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**Timeline**

2008-2012

**Sample Size**

16,560 women in the cities of Nogales, Agua Prieta, and Caborca and the surrounding communities

**Data Repository**

<https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi%3A10.7910/DVN/27850>

**Research Implemented by IPA**

Yes

# Microcredit for Women in Mexico

## Key Finding Summary

Households that gained access to microcredit in Mexico through joint liability loans increased revenue and expenses of their businesses by 27 percent and 36 percent, respectively. However, there was no evidence of an increase in the number of new businesses.

## Abstract

Few studies have rigorously quantified the impact of microcredit loans. IPA partnered with Compartamos Banco to evaluate the social and economic impact of their principal village banking loan product by randomizing which new communities the bank entered. After an average of 26 months later, economic impacts were modest, with increases in business activity but not in profits or household income. The data show few negative economic effects, and increased happiness and well-being for the group with access to loans. However, lower income individuals and first-time borrowers reported lower well-being outcomes, including higher stress. Future research and policy would benefit from better understanding the particular effects of access to credit for these individuals.

## Policy Issue

Microcredit is one of the most visible innovations in poverty alleviation programming in the last half-century, and in three decades it has grown dramatically. Now with more than 200 million borrowers,<sup>1</sup> microcredit has been successful in bringing formal financial services to the

poor. While microcredit has received praise for its potential to lift clients out of poverty, this recognition is often based on generalizations about the microfinance movement or on simple comparisons of borrowers and non-borrowers. Attempts to determine the true impact of microcredit programs are complicated by the fact that the choice to become a microfinance borrower may itself be a sign of increased ambition and ability to improve one's economic situation. To date, few studies have rigorously quantified the impacts of microcredit loans on the beneficiaries and their communities.

## Context of the Evaluation

The study took place in the northern Mexican state of Sonora in the cities of Nogales, Caborca, and Agua Prieta, as well as surrounding towns. Although agriculture, mining, and wage labor in factories along the U.S. border provide some employment opportunities, most people are underemployed and strive to make ends meet through various informal employment opportunities. Many residents lack the income or collateral to qualify for loans from traditional bank services.

In 1990, Compartamos Banco began offering credit in an effort to promote economic development by spurring the growth of micro-businesses. It converted to a commercial bank in 2006 and became a publicly traded company in 2007. Today, Compartamos Banco is the largest microfinance institution in Mexico with branches in every state and over two million borrowers. Crédito Mujer, the principal village banking product of Compartamos is offered to groups of 10 to 50 Mexican women over the age of 18 who either have some kind of business or would like to use the loan money to start one. Compartamos does not verify whether individuals are currently engaged in an income-generating activity or planning to start one once given the loan, instead they depend on other group members to screen out uncreditworthy women.

## Details of the Intervention

This project evaluates the social and economic impact of access to credit, taking advantage of Compartamos' decision to offer Crédito Mujer in the north of Sonora, where it had not previously offered loans. Researchers divided the study region into 250 geographic clusters and then randomly assigned half to a treatment group and the other half to a comparison group. In treatment clusters, Compartamos began offering loans in April 2009: loan officers targeted self-reported female entrepreneurs and used a variety of channels, including door-to-door promotion, radio ads, promotional events, and distributing fliers, to promote the Crédito Mujer product. Crédito Mujer loans in the sample ranged from 1,500 pesos to 27,000 pesos (US\$125 to US\$2,250), with first-time borrowers qualifying for lower amounts. The annualized interest rate for Crédito Mujer was approximately 110 percent in 2009 and borrowers repaid the loans over 16 weekly payments. In comparison group areas, Compartamos did not begin offering credit until almost 3 years later.

Baseline and endline data is from socioeconomic surveys administered to women 18-60 who had or were likely to start a business in both treatment and comparison areas. Researchers

conducted follow-up surveys between 2011 and 2012, an average of 26 months after Compartamos entered the treatment areas.

## Results and Policy Lessons

*Impact on Loan Take-Up and Financial Access:* Women in treatment areas reported taking out more loans and borrowing more from Compartamos than their peers in comparison areas. Around 17 percent of women in treatment areas borrowed from Compartamos, compared to 5.8 percent of women in comparison areas. There was no evidence that increases in borrowing from Compartamos was offset by decreases in borrowing from other lenders.

In areas where Compartamos offered Crédito Mujer, participation in informal savings groups expanded to 6.2 percent of the treatment group, a 1.1 percentage point increase over those who did not receive a microcredit offer. Researchers theorized that this may be due to Compartamos loans not fully meeting credit demands, or potentially a result of some borrowers needing to find credit elsewhere to pay off Compartamos debt.

*Impact on Business Outcomes:* Expanded credit access increased the size of some existing businesses: in the treatment areas, there was a 0.08 percentage point increase in using loans to grow an existing business, and in the two weeks before the household survey these businesses saw a 27 percent increase in revenue and a 36 percent increase in expenditures, respectively. However, there were no increases in new business ownership or profits.

*Impact on Household Finances and Well-Being:* While there were no significant changes in household income, households in treatment villages were able to avoid selling assets in order to pay down debt more than their peers in comparison villages, maintaining a more stable level of economic well-being. Expanded credit access had generally positive effects on well-being: depression fell, trust in others rose, and female household decision power increased.

There was no strong evidence that credit expansion caused a significant number of people to experience negative microcredit effects, such as asset sales to counter debt traps. While researchers found little evidence to support microcredit's negative effects, they did observe that microcredit generally had a larger effect on households that already enjoyed relatively high business revenues, profits, and household decision-making. Microcredit offers also improved happiness and increased trust in people more for women who already reported higher levels of happiness and trust.

Overall, increased access to microcredit allowed some existing businesses to expand, and enabled customers to use formal financial services to manage their cash flows over time, although it did not increase their business profits or prompt people to start new businesses. Further research is needed to explore potential screening criteria or effective guidance to first-time borrowers.

## Sources

1. CGAP. "Financial Inclusion" <http://www.cgap.org/topics/financial-inclusion>. Accessed: 2015. 01.20

March 10, 2015