

Microfinance Club of New York 7/21/10

Microfinance's Social Impact: Cutting Through the Hype

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Impact Evaluations

Why evaluate?

Inspiring stories



Economic Theory: big potential gains

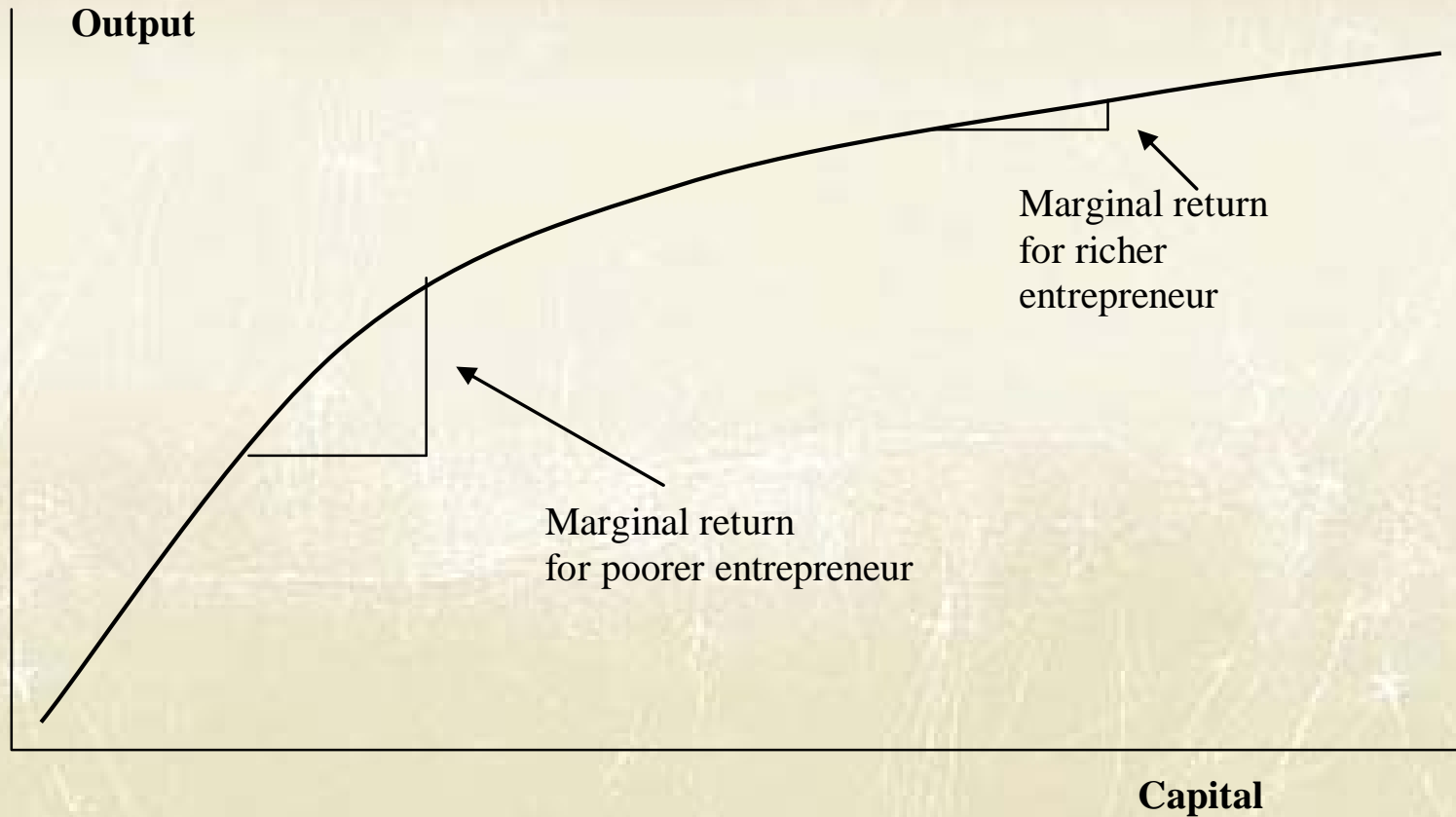


Figure 1.1: Marginal returns to capital with a concave production function. The poorer entrepreneur has a greater return on their next unit of capital and are willing to pay higher interest rates than the richer entrepreneur.

Why this is only a start...

- Stories and theory show the **promise** of the idea
- Need to **also** show impacts on the broad range of customers
- Most microfinance customers **do not** face the full costs of access
 - True profitability is often overstated
 - Subsidy is often understated.

Impact Evaluations

What to expect?

The impact question

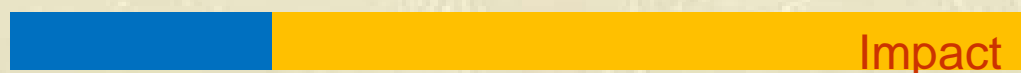
How does life **with microfinance** differ from life **without**?

Focus of “story-telling”

With



Without



Focus of evaluation researchers

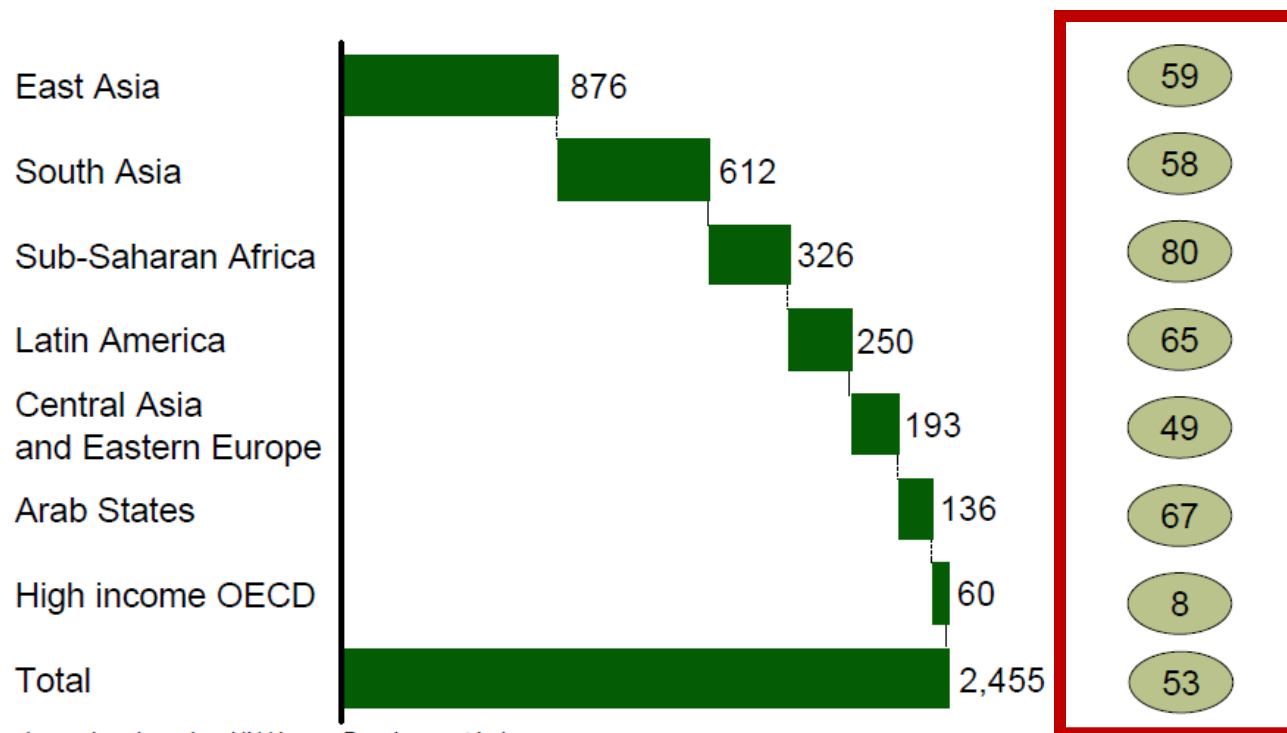
Half the world is unbanked

Figure 2: Nearly all of the world's financially unserved adults live in Africa, Asia and Latin America

Adults who do not use formal financial services¹

Millions of adults

○ Percent of total adult population that is financially unserved



¹ Regional groupings based on UN Human Development Index

SOURCE: Honohan, 2008; Human Development Index; World Bank

“Half the world is unbanked.” Financial Access Initiative. www.financialaccess.org

Alberto Chaia, Aparna Dalal, Tony Goland, Maria Jose Gonzalez, Jonathan Morduch, Robert Schiff

But unbanked \neq no financial life



Financial Diaries:

Household surveys that track penny by penny how 300 poor households in India, Bangladesh and South Africa manage their money.


The poor are active money managers

Bangladesh example:

- On average the Bangladeshi households push or pull through financial services and devices each year a sum of money (\$839) = 2/3 of their annual cash income.
- No household used less than 4 financial devices
- 1/3 of them used more than 10.

India example

In India, households enter a fresh financial arrangement – with a moneylender, money guard, savings club, or formal provider, among others – on average every **two weeks**.



Shop credit

Taking interest-free loans

Remitting cash home

Taking interest-bearing loans

Wage advances

Government pension

ROSCA savings

Extending interest-free loans

ASCA savings

Life without Microfinance

Feizal, Uttar Pradesh, India

Household monthly income: \$36

Shop credit

Bank savings

Saving with a
deposit collector


Goods for
resale on credit

Saving with a
moneyguard

Wage advance

Services taken
on credit

Life without Microfinance



Microfinance
loan

Microfinance
savings account

Life insurance

Interest free loan
from neighbor

Shopkeeper credit

Remittance to
home village

Savings held for
neighbors

Home
savings

Rent
arrears

Cash in hand

Wage
advance

Loans to others

Saving with a
moneyguard

Even with microfinance...

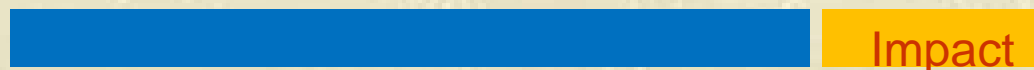
Expect smaller typical impacts

Active financial lives **without**
microfinance...

With



Without



Impact

What to really expect?

- BancoSol, Bolivia (Mosley 1996). Staff estimates. In any given cohort roughly:
 - › 25% showed spectacular gains to borrowing
 - › 60–65% stayed about the same
 - › 10–15% went bankrupt.
- Basix, India (2002): Roughly:
 - › 1/2 of its best-established microcredit customers reported income increases
 - › 1/4 stayed the same
 - › 1/4 reported a decline

Returns to capital in Sri Lanka

de Mel, McKenzie, Woodruff (2008)

- Researchers surveyed about 400 firms (2005-2007).
 - › Retail sales, manufacturing, or services activities, such as running small grocery stores, sewing clothing, making bamboo products, or repairing bicycles.
 - › All firms had US\$1,000 or less in capital, excluding land and buildings.

Sri Lanka

- Firms were given transfers:

- › **Size: \$100 or \$200**

(\$100 represent 3 months of the profits generated by the median enterprise).

Good news: Returns to capital

- Estimated returns to capital: 4.6 to 5.3% / month (about 60% / year).
- Well above the 16-24% nominal interest rates charged by local banks and microfinance institutions.

And...

- For men: large effect.
 - › But about 20% of men had returns $<$ market interest rates.
- For women: No statistically significant average effect.
 - › 1/2 of women entrepreneurs had returns $<$ 0.

Lessons

1. Loans are used for production, to smooth consumption, buy durables, and manage risk
2. Microfinance **can** be powerful in providing better tools – more volume, more reliable, more immediate
3. But can't expect big (or any) gains for everyone
4. Focus on profits or average income may miss much of the action
5. [Many microfinance customers are not below national poverty lines, so increasing their income won't reduce poverty (as typically measured).]

Constructive lessons

1. Rigorous impact evaluations on poverty and income **matter**. This remains an important promise for microfinance.
2. Interesting experimentation with product designs – **this is where big net gains come from.**