

Expanding Micro-Enterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila

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In order to study the impact of microcredit on entrepreneurs in Manila, the authors worked with a lender in Manila who undertook an expansion by randomly accepting some marginally credit-worthy loan applications. The researchers conducted a follow-up survey to measure the effects of this credit expansion on borrowing, business, and social outcomes. Compared to marginally credit-worthy applicants who did not receive approval of their loans, there is some evidence that the business profits of those in the treatment group increased. Households given the opportunity to borrow invested less in the target business, spent less on labor, and substituted away from formal insurance. These effects were stronger for male and higher-income entrepreneurs. Together, the results suggest that microcredit works broadly through risk management and investment at the household level, rather than directly through business investment as is typically claimed.

Approving at the Margin & Following Up

The researchers worked with an established lender to investigate the impacts of credit on applicants for individual liability loans. Using credit-scoring software, they identified a sample frame of 1,601 marginally credit-worthy applicants, 1,272 of whom were then randomly selected for loan approval. The follow-up surveyors were able to interview 654 individuals who received loan approval and 459 individuals who did not. The survey was conducted between 11 and 22 months after the applicant submitted his or her loan application. It included questions about the applicant's business, household resources and demographics, household member occupation, consumption, subjective well being, and political and community participation.

Results

The authors find that marginally credit-worthy applicants who received loan approval have an increased likelihood of borrowing from the lender or a close substitute, and there is evidence that this credit composition shift contributed to an increase in total formal sector borrowing. This is important to show that rejected loan applicants did not simply obtain loans elsewhere. There is some evidence that business profits increased for male entrepreneurs, but not for

female entrepreneurs, in the treatment group. Households with a male applicant were also significantly more likely to enroll their children in school. Results by income suggest that higher income households in the treatment group also had higher business profits, and potentially higher returns to capital, than lower income households in the treatment group. Interestingly, it seems that profitable businesses achieved higher returns by shedding unproductive workers; treatment households spent less on labor and more on education. They also spent less on formal insurance, suggesting that access to credit is a substitute risk management strategy.

Policy Implications

The results call into question the rationale behind microcredit targeting women and microentrepreneurs to the exclusion of men and wage earners. These groups' households may benefit just as much, if not more, from their access to credit. The results also highlight the importance of replicating tests and program evaluations across different settings, and support the idea that the financial arrangements of households in developing countries are complex and should be evaluated as such. Changing access to financial services has implications beyond business outcomes, which are not a sufficient statistic for household welfare.