



Poverty eradication through self-employment and livelihoods development: the role of microcredit and alternatives to credit

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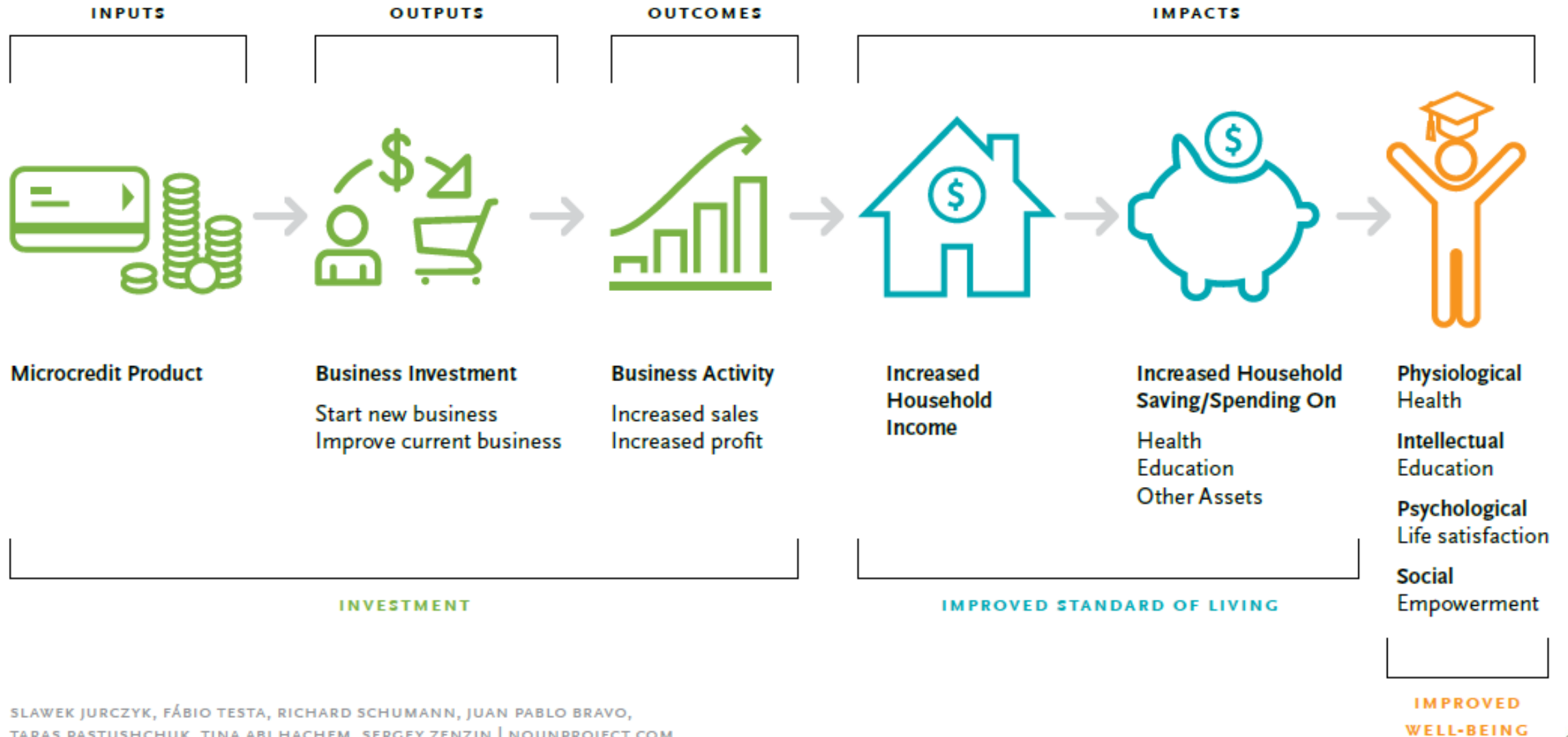
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Part 1: Microcredit



One theory of change for microcredit



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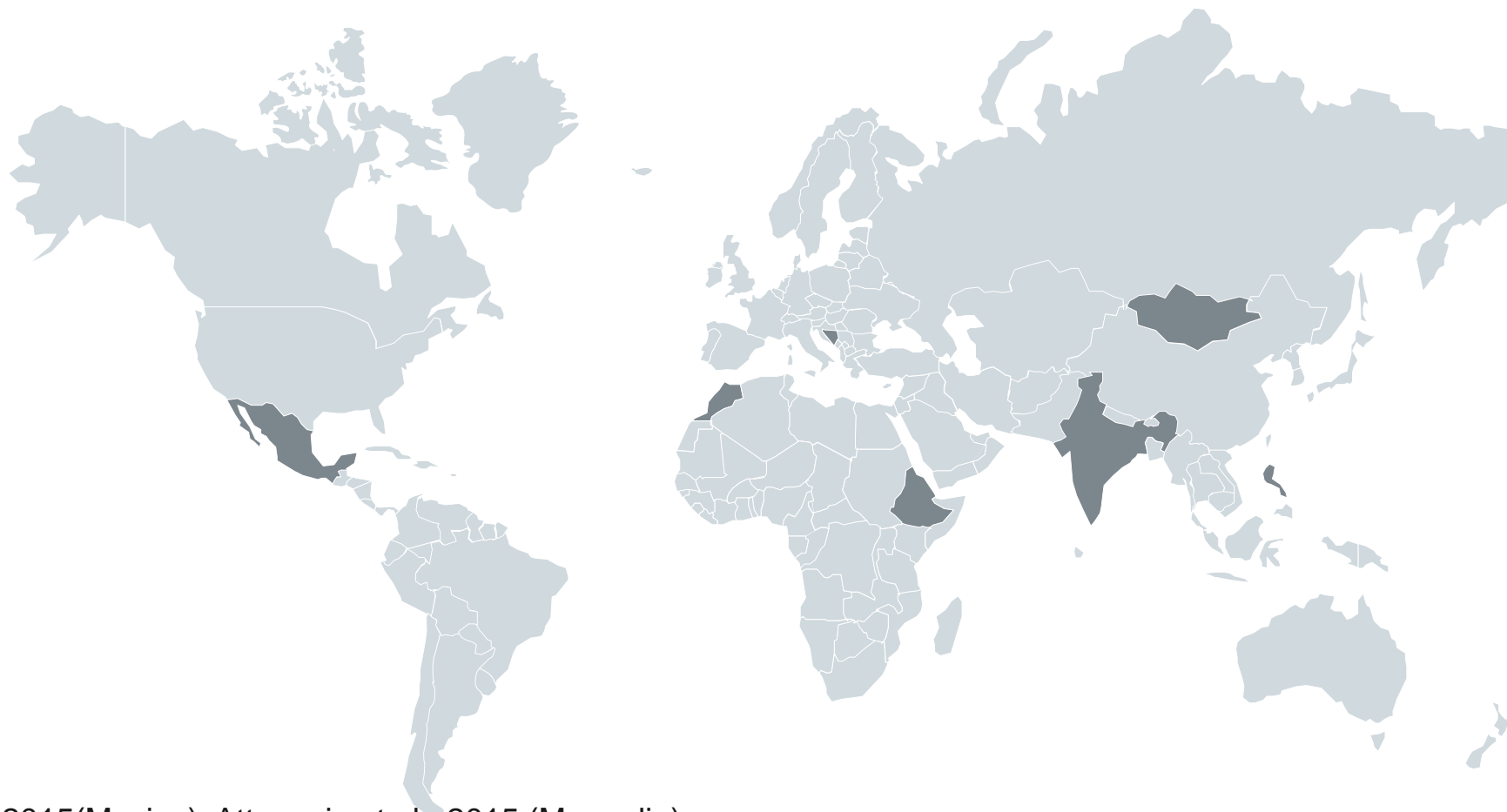
Testing the Theory of Change

RCTs of Cash Grants

- Cash Grants high returns to capital
- But heterogeneous:
 - Men vs. Women
 - Cash vs. In-kind



Evidence on classic microcredit model

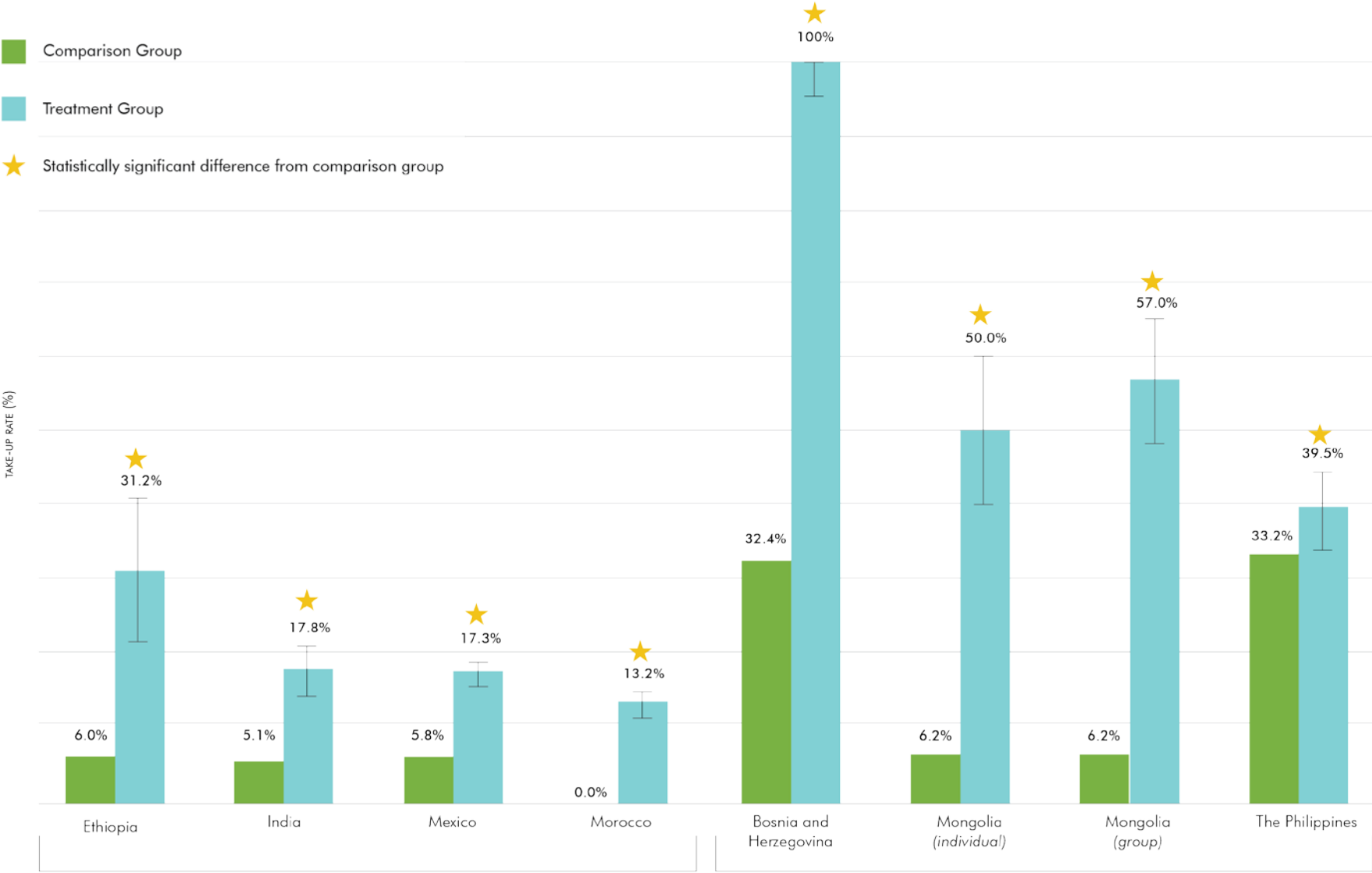


Angelucci et al., 2015(Mexico); Attanasio et al., 2015 (Mongolia);
Augsburg et al., 2015 (Bosnia and Herzegovina); Banerjee et al., 2015(India);
Crépon et al., 2015 (Morocco); Karlan et al., 2015 (The Philippines); Tarozzi et al., 2015 (Ethiopia)

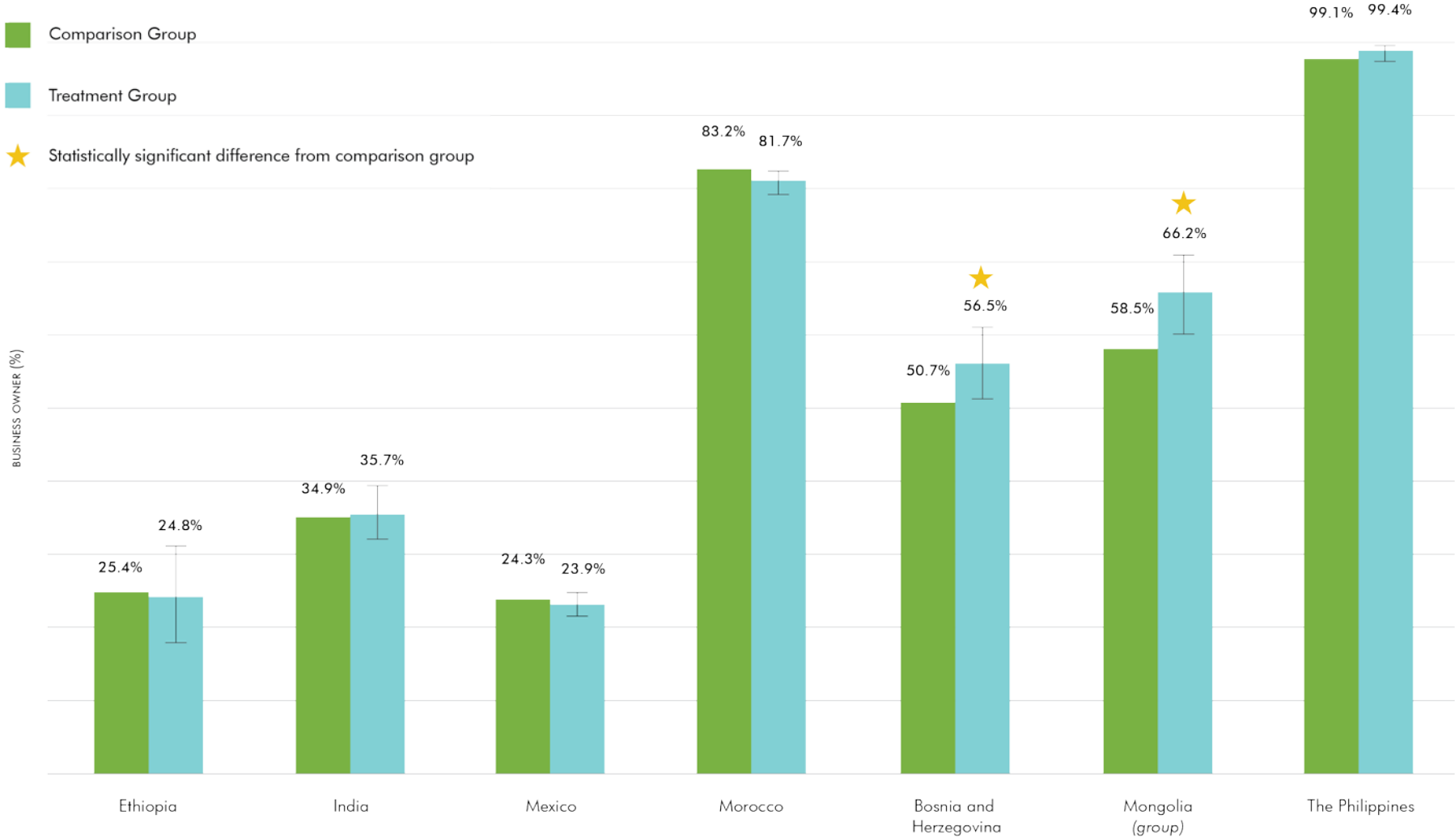
What does a classic microcredit model look like?

Product details	
Women Only	3 of 7: India, Mexico, Mongolia
Entrepreneurs Targeted	6 of 7: All except India, but no strict enforcement on loan use
Joint Liability	5 of 7: Group size ranged from 3 to 4 members in Morocco to groups of 10 to 50 in Mexico
Collateral	3 of 7: Mongolia (savings), Bosnia-Herzegovina (co-signer), Ethiopia (informal)
Interest Rate (APR)	12% to 27%, excluding 60% (Philippines) and 110% (Mexico)
Loan as% of Income	6% (Mexico) to 118% (Ethiopia)
Repayment	Weekly, biweekly, or monthly
Maturation	4 months (Mexico) to 16 months (Morocco)

Demand for microcredit was modest



Microcredit access increased business ownership in two of seven evaluations



Overall findings by country

Outcome	Bosnia & Herzegovina	Ethiopia	India	Mexico	Mongolia	Morocco	Philippines
Business ownership	↑	-	-	-	↑	-	-
Business revenue	-	-	-	↑	-	↑	-
Business inventory/assets	↑	No data	↑	No data	↑	↑	-
Business investment/costs	-	-	↑	↑	No data	↑	↓
Business profit	-	-	-	-	-	↑	-
Household income	-	-	-	-	-	-	-
Household spending/consumption	-	↓	-	↓	↑	-	-
Social well-being	-	-	-	↑	-	-	↓

Why is the impact of microcredit so limited?

- Borrowers may not need microcredit
- People borrow to consume (not necessarily to invest)
- Borrowers may not be successful entrepreneurs
- Financial decision-making may be poor
- Bigger businesses may not always be better
- Loan terms and conditions limit their use

Banerjee, 2013

Avenue for Impact: Increase Flexibility of Credit

- Timing of Repayments (India)
- Grace Period (India)
- Agricultural Timing (Mali)
- Fingerprinting (Malawi)
- SMS Reminders (Uganda)
- Training (Uganda)

Policy lessons: microcredit

If the main goal is poverty reduction, donors should facilitate, but not finance, standard microcredit lending

Piloting and testing more innovative credit products may lead to greater impacts on poverty

Microcredit may not be the best instrument to improve business profitability, but it can be an important tool for increasing people's freedom of choice in deciding their occupations and managing their finances

Alternative 1: Savings



Evaluations of savings products for the poor suggest positive welfare effects

Result of being offered a savings product	Study location
Increased entrepreneurial or farm investment	Kenya, Malawi
Increased income or wealth	Kenya, Mali
Increased investment in health or education	Kenya, Uganda
Increased food security, better food consumption	Kenya, Mali
Consumption reallocation	Nepal
Reduced debt	Chile
Reduced vulnerability to shocks	Chile, Mali, Nepal
Increased female decision-making power	Philippines
Increased work hours	Sri Lanka

Ashraf et al., 2010 (Philippines); Beaman et al., 2014 (Mali); Brune et al., 2015 (Malawi); Dupas and Robinson, 2013 (Kenya); Karlan et al., 2014 (overview); Karlan and Linden, 2014 (Uganda); Kast and Pomeranz, 2014 (Chile); Prina, 2015 (Nepal); De Mel, McIntosh, & Woodruff, 2015 (Sri Lanka)

Alternatives 2 and 3: Graduation and Cash Grants



Cash Grants are Promising

Cash grants can be extremely inexpensive to deliver, especially at scale.

GiveDirectly: improvements in assets, consumption, food security, revenue from self-employment, and psychological well-being

Challenges:

1) Cash grants to female-owned microenterprises may not be as impactful as in-kind transfers of capital

2) Cash grants to Ghanaian farmers did little to raise incomes in the absence of crop insurance.



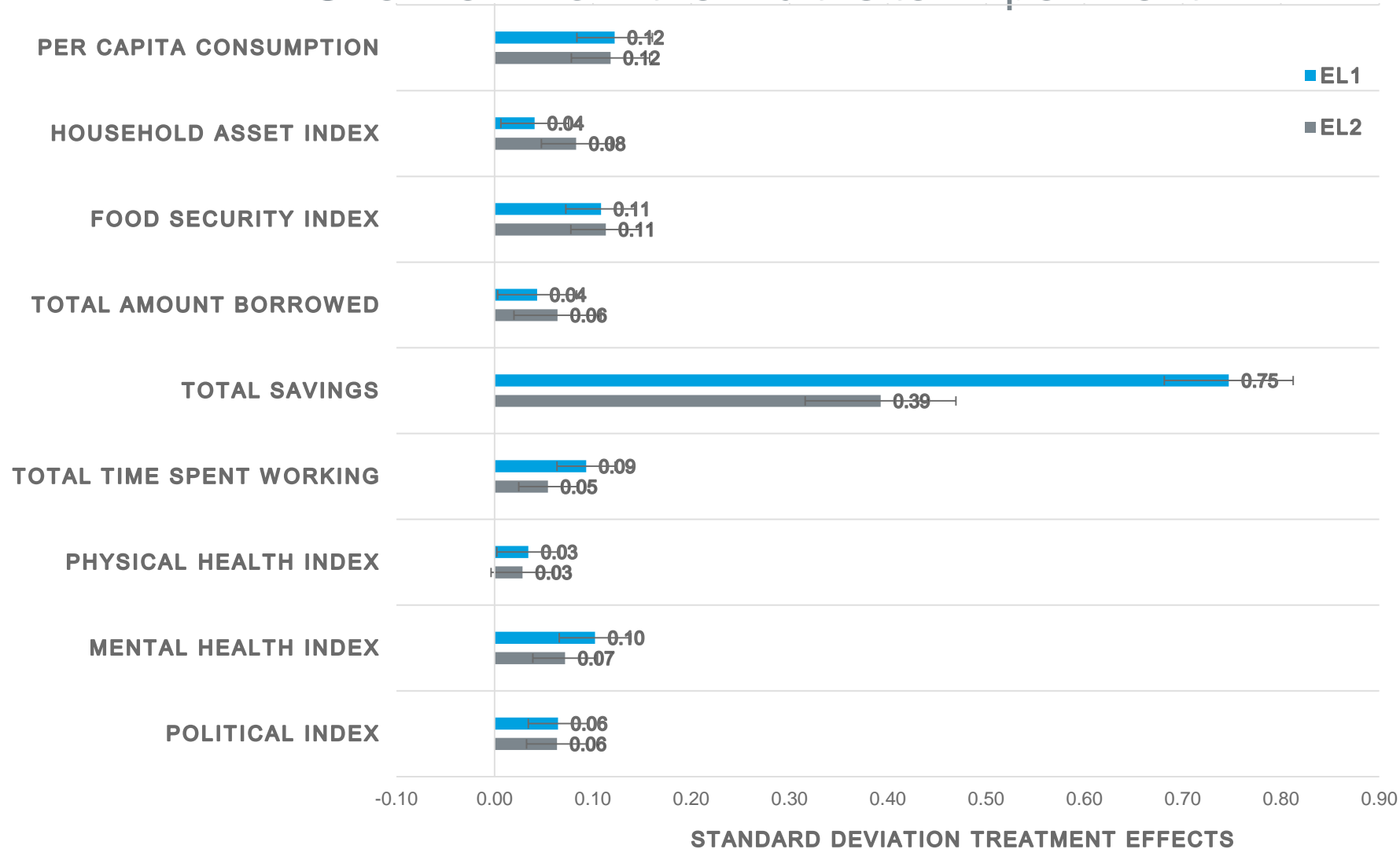
Graduation Approach consists of six components

1. Productive Asset
2. Technical skills training
3. Regular cash or food support
4. Access to a savings
5. Frequent home visits to provide accountability, coaching, and encouragement
6. Health education or healthcare

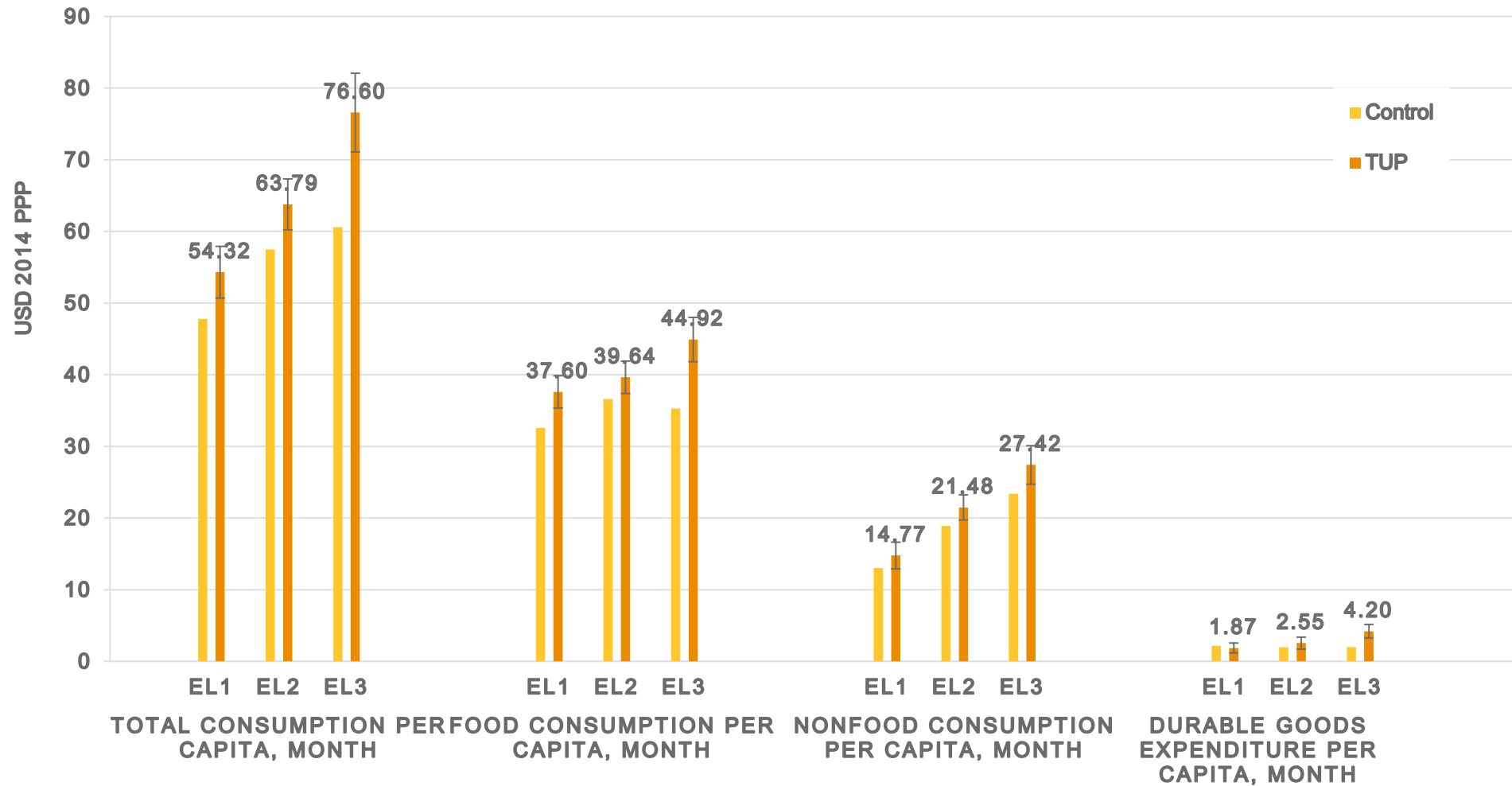


The Graduation program caused broad and lasting economic impacts

Overview from the Multi-site Experiment

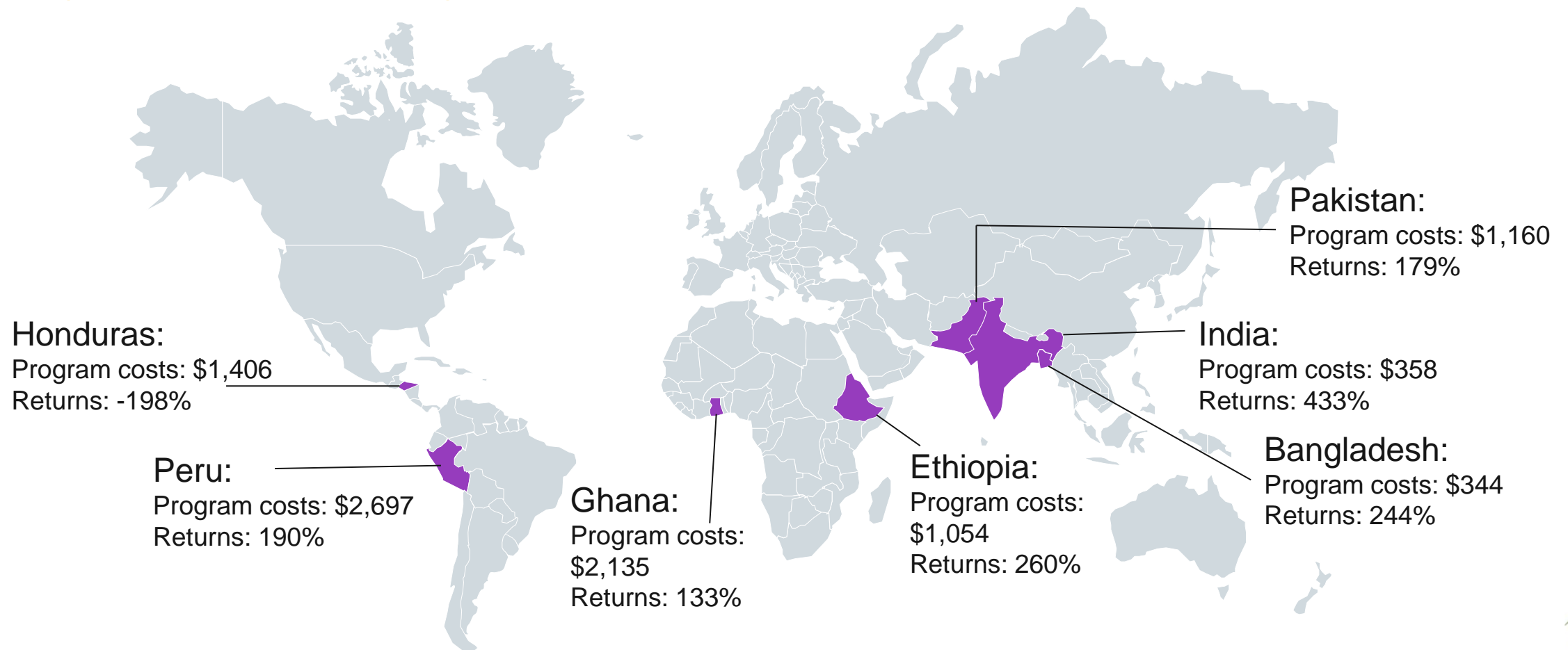


7-Year Results: Consumption



Graduation was consistently effective in most contexts

Program costs and returns per participant by country:
Long-run benefits outweigh up-front costs in most contexts



Similar model, similar effects

		Uganda	TUP
1. Basic skills training to create a business plan; training geared for illiterate people	Asset		Productive asset
2. Cash grant of \$150 to implement business plan	Training	Skills training	Skills training
3. Trainers provided four or five one-on-one sessions of advising and supervision	Money	Cash grant	Consumption Support Savings
4. Group training encouraged the formation of self-help groups to share ideas	Coaching/ Well-being	Individual advising Group support	Home visit Health

Streamlined interventions are cost-effective and produce positive results

- Women who had never run a business before were able to increase their incomes through nonfarm enterprises
- Supervision strengthened entrepreneurs' commitment to invest
- Encouraging self-help groups led to labor-sharing and risk-sharing
- Streamlining ultra-poor programs can have a high rate of return and allow more people to benefit from the same level of aid spending

Blattman et al., 2016

Policy lessons



Microcredit can be a useful financial tool, but it does not have transformative effects



Encouraging the poor to save is associated with more positive welfare outcomes



Across all financial products, product design and cost is key for take-up and use



A multi-faceted livelihoods program can have large and lasting impacts on the lives of the ultra-poor

Thank you



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