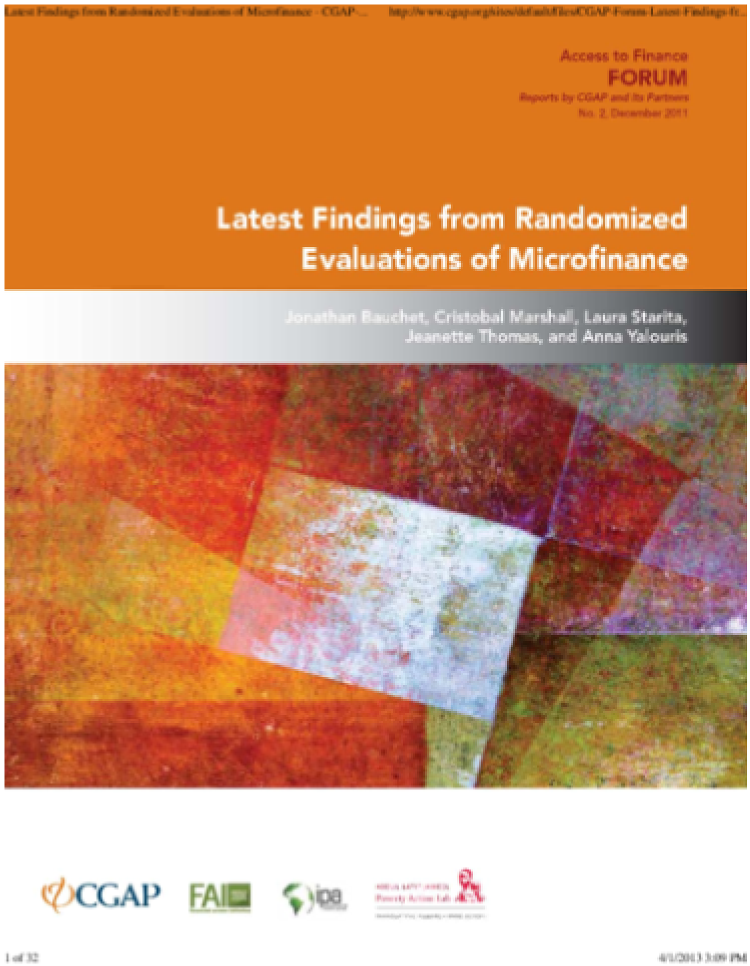
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Latest Findings from Randomized Evaluations of Microfinance

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1 of 32

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In 2009, the results from two microcredit impact studies in Hyderabad, India, and Manila, the Philippines were released to mixed responses (Banerjee, Duflo, Glennerster, and Kinnan 2010; Karlan and Zinman 2011). Some media declared microfinance a failure (Bennett 2009). Many in the microfinance community dismissed these randomized studies as too limited to be a true reflection of the entire sector. These first randomized studies caused a sensation because they challenged the dominant impact narrative for microcredit—a narrative that rests on loans to capital-constrained microentrepreneurs who earn a steep return on marginal capital and thus can repay a relatively high interest rate and reinvest to grow out of poverty—and the way in which that narrative had been universalized in the popular imagination. In fact, the results were more nuanced. What the microcredit studies really showed is that this model of microcredit works for some populations—those who successfully grow businesses—but not for others. Many now agree that the expectations for microcredit in the popular discourse were overblown. For some, the pendulum had swung: far from a panacea against poverty, some argued that microcredit was actually doing harm. The evidence supports neither extreme view. In fact, the results of the studies aligned with and confirmed some of the evidence from nonrandomized methods already in the microfinance research literature that found modest but neither revolutionary nor deleterious impacts from credit. While the concept of capital that will allow poor people to unleash small business opportunities remains valid for some poor clients, not every borrower is a microentrepreneur—take-up rates for credit products are often surprisingly low, and not all economic activities that poor people engage in yield high returns. Microcredit is not transforming informal markets and generating significantly higher incomes on average for enterprises. And yet the industry has focused almost exclusively on the rhetoric of entrepreneurship and has overlooked the many important benefits to households that are using loans to accelerate consumption, absorb shocks, or make household investments, such as investments in durable goods, home improvements, or education for their children.

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