

The Impact of Microcredit on the Poor in Bangladesh: Revisiting the Evidence

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Microcredit is commonly credited with reducing poverty, empowering women, and delivering other important impacts, particularly to extremely poor households. Rhetoric, however, has outpaced evidence. Empirical studies are scarce, and existing ones have been influential despite a lack of thorough scrutiny. In this paper, David Roodman and FAI managing director Jonathan Morduch attempt to replicate the two most-noted studies on the impact of microcredit, both based on survey data from Bangladesh collected in the 1990s. Pitt and Khandker (PK, 1998) find that microcredit raises household consumption, especially when lent to women. Khandker (2005) concurs and goes further to say that microcredit has more of an impact on the extremely poor than on the moderately poor. Morduch (1998) finds no evidence for impact on consumption levels, but does find that microcredit decreases the volatility of consumption. This paper shows that the evidence for impact is weak in all of these studies. But, significantly, it doesn't find that microcredit causes harm, and it doesn't prove that the impacts commonly attributed to microcredit—like reducing poverty and empowering women—do not exist. Rather, this paper shows that it's hard to draw much from these data—and that better answers will need to come from other data sets using other methods.

Three Replications

Pitt and Khandker (PK, 1998) apply a quasi-experimental design to a large sample of survey data collected in Bangladesh in 1991-92. The headline result of this study is that microcredit increases annual household expenditure, and that the increase is larger when loans are extended to women. Morduch (1998) critiques PK, calling into question part of their sophisticated methodology. While he is not able to replicate the PK results, he does find evidence that microcredit reduces the volatility of consumption. Khandker (2005) adds data collected in 1999 and modifies the PK methodology. He finds that the impacts of microcredit are stronger for extremely poor households than relatively less poor ones.

Results

Roodman and Morduch conduct a replication exercise, applying the same methods to the same data as in PK,

Morduch, and Khandker. The authors identify methodological issues in PK (and, by extension, in Morduch) and in Khandker that impair the studies. In all cases, they describe difficulties with the claims to causal impacts. With respect to Khandker, Roodman and Morduch argue that the methods don't adequately rule out endogeneity in the treatment variable or the possibility that the causal correlation between microcredit and increased consumption goes both ways.

Policy Implications

This paper has implications for policy on two levels. First, it shows the importance of building credible evaluation strategies into the formulation of new projects and investments. Second, the paper shows that the impacts of microfinance may be diverse and often difficult to tease out. For interventions like microfinance (which involve substantial self-selection into programs by customers), claims for policy impacts need to be established carefully.