

## **Impact Evaluation of Micro-Credit in Rural India**

### **Project Background and Significance**

UN has declared 2005 as the Year of Micro-Credit, on the ground that “micro-credit has been changing people's lives and revitalizing communities.” However, there have been very few good assessments of the extent to which microfinance has improved the lives of the poor, nor of the best and most beneficial ways to provide financial services to the under-banked.

What is the best way to provide financial services to the poor? What is the impact of microfinance on the socio-economic conditions of these households? Despite plethora of anecdotal evidence, we know very little about these questions. The literature has tended to focus on the financial sustainability of microfinance rather than on its developmental impact. While tracking performance at this level is important, we should also be evaluating programs at a more fundamental level to find out whether, for example, providing financial services to the poor increases household's investment capacity and consumption, whether it reduces its vulnerability, and whether it increases women's bargaining power within the households. The question of the impact of microfinance and what are the channels of this impact has remained largely unanswered.

Yet having strong evidence about what works is important for many reasons. Non-governmental organizations (NGOs), MFIs and governments can use this evidence to focus their limited budgets on those programs that are most effective. Following such an evaluation, an MFI may be convinced to expand the same program as it proved to be very effective. Else, the MFI may decide to add some changes into the design as it did not seem to achieve the desired effects. In addition, providing evidence to regulators that microfinance has a strong impact may convince them to mainstream in the regulated system, which it has not in India.

As a matter of fact, it is very difficult to answer these questions. Indeed, comparing beneficiaries of microfinance to non-beneficiaries does not allow estimating the impact of the program, as the types of persons who choose to take up credit or not are intrinsically different. Nor can we compare households before and after microfinance, as many other things may have affected the households during this time.

### **Program description**

In 1997, after reading Alex Counts' *Give Us Credit*, the trustees of the T. Muniswappa Trust in Bangalore were motivated to replicate the success of Bangladesh's famed Grameen Bank Model in the surrounding villages of Avalahalli, where the Trust is based. Grameen Koota began its operations from May 1999, with the help of seed capital funding from the Grameen Trust in Bangladesh to initiate a Grameen Bank Replication Program. The institution currently operates in Karnataka, mostly in rural areas, across 33 branches that serve over 65,000 clients. These clients fit Grameen Koota's criteria of being economically active poor women. The basic loan products offered are an income

generation loan (comprising nearly 90% of the overall loan portfolio), supplementary loan, and emergency loan. In terms of the purpose of the loan details, over half of Grameen Koota clients are involved in animal husbandry or trading production. The purpose of these products is to enable poor women to not only generate income through investment in entrepreneurial activities but also cope with emergency needs. Going forward, Grameen Koota aims at reaching out to 10% of Karnataka's poor households by 2010.

## **Research design and analysis**

*Baseline survey:* After having chosen the set of locations in which the study will be conducted (a minimum of 200 locations will be chosen, in which the MFI has not start its operations yet but is planning to expand), the first phase of the project would be to carry out a survey that identifies socio-economic conditions of the households in a sample of households. The number of households chosen in each village will depend on the average penetration rate of the MFI in villages. Only households that are eligible by the MFI will be chosen. In addition, if in other working areas of the MFI we observe that certain categories of people are more likely to take up credit, these categories of households will be over represented in our sample.

*Intervention:* Following the baseline survey, the new product variations will be introduced in a randomized set of locations, with the excluded locations serving as a control group for the experiment. This randomized assignment to treatment or control ensures that we solve the problems of comparability mentioned above. For example, if we have a total of 200 locations (the exact number of villages we will need still needs to be determined), we will divide these 200 locations in 2 groups of 100 locations. The first group will receive credit while the second one would serve as control group and receive credit only after one or two years.

*Follow-up survey:* After at least one loan cycle has been completed, there will be a final survey which we will use to assess the impact of the product on socio-economic outcomes, by comparing outcomes in both treatment and control villages. The default rates of the MFI, as well as the cost incurred in monitoring/enforcing repayment of loans will also be taken into account. Short surveys may also be administered regularly to assess income flows of households and repayment patterns. The study timeline might also be extended to three years in order to find out longer term impact of the programme.

## **Contributions**

As mentioned, there remains a great need to address the questions of microfinance's impact and the precise channels of this impact. Using randomization in the evaluation of Grameen Koota's micro credit program will result in knowing the effectiveness of the program, which could then potentially be scaled up or replicated by other institutions. Since the evaluation of Grameen Koota's operations in rural areas, in particular, is one of the first randomized studies of micro credit in a rural setting, the results will be critical

for donors, banks, international organizations, and other partners interested in providing further assistance to Grameen Koota as well as other entities with a focus on rural development. In addition, the results will contribute to the microfinance sector as a whole by making information publicly available to practitioners, investors, and others about which kind of programs are effective in achieving poverty alleviation through the delivery of need based financial services, which is a goal commonly shared by many MFIs. Ultimately, the goals of the evaluation are to not only provide guidance to Grameen Koota itself in terms of self-evaluation but credibly establishing for the microfinance sector as a whole which programs work well and which do not, thereby helping international and domestic donors channel funds efficiently and develop greater support for successful development programs.

**Tentative Timeline:**

- September-November 2006: Groundwork
- December 2006-January 2007: Take-up survey
- February-March 2007: Pilot baseline survey and finalize intervention areas and research design
- April 2007: Start baseline and intervention
- August 2007: Start follow-up survey
- December 2007: Finalize study report