Researchers
Abhijit Banerjee
Massachusetts Institute of Technology

Esther Duflo
Massachusetts Institute of Technology

Rachel Glennerster
UK Department for International Development (DFID)

Research recap Part 4: the first results from the first microcredit impact RCT

This is the fourth in a series of posts looking back at the last big microfinance conference held in 2008, co-hosted by IPA and FAI at Yale University.

There is still time to book places at next week's Microfinance Impact and Innovation Conference in New York.

Below, a blog post from that conference by Laura Starita, managing editor of *Philanthropy Action*.

We're live-blogging the Innovations for Poverty Action/Financial Access Initiative Microfinance Conference 2008.

Ever since micro-credit entered the popular imagination as a “silver bullet” poverty intervention, there have been lots of assumptions about what it accomplishes for the poor: Micro-loans alleviate poverty; They allow poor people (especially women) to start businesses and become financially self-sufficient; They correlate with increased spending on education for children and health care, etc.

The reality is that there has not yet been a controlled trial on the impact of the standard microfinance product – a small loan given to a group of women who meet together weekly for repayment. Put another way, all of the above-mentioned “received facts” about what is accomplished by giving people access to small lines of credit have been based on anecdote. The reality is that no one knows what impact, if any, micro-credit has on the lives of the poor.

For this reason, the presentation made here by Esther Duflo from MIT on results from the first randomized controlled impact evaluation on a micro-credit program is so important. The project involved 2400 households and took place in Hyderabad

The early results are literally just in. The first round of analysis was completed in the last 48 hours and there is a lot of data left to gather and analyze. With that caveat, the early results are:

-- Take-up of micro-loans was relatively low at 17.5 percent among the sample – this raises a question about whether demand is in fact as high as policy makers and lenders claim, or if there are other countervailing dynamics in play, such as risk aversion

-- The loans, unlike many, did not require the borrowers to start a business – they were free to use the loans however they wanted. Thirty percent of women state their purpose for the loan is to start a new business; 22 percent expect to invest in goods for an existing business; 15 percent buy a durable household item; 15 percent use it for household consumption; 6-8 percent pay for a health shock; 6-8 percent pay for a household crisis; 6-8 percent pay for education and 6-8 percent expect to pay for a ceremony of some kind (totals not 100 percent, because loans can be split among expense categories)

-- In practice, one-tenth of loans are used for a new business

-- Loan-takers have increased expenditures on business and household consumption compared to the control group

-- Loan-takers also spend more on home-based durable goods

-- All loan takers spend less on "luxury" items such as tea, ceremonies, etc., suggesting that people make more prudent decisions with the money they do have

-- The study shows no impact of access to credit on outcomes for education, health, or women's empowerment

The full study results are not yet out, and not enough time has passed perhaps to register full impact, but the analysis that has taken place to date calls into question a number of assumptions about microfinance as an overarching tool with impact on a wide range of development issues like education, health status and women's empowerment. Even the question of micro-enterprise establishment and whether loans lead to recipients gaining sustainable sources of incomes is, at this stage, inconclusive.

Let me reiterate again that this is the very early data and analysis. But even these early results are evidence that we really know almost nothing about the real impact of micro-credit and how or whether it works.

Click here to register for the 2010 Microfinance Impact and Innovation Conference

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