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The miracle of microfinance? Evidence from a randomized evaluation\*

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**Abstract**

This paper reports results from the randomized evaluation of a group lending microcredit program in Hyderabad, India. A lender worked in 52 randomly selected neighborhoods, leading to an 8.4 percentage point increase in takeup of microcredit. Small business investment and profits of pre-existing businesses increased, but consumption did not significantly increase. Durable goods expenditure increased, while “temptation goods” expenditure declined. We found no significant changes in health, education, or women’s empowerment. Two years later, after control areas had gained access to microcredit but households in treatment area had borrowed for longer and in larger amounts, very few significant differences persist. JEL codes: O16, G20, D21

\*This paper supplements and expands the 2010 version, which reported results using one wave of random surveys. Funding for the first wave of the survey was provided by The Vanguard Charitable Endowment Program and ICICI bank. Funding for the second wave was provided by Spaulding and J-PAL. This study was not reviewed by The Vanguard Charitable Endowment Program, ICICI Bank, or Spaulding. The Center for Micro Finance at the Institute for Financial Management Research (IFMR) (Chennai, India) set up and organized the experiment and the data collection, and made the microcredit data available first to the research team, and then publicly. At the time, IFMR did not have an IRB. Data analysis and on-going data collection have received IRB approval from MIT COUHR (12000482) and Northwestern University (STU000000). Aditi Angitkar, Laxmidevi Ekan, Shrishti Eppanwar, Shikha Inam, Sneha Kachar, Tianyi Li, Aditi Nagarkar and Oritia Pichalo provided excellent research assistance. Datasets for both waves of data used in this paper are available at <http://www.center-for-microfinance.org/publications/data/>. The authors wish to extend thanks to IMF and Spaulding for organizing the experiment, to Pallappa Reddy (CEO of Spaulding) whose commitment to understanding the impact of microfinance made this project possible, to Anand Datta (the executive director of IMF at the time of the study) for setting up the project, and to numerous seminar audiences and colleagues for insightful suggestions.  
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# The Miracle of Microfinance? Evidence from a Randomized Evaluation

This paper reports results from the randomized evaluation of a group lending microcredit program in Hyderabad, India. A lender worked in 52 randomly selected neighborhoods, leading to an 8.4 percentage point increase in takeup of microcredit. Small business investment and profits of pre-existing businesses increased, but consumption did not significantly increase. Durable goods expenditure increased, while “temptation goods” expenditure declined. We found no significant changes in health, education, or women’s empowerment. Two years later, after control areas had gained access to microcredit but households in treatment area had borrowed for longer and in larger amounts, very few

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**Research brief available [here](#).**

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