

Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila*

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October 2009

ABSTRACT

Microcredit seeks to promote business growth and improve well-being by expanding access to credit. We use a field experiment and follow-up survey to measure impacts of a credit expansion for microentrepreneurs in Manila. The effects are diffuse, heterogeneous, and surprising. Although there is some evidence that profits increase, the mechanism seems to be that businesses *shrink* by shedding unproductive workers. Overall, borrowing households substitute away from labor (in both family and outside businesses), and into education. We also find substitution away from formal insurance, along with increases in access to informal risk-sharing mechanisms. Our treatment effects are stronger for groups that are *not* typically targeted by microlenders: male and higher-income entrepreneurs. In all, our results suggest that microcredit works broadly through risk management and investment at the household level, rather than directly through the targeted businesses.

* dean.karlan@yale.edu; jzinman@dartmouth.edu. Thanks to Jonathan Bauchet, Luke Crowley, Dana Duthie, Mike Duthie, Eula Ganir, Kareem Haggag, Tomoko Harigaya, Junica Soriano, Meredith Startz and Rean Zarsuelo for outstanding project management and research assistance. Thanks to Nancy Hite, David McKenzie, David Roodman, and seminar participants at the Center for Global Development for helpful comments. Thanks to Bill and Melinda Gates Foundation and the National Science Foundation for funding. Special thanks to John Owens and his team at the USAID-funded MABS program for help with the project. Any views expressed are those of the authors and do not necessarily represent those of the funders, MABS or USAID. Above all we thank First Macro Bank for generously providing the data from its credit scoring experiment.

