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The miracle of microfinance? Evidence from a randomized evaluation*

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Abstract

This paper reports results from the randomized evaluation of a group lending microcredit program in Hyderabad, India. A lender worked in 52 randomly selected neighborhoods, leading to an 8.4 percentage point increase in takeup of microcredit. Small business investment and profits of pre-existing businesses increased, but consumption did not significantly increase. Durable goods expenditure increased, while "temptation goods" expenditure declined. We found no significant changes in health, education, or women's empowerment. Two years later, after control areas had gained access to microcredit but households in treatment area had borrowed for longer and in larger amounts, very few significant differences persist. JEL codes: O16, G21, D21

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Research brief available here.

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