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The miracle of microfinance? Evidence from a randomized evaluation*

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Abstract

This paper reports results from the randomized evaluation of a group lending microcredit program in Hyderabad, India. A lender worked in 52 randomly selected neighborhoods, leading to an 8.4 percentage point increase in takeup of microcredit. Small business investment and profits of pre-existing businesses increased, but consumption did not significantly increase. Durable goods expenditure increased, while “temptation goods” expenditure declined. We found no significant changes in health, education, or women’s empowerment. Two years later, after control areas had gained access to microcredit but households in treatment area had borrowed for longer and in larger amounts, very few significant differences persist. JEL codes: O16, G28, D21

*This paper supplements and expands the 2010 version, which reported results using one wave of outcome surveys. Funding for the first wave of the survey was provided by The Vanguard Charitable Endowment Program and ICICI bank. Funding for the second wave was provided by Spandana and J-PAL. This draft was not reviewed by the The Vanguard Charitable Endowment Program, ICICI Bank, or Spandana. The Centre for Micro Finance at the Institute for Financial Management Research (IFMR) (Chennai, India) set up and organized the experiment and the data collection, and made the microcredit data available first to the research team, and then publicly. At the time, IFMR did not have an IRB. Data analysis and ongoing data collection have received IRB approval from MIT COUHR (120004072) and Northwestern University (STU0000000). Aditi Angew, Leonardo Elias, Boris Eppenstein, Shikha Inam, Sonu Kachar, Tian Li, Aditi Nagarej and Gauri Pritchett provided excellent research assistance. Data sets for both waves of data used in this paper are available at <http://www.center-for-microfinance.org/publications/data/>. The authors wish to extend thanks to CNP and Spandana for organizing the experiment, to Pallappa Reddy (CEO of Spandana) whose commitment to understanding the impact of microfinance made this project possible, to Anand Bhat (the executive director of CNP at the time of the study) for setting up this project, and to numerous seminar audiences and colleagues for insightful suggestions.

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This paper reports results from the randomized evaluation of a group lending microcredit program in Hyderabad, India. A lender worked in 52 randomly selected neighborhoods, leading to an 8.4 percentage point increase in takeup of microcredit. Small business investment and profits of pre-existing businesses increased, but consumption did not significantly increase. Durable goods expenditure increased, while “temptation goods” expenditure declined. We found no significant changes in health, education, or women’s empowerment. Two years later, after control areas had gained access to microcredit but households in treatment area had borrowed for longer and in larger amounts, very few

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Research brief available [here](#).

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