should assess the differential impact that credit and public transfers have on men and women via any substitution effects on informal sources of financing; the impact on household welfare via changes in the intra-household distribution of resources; and the impact on those who send informal transfers and credit to the household.

### The added gain from granting transfers and credit to women

Improved access to credit and transfers (in-kind and cash) has important benefits for poor families. Credit programs can increase productivity and earnings from self-employment. By providing additional resources in times of stress, in-kind and cash transfers help poor households overcome short-term poverty, manage risks, and invest in more productive but riskier assets (Ravallion 2003).

Credit and transfers have important additional effects when granted to women. Program evaluations in countries as diverse as Bangladesh, South Africa, and the United Kingdom have found that credit and transfers in the hands of women result in greater spending on children's human capital, improved health and nutrition for both boys and girls, and increased access to formal health care for women. Studies from around the world of the relationship between the share of resources controlled by women and the proportion of household resources going to family welfare, particularly to expenditures on children, have come to similar conclusions. Empirical evidence in Brazil, Côte d'Ivoire, Ethiopia, Indonesia, and South Africa indicates that this effect is independent of the source of women's resources (World Bank 2001).

In addition, female borrowing has a greater impact than male borrowing on household's ability to smooth consumption over time (World Bank 2001). In countries such as Bangladesh, where social norms and household work may prevent women from looking for paid employment outside the

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household, microcredit allows them to be self-employed at home (Khandker 1998).

### **Sources of credit and transfers**

Individuals can receive credit, monetary transfers, and in-kind transfers from formal institutions such as banks, microcredit organizations, and governmental programs or from informal sources such as friends, family members, moneylenders, and shopkeepers. How much individuals receive from each of these sources varies, among other things, according to their sex and the community in which they reside.

In countries like Malawi and Bangladesh, where microcredit organizations have a large presence, women are more likely than men to receive loans from formal sources. However, loans to women are generally smaller than loans to men (McKernan, Pitt, and Moskowitz 2004; Diagne and Zeller 2003).

Evidence about whether men or women receive more credit and transfers from informal sources is mixed. In some cases, these transactions are more likely to be directed towards women than towards men. In Peru and Mexico, for example, female-headed households have a higher probability than male-headed households of receiving transfers from non-cohabiting children (Cox and Jimenez 1992; Teurel and Davis 2000). In other cases, for example Malawi, loans from family members, friends, and moneylenders are equally distributed between men and women (Diagne and Zeller 2003). In still other cases, men are more likely than women to receive credit or transfers from informal sources. In rural Bangladesh, for instance, men receive 70 percent of all credit and transfers from family members, friends, neighbors, and moneylenders and send 95 percent of all interhousehold transfers (McKernan, Pitt, and Moskowitz 2004).

### **Theoretical relationship between formal and informal transfers and credit**

Ideally, transfers from formal institutions should increase the income of a household or individual by the same amount that is being transferred. However, the effect of formal transfers may be less than intended because these transactions can result in a decrease in the amount that households or individuals receive from informal sources. This hypothesis is known as “crowding out” (Becker 1974).

According to Becker (1974), when informal transfers are based on altruism, charitable persons increase the amount they give when their income increases, and decrease the amount they give when the income of their beneficiary increases. When informal transfers are not motivated by altruism but by exchange (e.g., in return for childcare) or by self-interest (e.g., in return for inheritance), informal transfers need not necessarily decrease with an increase in the beneficiaries’ income (Cox 1987).

The literature considers other reasons to expect a correlation between credit and transfers from formal and informal sources. However, the predicted direction of the correlation is ambiguous. Some authors argue that subsidized credit programs such as microcredit and government lending may worsen the terms and availability of loans offered by moneylenders and thus decrease lending from informal sources (Hoff and Stiglitz 1998). Others, like Jain (1999), argue that there may be a positive correlation because formal institutions may condition their lending on cofinancing from informal sources.

### **Empirical evidence on the relationship between formal and informal transfers and credit**

The empirical evidence to date suggests that: 1) few households borrow or get transfers from both formal and informal sources; 2) formal credit and transfers diminish, but do not completely eliminate, the informal transfers and credit that flow into a household; and 3) the effect that formal credit and transfers have on informal credit and transfers received and sent can depend on the gender of the borrower.

Evidence from India, Nepal, and Bangladesh suggests that few households borrow or get transfers from both formal and informal sources (Kochar 1997; Besley, Jain, and Tsangarides 2001; McKernan, Pitt, and Moskowitz 2004). Because men and women do not have the same access to formal and informal credit and transfers, the simultaneous use of formal and informal sources is even less frequent when one looks at transactions separately by gender. In rural Bangladesh, 49 percent of households received some type of formal or informal credit or transfer during 1998, but only 6 percent received credit or transfers from both sources. Women received some kind of formal or informal

credit or transfers in 30 percent of the households, but in only 2 percent of the households did women receive transfers or credit from both sources. Similarly, men received some kind of formal or informal credit or transfers in 24 percent of the households, but in only 2 percent of the households did men receive transfers or credit from both sources (McKernan, Pitt, and Moskowitz 2004).

Why households rarely rely on both formal and informal sources for credit or transfers is unclear. One possibility is that formal sources reach individuals who are unable to access money from informal sources. Another possibility is that microcredit organizations and other formal sources may be crowding out the informal sector, replacing informal with formal credit and transfers.

The few causal analyses that examine whether formal sources crowd out informal sources do find some evidence of crowding out. However, in none of these studies does an increase in credit and transfers from formal institutions completely substitute for credit and transfers from informal sources. For instance, Rosenzweig and Wolpin (1994) found that in the United States, increases in welfare benefits only marginally reduced the proportion of young women who receive parental support in the form of shared housing and cash transfers. Cox and Jimenez (1995) ran simulations using data from the Philippines and found that an increase in unemployment insurance would reduce, but not eliminate, the amount that households receive through interhousehold transfers.

Gender plays a role in whether formal transfers and credit crowd out informal transfers and credit. However, the literature finds inconsistent conditioning of the correlation between formal and informal transfers by sex. In some instances, the crowding out is greater for females than for males, but in others, the crowding out is similar for both sexes. The extent of crowding out appears to depend on, among other things, the social norms governing the economic responsibilities that adult children have for their parents and whether engaging in institutional credit or transfers challenges conformance to society's gender norms.

In their study of rural Bangladesh, McKernan, Pitt, and Moskowitz (2004) found that formal microcredit provided to men and women reduces net informal transfers into the household, but to a different

extent for women and men and for different reasons. A 100 Taka increase in microcredit granted to men causes a 31 Taka decrease in the household's net flow of informal transfers and credit. This change is caused by an increase in the amount that the men in the household send to relatives as gifts and loans. A 100 Taka increase in microcredit granted to women causes a somewhat smaller decrease in the household's net flow of informal transfers and credit (25 Taka), but the change is caused by a reduction in the gifts and loans that the household receives from relatives rather than by an increase in the gifts that the household sends to other households. The authors suggest, based on conversations with Grameen Bank officials and the nature of traditional gender roles in Bangladesh, that the loss of gifts to households in which women receive microcredit results from a perceived decrease in the economic need of the household and a backlash against women who gain economic independence.

The extension of the Old Age Pension Program (OAP) in South Africa is a case where the gender of the beneficiary does not make any difference in how much interhousehold transfers change in response to institutional transfers. Jensen (2003) finds that a one-rand increase in both male and female income from old age public pensions leads to a 0.25 to 0.30 rand reduction in transfers from children living away from home. That the OAP is a society-wide program that covers everyone who is not covered under occupational pensions may contribute to the program having the same effect on men and women. So, too, may less differentiated gender roles than in countries like Bangladesh.

### **Policy implications**

Evidence suggests that credit and transfers in the hands of women have additional household benefits—such as improved health and nutrition for both boys and girls—over credit and transfers in the hands of men. Consequently, it is important for programs to target women, especially in countries such as Bangladesh, where few women receive gifts and loans from informal sources.

Evidence also suggests that formal credit and transfer programs reduce net credit and transfers from informal sources, and that this effect may differ for men and women. It is important to keep these differences in mind when deciding which household member to

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target as well as the amount to provide as a credit or transfer. For example, the amount lent or transferred to women from institutional sources may have to be larger in countries with traditional gender roles where women receive less informal support and face greater degrees of crowding out than do men.

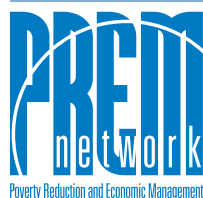
Finally, this note points to three important implications for program evaluation. First, it is critical for evaluations to assess the differential impact of credit and transfer programs on men and women's access to informal credit and transfers. Second, credit and transfer programs are likely to change the intra-household distribution of resources both directly and indirectly (through changes in informal sources of financing.) Program evaluations need to explore the impact of these changes fully since resources in the hands of women tend to benefit households more than in the hands of men. Third, some of the benefits of credit and transfer programs will be shared with third parties—those who send and receive informal transfers and credit to the household. It is likely that many of these third party impacts are positive. Formal programs will improve the welfare not just of program participants, but of related nonparticipants. However, men and women often have different probabilities of sending informal credit and transfers, and thus of benefiting through third party effects. Sex-disaggregated measures of these indirect benefits are needed to assess the full impacts of credit and transfer programs.

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