

ABSTRACT

The Impact of Microlending on Micro-businesses and Households

by

Dean S. Karlan¹

Microfinance has become one of the most popular development tools to help fight poverty. Yet little research has been conducted with strong methodological underpinnings to evaluate the effectiveness of microfinance projects in alleviating poverty. The largest problem with conducting an impact evaluation has been the control group strategy. Microcredit programs seek participants with entrepreneurial spirit, and it is difficult to create a control group of similarly motivated individuals. This proposal to SAGA is to support a project that has already begun that uses a rigorous experimental research design to assess the business and household impact of loaning money to microentrepreneurs.

This project began in Spring, 2001, and the baseline clients are currently being collected. Further funding is now being sought in order to conduct additional mid-stage surveys for the purpose of measuring fluctuations in business assets and household consumption, and to increase the sample size in order to improve the statistical power of the study.

The study is being conducted in conjunction with FINCA International's South Africa project, which is based in Durban, South Africa. FINCA's mission is to "support the economic and human development of families trapped in severe poverty." A net impact study should answer the following question: "If FINCA did not exist, what would the participants' outcome be compared to what it is?" An impact study which explores FINCA's success at accomplishing its stated mission is the most basic and vital research question FINCA can ask. All other questions, such as methodology, competition, and marketing, should follow this most essential question: How, who and how much does FINCA help alleviate poverty? This information is valuable for organizations and donors worldwide to form policies regarding credit to the poor.

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Hosting Institution: National Institute of Economic Policy (NIEP), *South Africa*.

For full research/trip experience read below:

Field

TRIP REPORT

Dean Karlan

I spent June and July in South Africa, as well a trip in March 2003, working on the above project. Since the research is taking place in the Durban area, in my initial conversations and meeting with NIEP we agreed that I would be based in Durban for this research.

NIEP has been hospitable during my stay in South Africa and welcoming of my research. They arranged for two seminars, one in March and one in July, and invited USAID personnel as per the SAGA grant requirements. Someone from the government department of social services did come to the second talk, but nobody from USAID came. Most of the attendees were NIEP associates or individuals from the local universities. NIEP also provided me with space to work while in Johannesburg, and I met on multiple occasions with their associates. Daniel Kekana and I discussed a common interest in studying the structure of the burial societies in South Africa, but no specific plans were put forth. Even though the grant is over, we expressed a mutual interest in staying in contact and continuing the exchange ideas and research results since my project in South Africa is only half way through. Please see their expectations of me have been fulfilled.

The research is proceeding quite well, although with considerable delays and problems. The initial plan was to work with FINCA-South Africa, and virtually all of the fieldwork conducted to date was with potential FINCA South Africa clients from the metropolitan Durban area. FINCA-South Africa, unfortunately, has not been able to deliver loans to the clients in the research pool. Although this is the source of considerable frustration on my part, all is not lost. I have switched partners and so the work that has been completed is still serving quite valuable as pilot phase research. The new partner is much better equipped to deliver loans, and the fieldwork conducted to date has proven invaluable in the design of the full launch with the new partner. In this past trip, I spent considerable time working out the details of the full launch, and it is now scheduled to begin in October or November, pending further funding to cover the cost overruns on this project.