This paper "illustrate[s] the usefulness of using the credit limit to assess the extent of households' access to credit and the binding of their credit constraints."
existing informal credit market. An important step for obtaining this policy-relevant information is to quantify the extent and determinants of households’ access to nonformal and formal credit markets as well as the severity of their credit constraints.

**Previous Methodologies and Their Shortcomings**

The paper briefly reviews the two main methodologies that have been used to measure household access to credit and credit constraints. The first method tries to detect credit constrained households through tests of violation of the life-cycle/permanent income hypothesis. Empirical evidence from this methodology regarding presence or absence of credit constraint has been inconclusive, mostly because violation of the implications of life cycle/permanent income hypothesis is neither a sufficient nor necessary condition for being credit constrained.

The second main method of measuring access and detecting credit constraint collects household-level credit market information directly from household surveys to determine whether households are credit constrained. This classification is then used in reduced-form regression equations to analyze the determinants of the likelihood of a household being credit constrained and the effects of this likelihood on various household outcomes. Despite representing a substantial improvement in comparison to the first method, it is still incapable of providing the framework that allows one to quantify the extent to which households are credit constrained or to satisfactorily assess the impact of access to credit on household welfare outcomes.

**The New Methodology**

The methodology presented in this paper corrects the shortcomings of the direct method by developing a conceptual framework and data collection methodology that focus on the concept of credit limit. This focus is justified by the fact that every potential borrower faces a credit limit because of asymmetries of information between borrowers and lenders and the imperfect enforcement of loan contracts. Therefore, a household’s credit limit from any given source of credit is the best measure of its degree of access to that source of credit.

Furthermore, the changes in household behavioral and welfare outcomes in response to changes in its credit limit represent the effects of access to credit (or improvement in access) on those household outcomes. Hence, once data are collected on households’ credit limits, econometric analysis allows one to quantify the determinants of the extent of households’ access to credit as well as the effects such access have on household welfare outcomes. This data has been collected for the first time in IFPRI surveys conducted in Bangladesh and Malawi.

The authors present descriptive summary statistics from the two surveys, which illustrate the usefulness of using the credit limit to assess the extent of households’ access to credit and the binding of their credit constraints.

**Keywords:** credit, Bangladesh, Malawi, research methods

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