International Initiative for Impact Evaluation

Working paper brief
Social protection

Do financial inclusion schemes empower women? Evidence on what works from India's National Rural Livelihoods Project

Group-based financial inclusion and livelihoods programmes that target poor women are a popular means of promoting women's empowerment. However, reviews of microcredit schemes reveal insignificant effects of many such programmes on women's decision-making. One explanation is that the magnitude of loan amounts is frequently insufficient to change women's status within the household. This brief summarises results from a study that tests this hypothesis using data from an evaluation of India's National Rural Livelihoods Project (NRLP). A group of researchers from Stanford University, Vrutti Livelihoods and the International Initiative for Impact Evaluation (3ie) analysed data from 11,200 households, covering 2,488 self-help groups (SHGs) in 8 states. The study finds that access to large loans significantly improves women's decision-making power within the household, while small loans do not have such an effect.

Under the NRLP, women's SHGs could substantially increase loan amounts to members upon receiving a corpus called a community investment fund (CIF). This amount varied significantly across states, and SHGs received the corpus at different points in time. These variations – not available in studies that evaluate the programme in just one state or in a narrowly defined geographical area – enabled the researchers to identify the effect of SHG loan size on women's empowerment over time.

Highlights

- Larger CIFs significantly increased women's decision-making ability within the household. They allowed SHGs to provide larger loans that women used to invest in more productive assets.
- Smaller loans improved household outcomes without enhancing women's bargaining power within the household. Thus, programmes that enable small loans for women do not differ in their effect on women's empowerment from those that enhance a household's financial inclusion without targeting women.
- Variations in CIF amounts among states, and in the timing of SHGs receiving CIF funding, suggested that improving implementation can significantly enhance programme benefits for women.

Sample and methodology

This analysis used data from a large evaluation of the NRLP conducted in early 2019. The evaluation selected SHGs from extensive census data using the NRLP's national and state programme management information system. Surveyed SHGs included those formed in both early and late phases of the programme. The sample for this analysis is restricted to functioning SHGs formed between 2012 and 2019[1] and SHG-member households with at least one male member over the age of 15. The 11,200 survey households spanned 2,488 SHGs from the states of Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Maharashtra, Rajasthan, Odisha and Uttar Pradesh.

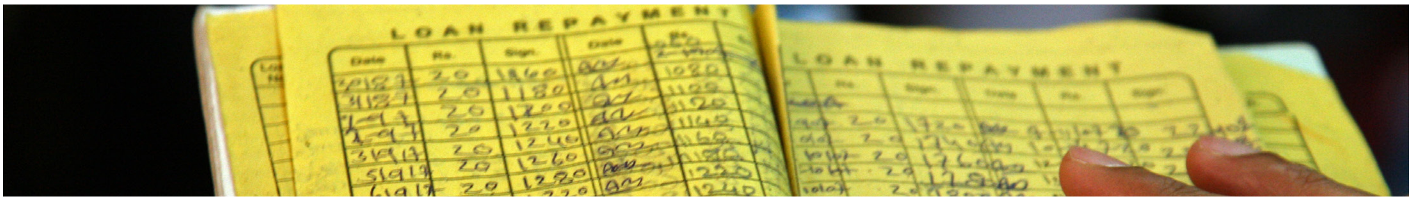
Surveyed SHGs provided rich data, including the exact amount and date of receipt for CIF funding and all other external and internal sources of funds, such as member savings. Additional questionnaires included a household survey and a 'women's module' that gauged women's decision-making power within the household. For this, a randomly selected woman in the 18–50 age group (or an older woman if none were in this age bracket) was asked about her role in decision-making according to a set of 26 outcomes.[2] A score of 1 was given for each outcome if the respondent stated that she was fully or primarily responsible for decisions.[3]

The survey data reveal that the average household had expenditures that exceeded income, thereby necessitating loans to bridge this deficit. Households spent a very high proportion of their income on food (42%), with a small proportion (6%) going towards clothing and schooling. Of all households, 33 per cent belonged to scheduled castes and tribes. Among respondents of the 'women's module', the highest level of schooling was 4.8 years – just short of the five years required to complete primary school.

Two programme implementation factors enabled estimates of the impact of CIF fund disbursement:

- The amount of CIF funds provided to each SHG varied between INR30,000 and INR1,10,000 across states. In this paper, states that provided low CIF amounts have been called 'low intensity', and those that provided high CIF amounts are termed 'high intensity'.
- Uneven programme implementation caused considerable variation in the timing of CIF fund receipt, even for SHGs within a state formed in the same year.

The variation in CIF amounts among states and in the timing of their receipt across SHGs enabled application of a difference-in-difference methodology that compares outcomes across SHGs with and without receipt of CIF funds in high-intensity versus low-intensity states. The results were subjected to an extensive set of falsification tests to ensure their credibility.



Context

Group-based programmes that facilitate women's savings, access to credit and improvements in incomes are popular means of promoting women's empowerment. The underlying premise of these programmes is that improving women's financial standing enhances their status within the household, thereby diluting social norms that restrict women's choices, opportunities and welfare. In India – a country with a long history of groups working towards a common economic cause – the Ministry of Rural Development launched the National Rural Livelihoods Mission in 2012. Within the ambit of this mission, the NRLP was formed to build capacity and foster an enabling environment to support scale-up. Women's SHGs were formed in select blocks[4] of 100 high-poverty districts across 13 states.

Evaluations of such programmes show mixed effects on women's empowerment. An evidence review of randomised control trials of microcredit programmes (Banerjee et al. 2015) found no impact in three of the four programmes that examined impacts on women's decision-making. A systematic review of SHGs (Brody et al. 2017) suggested an overall positive effect on women's economic and political empowerment. However, another review (Gash 2017) found positive effects in only half of the studies. A recent evidence review of women's groups focused on livelihoods enhancement (Jayachandran et al. 2020) revealed mixed results on measures of women's decision-making.

This brief explains these mixed results by hypothesising that changes in women's intra-household bargaining power require large improvements in access to economic resources such as loans. There is evidence linking large stimuli or cash transfers to significant impacts in Kenya (Egger et al. 2019) and Mexico (Angelucci et al. 2018). Chiappori and Mazzocco (2017) emphasise that improving women's bargaining power requires interventions large enough to realise their threat points. Threat points represent what women's economic positions would be if there is a breakdown in cooperation within their marriages. Though many welfare programmes in India provide funds to women, only those that would sustain them regardless of their relationships with their husbands would change their bargaining power. CIF funds, when large enough, are able to do this, as women can access SHG loans regardless of their marital status. Grants such as those given for institutional childbirth fall within the marriage life cycle and enhance household income, but not women's bargaining power.

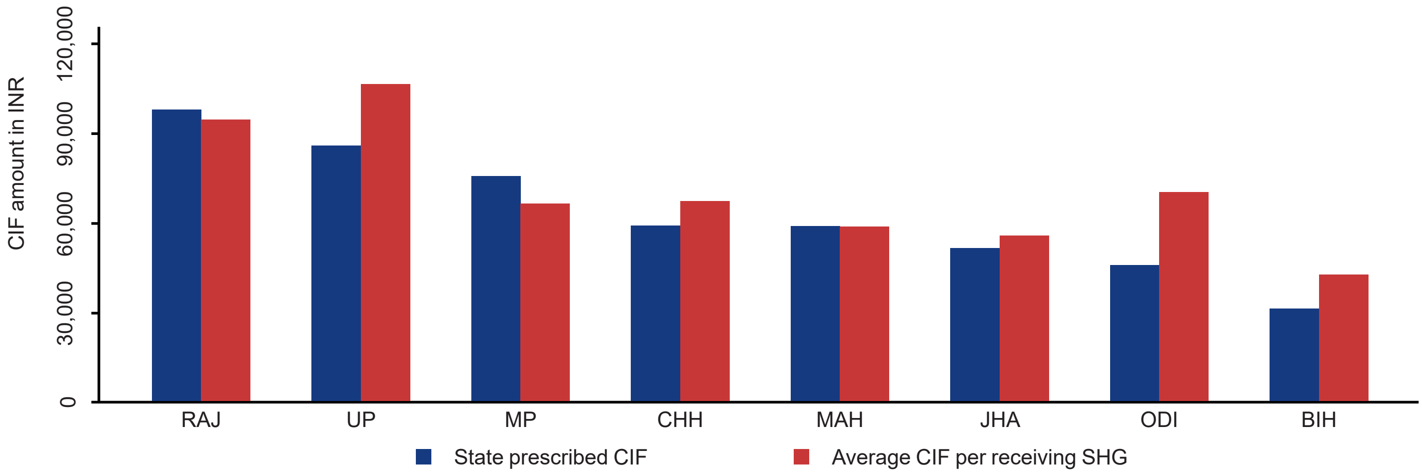
Key findings

Access to more economic resources impacts social norms: This study found strong evidence that women's access to large financial resources enhances their decision-making roles in the household. Small loans improve savings and household financial position but don't significantly benefit women.

CIFs improve women's empowerment over time: CIF amounts differed by state, ranging between INR30,000 and INR110,000 (Figure 1). In low-intensity states like Bihar, where CIF funds were approximately one third of the maximum amount provided by any state, earlier studies (e.g. Hoffman et al. 2017) found little aggregate effect on women's empowerment.

Controlling for confounding factors, the authors found that an additional CIF provision of INR33,000 to SHGs in high-intensity states (average CIF amount of INR81,000) relative to low-intensity states (average CIF amount of INR48,000) translated to a 16 per cent improvement in women's bargaining power. Findings also support the study assumption that outcomes change as SHGs age: improvements in the decision-making index were statistically insignificant for SHGs that had only received CIF funds but were positive for older SHGs.

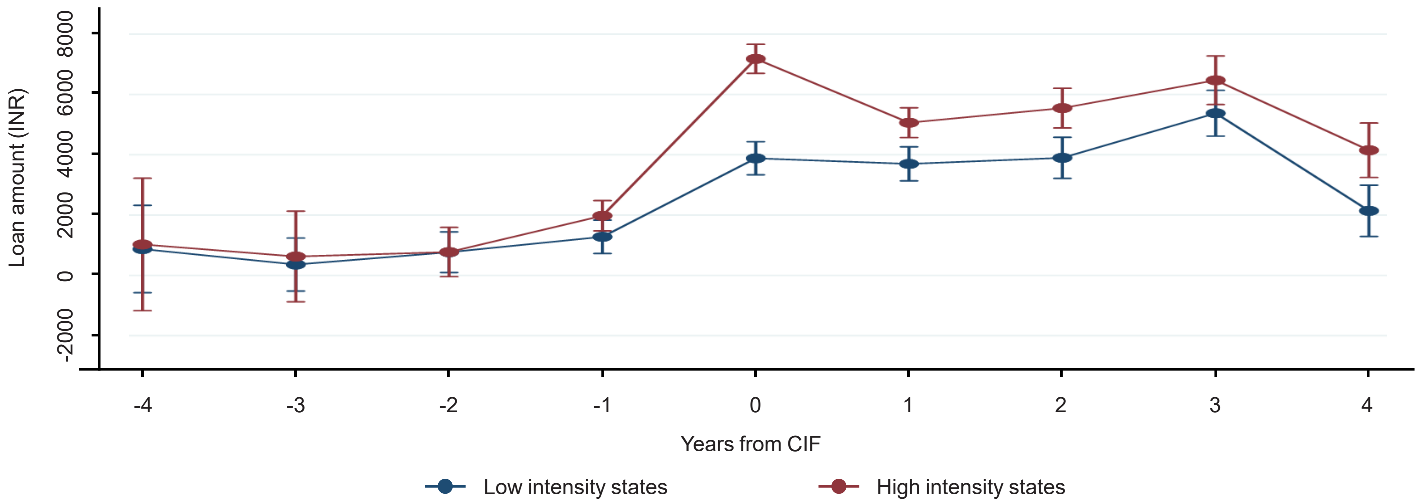
Figure 1: CIF amount by state



CIFs improved loan amounts: This CIFs enabled increases in SHG loan amounts, which were used for more investments in productive assets. In early stages of an SHG life cycle, members access loans only from accumulated internal savings. Each SHG member in the sample saved between INR10 and INR100 per month, averaging INR30 per member. These small savings accumulated to enable average borrowing of INR4,150 per woman who reported taking an SHG loan.

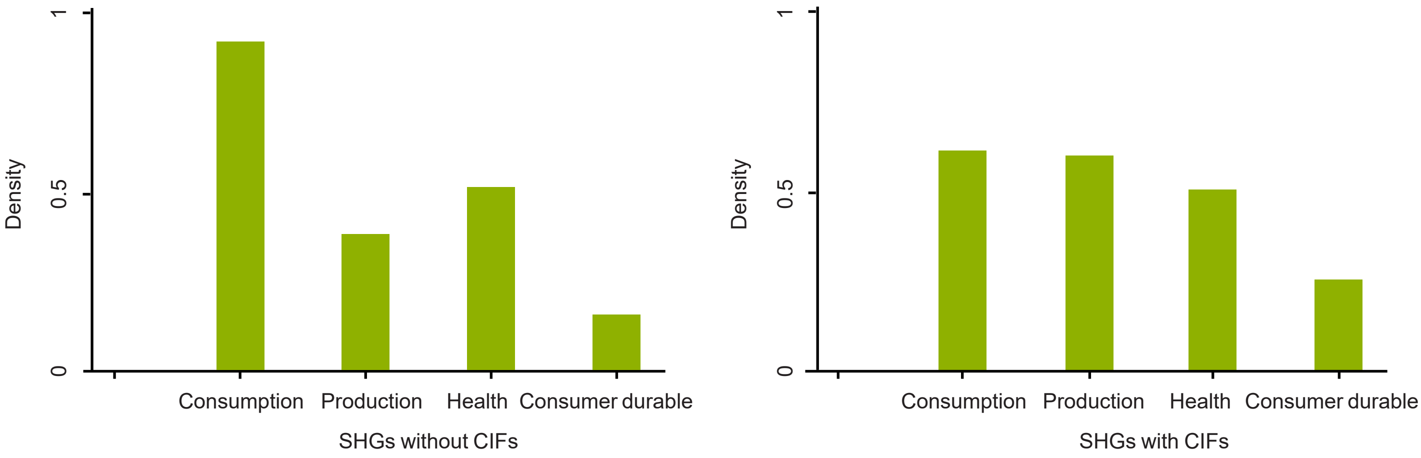
While loan amounts were initially similar across states, CIF infusion increased them by about INR2,500 in low-intensity states and by about INR5,500 in high-intensity states (Figure 2). These larger loans, when repaid with interest, kept increasing the SHG's corpus for internal lending. CIFs increased average borrowing not only substantially, but also sustainably. While the difference in loan amounts between high- and low-intensity states narrowed over time, loans in the former group of states continued to exceed the amounts provided in the latter. The change in loan amounts can be attributed to CIF infusion, as loans from other formal and informal sources did not vary.

Figure 2: SHG loans by year from CIF and state group



CIFs improved loan use for productive purposes: Upon CIF infusion, loan use for productive purposes increased from 16% to 25% and loan use for consumption decreased from 60% to 46% (Figure 3). Therefore, CIFs increased investments in productive assets and improved household incomes.

Figure 3: Purpose of SHG loans



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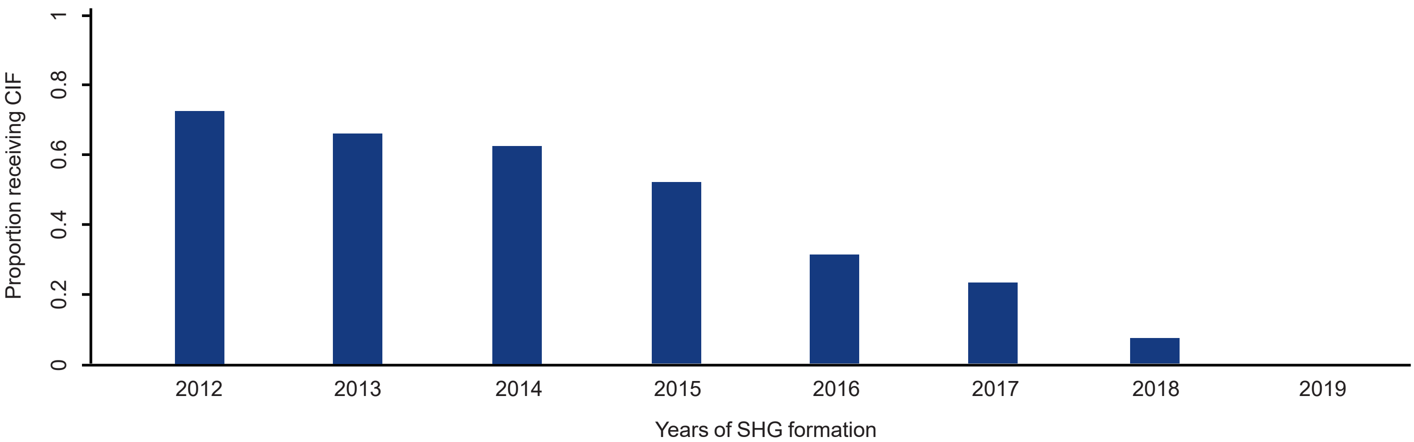
CIF disbursement delays were attributed to implementation constraints, not SHG performance: Programme guidelines require SHGs to meet certain quality standards to receive CIF funding. These include adherence to *Panchsutras* (the five guiding principles of the National Rural Livelihoods Mission) and receiving training in preparing micro-investment plans, which evaluate the borrowing needs of each member based on their resources. The aggregate SHG score on *Panchsutra* adherence was 2.5 out of 5, and only 12 per cent reported having prepared a micro-investment plan. However, 37 per cent of SHGs reported receiving CIF funding. CIF disbursement improved with SHG age (Figure 4). While 23 per cent of SHGs formed in 2012 were yet to receive funds at the time of the survey, this figure almost doubled to 44 per cent for SHGs formed in 2015.

Therefore, SHG age, not quality, primarily determined access to CIF funds. Government reports and discussions with officials attributed delays to lags in administrative capacity relative to the rapid rate of SHG growth.

Figure 4: Year of SHG formation and receipt of CIF funding



Conclusion

The study concluded that access to larger CIF funds significantly increases women's bargaining power within the household only when relatively large loan amounts are made accessible to them. The study supports the hypothesis that access to small loan amounts does not have a similar effect, which implies that targeting funds to women only changes behaviour if these funds are sufficiently large in size. The findings from the study have significant policy implications; they highlight that a focus on women's financial inclusion through access to bank accounts, savings mechanisms, and loans from SHGs and banks must be complemented with a similar focus on the magnitude of funds that these institutional arrangements make available.

Recommendations

To improve women's empowerment through financial inclusion programmes by:

- Focusing on quantum of financial resources alongside coverage in policy formulation.
- Making higher amounts of credit available to women.
- Improving administrative capacity to ensure timely disbursement of funds to SHGs.

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Endnotes

[1] In Madhya Pradesh, the normal pattern of phasing across blocks, clusters and villages was not observed for NRLP blocks but was observed in a set of blocks implementing an earlier World Bank programme (DPEP) that followed the same guidelines. Hence, the Madhya Pradesh sample includes SHGs formed between 2009 and 2012 with different guidelines for receiving CIF funds.

[2] These entailed expenditure on food; kitchen items; fuel; household durables; clothing for men, women and children; and weddings and other ceremonies. Additionally, we asked who made decisions regarding: choice of schools for children; types of healthcare providers (for women, men and children); home improvements, including construction of toilets; sale of land; stocks of food grains maintained and sales from stocks; and the acquisition of loans from different sources (SHGs, formal institutions, informal institutions, and relatives and friends).

[3] The question asked was, 'What do you think is your input into [DECISION]?'

[4] A community development block, or block, is a subdistrict-level administrative unit in rural India. Each block consists of several *gram panchayats* – local administrative units at the village level.

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About this brief

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