

Evaluating micro-finance

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Why evaluate?

- After all the women are willingly borrowing money and repaying their loans.
 - How could it hurt to have an extra source of credit?
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Answer 1: Most micro-credit is subsidized.

- ❑ Very few MFI are really self-sustaining.
 - ❑ There is no reason why they should be: the logic of credit markets is that one dollar in subsidy can generate several dollars in benefits.
 - ❑ The question is therefore whether the subsidy is better paid out as cash?
 - ❑ Morduch argues that Grameen Bank might fail this test.
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Answer 2: It might not be good for the women

- ❑ They might get addicted to credit and/or use it to buy things they cannot afford.
 - ❑ By making it slightly easier to survive, it can make them less willing to make genuinely new choices.
 - ❑ The structure of micro-credit--group loans, emphasis on repayment rather than risk-taking—might sap their entrepreneurial energy.
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Answer 3: It absorbs the energies of the social sector.

- ❑ Perhaps it has a positive net return on the subsidy but not large enough to make it worthwhile for the energies of the social entrepreneurs to be put into it.
 - ❑ Faddism among donors force social entrepreneurs to focus on micro-credit rather than something more innovative.
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Answer 4: Which micro-finance?

- There are many models of microfinance
 - Some involve just credit
 - Some do skill-building, business development
 - Some do insurance along with credit
 - Some just do insurance
 - Some do group loans, some individual
 - Some are ok with subsidies, some are not.
 - Some invest heavily in selecting clients. Others take any one who can find a co-signer.
 - Some spend lots of energy on building *esprit de corps*. Others have two minute meetings.
 - Some take only women. Others allow men.
 - Some allow prepayment. Others don't
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How to evaluate?

- ❑ Very hard to learn much from comparing MFI members with non-members or by comparing the same person over time.
 - ❑ Pitt and Khandker (JPE) try to use a discontinuity design using the discontinuity in Grameen Bank's member selection rule.
 - ❑ Unfortunately Morduch found that they do not follow the rule.
 - ❑ As of now, we feel that randomized evaluations hold the greatest promise.
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But they are not easy

- With group loans, the unit of randomization must at least be the group in order to allow for self-selection into groups. Moreover there are spill-overs so the unit should really be the community/village.
 - Huge scale
 - The effects, good and bad, take time
 - we have to be patient.
 - We do not know where the effect will be—on savings, consumption, investments, risk taking, dealing with shocks, gender.
 - The survey instrument needs to be very sophisticated
 - The effect will vary by environment
 - We will need multiple studies.
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Strategies for randomized evaluation
