

RESEARCH PEARLS | FEDU PEARL #16

In our series “Research Pearls” we are providing first-hand insights into our dynamic and powerful diaries research. In this edition attention will be given to loans: how common is it for people to apply for loans, where do they apply for them, what kind of differences exist among gender and how likely do loans get approved?

Loan Requests – Dynamics and Patterns

Every two weeks, the respondents from the FEDU research were asked whether they had applied for a loan the past two weeks. In 9% of these interviews the respondents said “yes, I applied for a loan”.

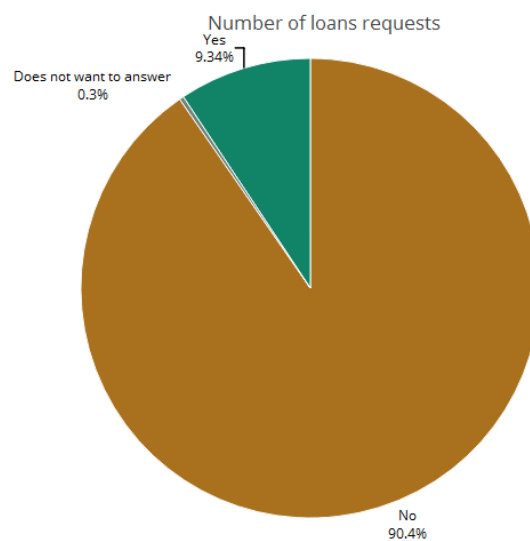


Figure 1: Number of loan requests

Of those who applied for a loan, the majority got their loan approved.

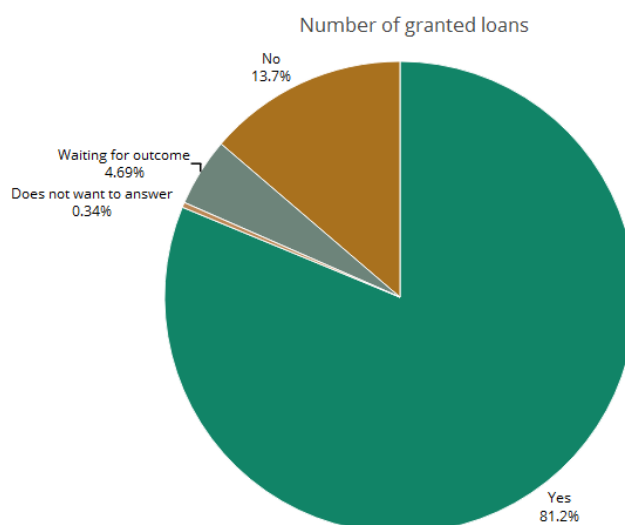


Figure 2: Number of granted loans

Among the loan applicants, there were only 13.7% who got a rejection; another 4.69% of them were still waiting for the decision.

The large majority of respondents applied for loans from informal loan sources, just 12% chose formal.

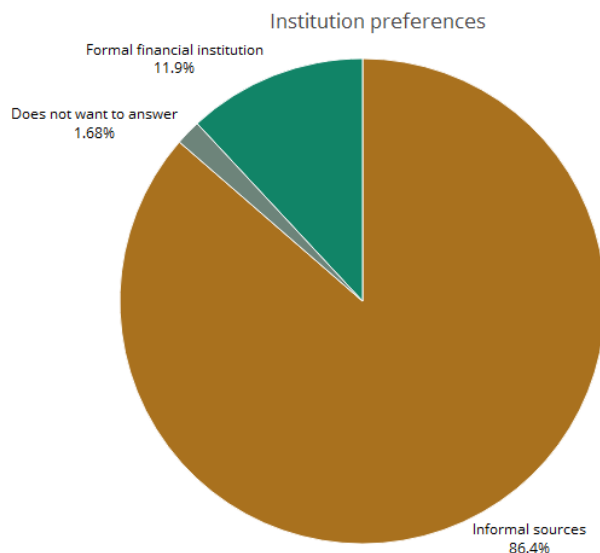


Figure 3: Types of institutions

Women are practically as likely to apply for a loan as men. In 9.15% of the interviews with female respondents a loan request in the past two weeks was reported, for male respondents it was only slightly higher (9.62%)

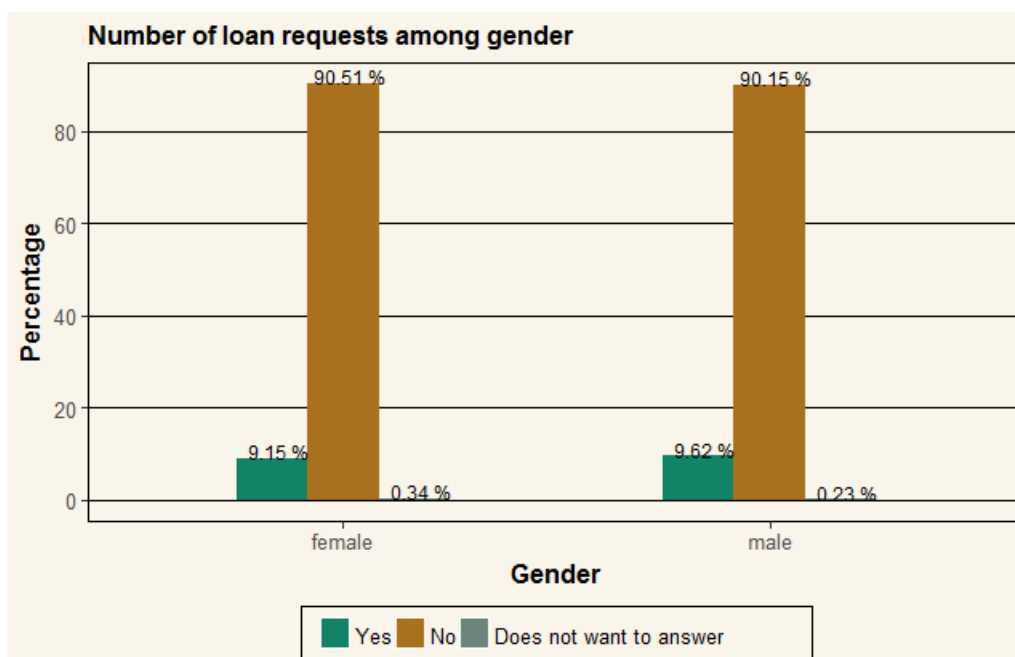


Figure 4: Number of loan requests among gender

However, there is a gender difference relating to the source from where loans are requested. Women are more likely to apply for an informal loan, only 8.31% of the female loan applicants request a formal loan, whereas men are a little more likely to apply for a formal loan (17.07%).

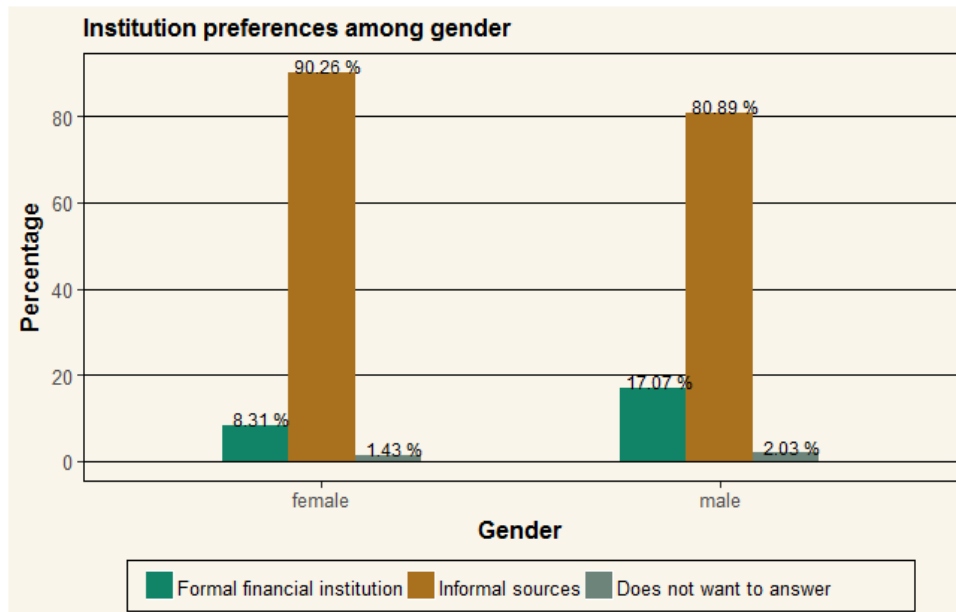


Figure 5: Institution preferences among gender

On the other hand, it is a somewhat more probable that women get their loan approved relatively to men. 88% of the women get their loan approved against 72% of the men. Concerning loan rejections among men, 21% are refused while 6% are still waiting for the outcome. Compared to this, women get a rejection in 8% of the cases and 4% are waiting for the outcome.

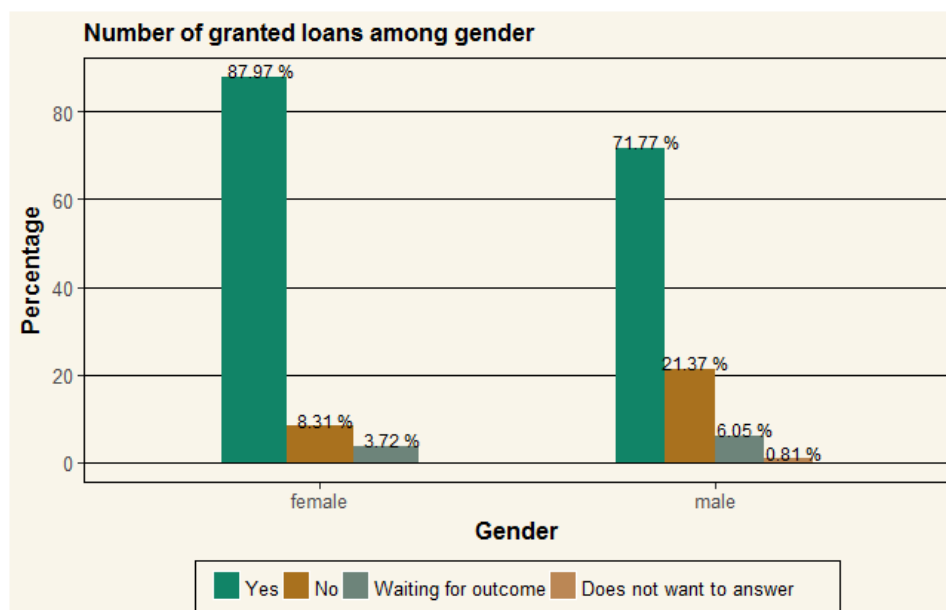


Figure 6: Number of granted loans among gender

As could be observed, the gender differences were only modest in terms of behavior patterns when dealing with loans. Variation across age, urban/rural, and wealth level seemed to be even less prevailing. At least it can be claimed that patterns are quite similar within all segments when talking about “loan request behavior”.

The number of loans approved in formal financial institutions was 70.42%, while approvals from informal sources are higher (83.46%). There is no big difference between formal and informal financial institutions in relation to the number of ungranted loans. However, as can be observed in the graph below, there is considerable difference in relation to “waiting for outcome”. Within formal institutions, the number of respondents still waiting for their loan to be either approved or rejected is significantly higher (14.08%) as compared to informal sources (3.11%).

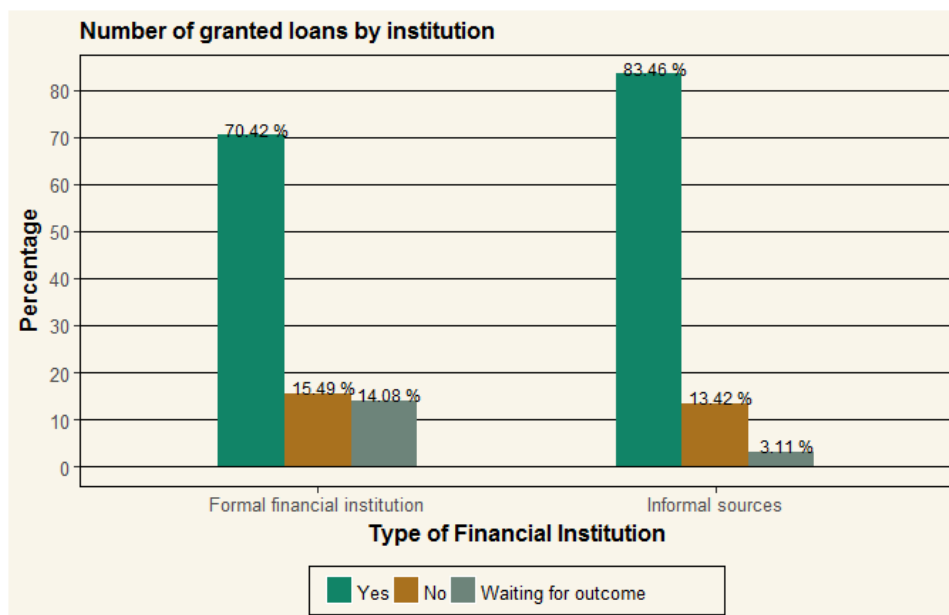


Figure 7: Number of granted loans by institution

What does this mean for Financial Service Providers?

First of all, the data tells us that during a period of two weeks roughly one out of ten people apply for a loan. This is a sizeable number considering that it relates to mostly new applicants every two weeks. As many as half of the respondents apply for a loan during a six months period, the majority (86%) applies for informal loans and most of them get their loans approved.

This puts the service offered by formal financial institutions in perspective. Compared to informal loan sources, it usually takes a while until formal institutions take a decision, which makes them less attractive. Another surprise may be that men are more likely to apply for a loan with formal financial sources, while it is usually presumed that microfinance, a formal service provider, serves primarily women.

There is still a lot more to explore. This will take place in coming research pearls.