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Crowding out Informal Savings and Borrowing

This blog series highlights the randomized trial of the impact of Compartamos, a for-profit microlender in Mexico, and their expansion in the Nogales area. The questions came from [the original post here](#).

Outcome measure: Is there substitution between use of Compartamos (Crédito Mujer) and informal lending/savings mechanisms?

Thanks for the question. We agree this is an important outcome to examine. In modules 19 – 21, we look at uses of banking services for saving and borrowing, and also measure respondents' perceptions of credit and sources of money for emergencies.

In focus group discussions we held in preparation for the follow-up survey, participants reported that informal loan sources were often preferred over formal institutions. Informal money lenders and cundinas (savings groups) are thought to be quicker, cheaper (lower interest rates), and easier to access. Further, borrowers from informal sources don't have to worry about being reported to a credit bureau if they default on payments. Based on evidence from the Philippines, we have a hypothesis that access to microcredit will not crowd out informal borrowing from friends, family, and moneylenders. In [module 21 \(Credits\)](#), where we ask about sources of credit and characteristics of loans taken out in the previous two years, if results are similar with the Philippines study, then we expect to see no difference in the types of institutions where people in the treatment and control communities access credit.

However, the same study from the Philippines showed that access to microcredit may strengthen informal arrangements by providing participants with greater resources and liquidity. The treatment group reported greater trust in one's neighborhood, and reported having more access to informal credit from friends and family in case of an emergency (Karlan and Zinman 2011). So, for [question 19.1 \(Sources of Credit\)](#), a parallel result would find that respondents in the treatment areas report that more access to credit from friends or

family if they needed a loan, relative to the control areas.

In module 19, we also ask about familiarity and experience with several formal lending institutions operating in the region. The questions in this module allow us to monitor the perception of Compartamos compared to other banks. We will test if women in treatment neighborhoods feel more likely to approach Compartamos over other banks if they needed a loan, and we will also test whether the perceptions of formal banking institutions differ across treatment and control groups.

In module 20 (Bank Account), we ask if respondents have saved in a bank or participated in cundinas (informal savings groups) in the last 2 years. In focus group discussions as we prepared this survey, respondents often reported that banks are a safe place to keep money, but that it is difficult to commit to formal savings. In this module, we will be able to examine whether women in treatment neighborhoods feel more comfortable saving with formal banking services because of their access to Crédito Mujer.

And in response to Chris Dunford's hypothesis that microfinance offers the poor a better financial deal:

Ironically we have a long answer for the short question and a short answer for the long question. Not sure why, but alas: yes we couldn't agree more with everything you have to say, and are thinking through as we speak the right way of putting the survey questions into measures for that. For all the reasons you elaborate on, it isn't as simple as asking a simple question on the terms, eg the interest rate...

And thanks for letting us know about the Evidence Project. We look forward to seeing it and participating!

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