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**Evaluating Microfinance Program Innovation with Randomized Controlled Trials:  
Examples from Business Training and Group versus Individual Liability\***

For the workshop titled, "Using Research Findings to Improve Design of Products  
and Services" at the 2006 Microcredit Summit

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**Abstract**

This paper presents an application of the randomized controlled trial methodology to evaluating modifications to the design of microcredit programs. As microfinance becomes an even more popular tool for fighting poverty, institutions innovate in their products and programs at a rapid pace. Policymakers and practitioners should know the relative impact of different designs, both to the client (in terms of welfare) and to the institution (in terms of financial sustainability). We discuss the current approach to evaluating product or program changes, and the reasons why more rigorous evaluations are necessary. We then discuss why randomized controlled trials can prove vital to microfinance institutions in identifying effective program designs in different environments. In this paper, we focus on the choice of lending methodologies – credit with education versus credit only, and group versus individual liability – to illustrate the benefits of randomized controlled trials as a business tool for measuring impact and learning how to improve sustainability and growth. This methodology can be employed for a plethora of program design issues, such as timing of payments, loan size, interest rates, term, and other services such as insurance and savings.

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