

EVALUATING MF

David Roodman: **What do we really know about Microfinance?**

Thirty years into the movement, it might seem strange that researchers are still asking whether microfinance reduces poverty. In fact, by the standards used to judge whether drugs are safe and effective in the bloodstreams of people, the safety and effectiveness of microfinance injected into the fabric of villages and barrios remains unproven

Richard Meyer, “Measuring the Impact of Microfinance” lists 16 issues that bother the evaluation of MF---need for clarity.

Md. Razzaque DU, Microfinance and Poverty Reduction:

Evidence from A Longitudinal Panel Database

**1 Proving too much :if MF does
not work, neither does Finance**

Rickshaws

where are the mahajans? Why are they
now residual? LFE at IUB

2 Excessive reliance on the objectivity of numbers

[Townsend] and

impatience about results;

14 year panel on Chilean SME's shows causally with positive and statistically significant impacts on sales, production, labor productivity, wages and exports.

**3 Ask of MF only that which
we ask from the best
functioning markets we can
see**

sba data from US shows 15-
20% failure pa

**4 Use of alternative
theoretical methods so that
we gain from multiple
perspectives on a complex
issue**

CGE and ABM

5 Allow for heterogeneity

MFI is a MNC in a 'gram'—use
lit from Tech Transfer

**6 evaluating MF as though it
was able to uniformly achieve
its goals :mission drift**

7 Recognize the extreme failure of market prerequisites in 1974 :needs new modelling

**8 Separate the evaluation of
MF from that of MFI's
“whatever we loan is a micro-
loan”
micro-insurance**

Difficulty of GDP addition
Sufia Begum and 'mora's'

So how do we explain GDP
effects?

CITI Microentrepreneurship
awards 2008

Sabina Begum won the award
for her contribution to making
waste fabric useful.

Cost saving

Baby Chakma got the award
for her success in livestock
farming and biogas and organic-
fertiliser production

new product

Salma Akter won the award by making bobbin and shuttle for handloom industry by using waste plastic and polyphone
process innovation

Restating the process:

In order to get empirical data, we look at the effect on various households. But the HH that choose MF may be systematically different, so we have self selection; and the villages where MF is offered may be systematically different---why were they chosen? Hence, it follows that **a clean empirical study is hard without actually engaging in a theory of HH choice *and* a theory of MFI operation.**

There is no known study that tries to fill this lacuna;

Restating the process:II

To engage in a useful comparison the data points have to be separated in time. But the surrounding economy may not have been standing still. **How have the above HH's and MFI's reacted to the changed environment? This may end up being the most significant neglected factor since the external economy may well influence those who choose to accept MF, those who choose to work on MF, and the choice of MF activities.**

Consider the growth of the Garments industry and of foreign Remittances in Bangladesh.

New modelling for income effects:

If MF changes the relevant probability distribution facing the client, effectively removing the bankruptcy constraint, and if behavior is affected by the distribution and not just by the mean, and if bankruptcy involves a logarithmic utility of minus infinity, then MF significantly alters the risk taking behavior of a population, or ,more concretely, the entrepreneurial activity of a population.

New modelling for income effects: II

Use industry level disaggregated evidence: If we have elastic demands, then higher prod due to MF will lower prices and increase revenues. So MF will benefit when it increases efficiency for elastic demands and involves favorable redistribution and if it involves increased efficiency for elastic demands.

What if we go beyond Income?

What about intertemporal gains ?eg health & education

greedy means 'maximising long-run wealth'. For such greed we need consumers who have foresight, discipline and calculation. But there is a wealth of sociological and psychological data that tells us that the three highlighted qualities are due more to nurture than to nature. If demonstration effects are important, this gives an externality to factor in. Important for health, education and environment.

Stabilising the Market 1974:- MF modeling in survival and subsistence

1 people can die out---external costs of disease, disruption, police and property transfer

2 people can just survive but not produce---they survive on normal waste, or 'leftovers'; if made productive, they can produce a surplus. But they need working capital---MF. [Wahid bhai's social change paper]

3 people just survive and produce---moras and rickshaws---their welfare depends upon credit and discipline. Welfare increase due to redistribution. No change in GDP, and effect on growth depends on whether MF causes increased output due to incentive effects; or to the growth of new products. CITI awards 2008

4 people subsist on MF but cannot get to ME because the banking sector has high auditing and monitoring costs. Now MF is the seam binding Poverty Alleviation to Economic growth

5 then come the long run social impacts---health, education etc 6
assume we have a monopolistically competitive product market, a monopolistic credit market, and two sided matching---with unraveling?--
-in the labour market. If we 'undo' all the market assumptions, how does the 'economy' behave?