New Evidence Shows Microloan Impacts Are Not Where Expected

For Immediate Release

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NEW HAVEN, CT - Speaking at an event in Mexico City, Yale University economist Dean Karlan released the findings of two new studies examining microcredit loans for women in Mexico. Microcredit is the practice of offering small short-term loans to those typically outside the normal banking customer base. The new results show that offering the loans did not substantially change clients' economic standing, but had some beneficial effects, including increased happiness. While microcredit has received widespread recognition as a tool to help the poor, including a Nobel Peace Prize for the innovators of microcredit at the Grameen Bank in Bangladesh, the expansion of for-profit banks into this market has sparked controversy, especially as interest rates for microlending can reach the equivalent of 100% APR or higher.

Though microcredit is often positioned as a springboard to entrepreneurship for those in the developing world, the researchers found that access to the loans did not increase rates of starting new businesses. The data did show some positive outcomes, including increased happiness, trust in others, and increased influence for women in household financial decisions. The loans also enabled people to pay back other debt and to avoid selling off assets in difficult times. For those who already had businesses, revenue and expenditures increased, but this growth did not translate into higher profits.

The study results also show that despite high interest rates the loans overall had few negative effects. According to Karlan, "It is important to understand that microcredit alone does not transform people into successful entrepreneurs, but having a loan available when you need it can make your life much easier."

The study, conducted with the non-profit Innovations for Poverty Action (IPA), involved partnering with Mexico's largest private microlender, Compartamos Banco, to evaluate the impact of a loan product for women, *Crédito Mujer*. The product targets female customers who want to start businesses, and lends to women in groups, with the group members guaranteeing repayment of one another's loans. The publicly traded bank worked with Karlan, IPA, and economists Manuela Angelucci of the University of Michigan, and Jonathan

Zinman of Dartmouth to randomly assign its expansion into some communities, and to delay expansion in others temporarily. This allowed the communities in which Compartamos was not yet operating to serve as a comparison group for the study. IPA's researchers followed up 18-36 months later to measure impacts of access to the microloans on business outcomes, personal finance, health, and well-being.

Annie Duflo, Executive Director of Innovations for Poverty Action, noted that the study's primary findings mirror what IPA researchers have found in the Philippines, Morocco, and India. "The key question for fighting poverty around the world is understanding what does and does not work," she said. "Rigorous evaluations such as these let us answer these difficult questions, and we've found that microcredit can be helpful, but is probably not transformative. We hope the fact that our data from Mexico largely agree with studies conducted by IPA and others will help bring the field to consensus."

The bank also worked with the researchers to randomly assign some branches nationwide to lower interest rates. This study, designed to address the tension between for-profit banks, who require a sustainable business model, and critics who have accused the bank of extracting profits from the poor, found that the lower interest rate brought in enough new customers to keep profits unchanged. Karlan concludes that "Taken together the studies show that microcredit might not do what everybody hoped it would, but it does have positive effects, and by lowering interest rates, private institutions can expand to new, underserved customers without impacting their bottom line."

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Full descriptions and results from the studies can be found here and here.

About Innovations for Poverty Action:
Innovations for Poverty Action (IPA) is dedicated to discovering what works to help the world's poor. Established in 2002, IPA designs and evaluates programs in real contexts with real people, and provides hands-on assistance to bring successful programs to scale. IPA partners with researchers in top universities and implementing organizations around the world to ensure that poverty-fighting activities are supported by rigorous evaluation. IPA shares the evidence generated with development practitioners, policymakers and donors, and provides technical assistance and support to governments and non-governmental actors to implement successful programs and bring them to scale around the world. IPA has ongoing research operations in 51 countries across Africa; North and South America; and South and South East Asia. Additional information can be found at www.poverty-action.org.

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