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### Small individual loans and mental health: a randomized controlled trial among South African adults

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#### Abstract

**Background:** In the developing world, access to small, individual loans has been variously hailed as a poverty-alleviation tool – in the context of “microcredit” – but has also been criticized as “usury” and harmful to vulnerable borrowers. Prior studies have assessed effects of access to credit on traditional economic outcomes for poor borrowers, but effects on mental health have been largely ignored.

**Methods:** Applicants who had previously been rejected ( $n = 253$ ) for a loan (200% annual percentage rate – APR) from a lender in South Africa were randomly assigned to a “second look” that encouraged loan officers to approve their applications. This randomized encouragement resulted in 53% of applicants receiving a loan they otherwise would not have received. All subjects were assessed 6–12 months later with questions about demographics, socio-economic status, and two indicators of mental health: the Center for Epidemiologic Studies – Depression Scale (CES-D) and Cohen’s Perceived Stress scale. Intent-to-treat analyses were calculated using multinomial probit regressions.

**Results:** Randomization into receiving a “second look” for access to credit increased perceived stress in the combined sample of women and men; the findings were stronger among men. Credit access was associated with reduced depressive symptoms in men, but not women.

**Conclusions:** Our findings suggest that a mechanism used to reduce the economic stress of extremely poor individuals can have mixed effects on their experience of psychological stress and depressive symptomatology. Our data support the notion that mental health should be included as a measure of success (or failure) when examining potential tools for poverty alleviation. Further longitudinal research is needed in South Africa and other settings to understand how borrowing at high interest rates affects gender roles and daily life activities. CCT: ISRCTN 10734925

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