Innovations for Poverty Action

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Timeline
2016-2019

Study Status
Results

Study Type
Randomized Evaluation

Sample Size
1,004 enterprise loan borrowers

Research Implemented by IPA
Yes

NBER WORKING PAPER SERIES

BIG LOANS TO SMALL BUSINESSES:
PREDICTING WINNERS AND LOSERS IN AN ENTREPRENEURIAL LENDING EXPERIMENT

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Academic Paper

The Impact of Larger Loans on Micro-Enterprise Profits in Egypt

Egyptian wickerworker, Cairo, Egypt. © Kim Eun Yeul / World Bank

Abstract: In collaboration with IPA, Alexandria Business Association (ABA), and Silatech, researchers conducted a randomized evaluation to measure whether providing micro-enterprises with larger loans than are typical could help them grow more. While larger loans' average effects were minimal, they improved business outcomes for top-performing borrowers while diminishing them for poor-performing borrowers.

While micro, small, and medium enterprises play an important role in the Egyptian economy, the country's credit market contains a "missing middle": while microfinance institutions typically offer maximum loan amounts of around EGP 5,000 (USD 280), banks' minimum loan sizes typically start around EGP 50,000 (USD 2,800). Previous research has found that microcredit often fails to substantially improve borrowers' income or social well-being.[1] However, less evidence exists on the impact of larger loans that could fill this "missing middle." Alexandria Business Association (ABA), Silatech and IPA researchers produced a large loan program aiming at helping microenterprises grow.

In partnership with ABA, Silatech and IPA, researchers conducted a randomized evaluation to measure whether providing micro-enterprises with larger loans could help them grow more. The evaluation's participants included 1,004 ABA borrowers who applied for larger loans. The borrowers were randomly assigned to receive either two times or four times their previous loan amount. The group receiving double the previous loan amount served as the comparison group.

Larger loans did not increase profits on average for borrowers. However, with larger loans, the most successful borrowers in the evaluation experienced increases in revenue, wages, employment, and profits by 55 percent through business expansion. The least successful, meanwhile, experienced a 52 percent profit decrease and were less likely to stay in business with larger loans, despite better performance with smaller loans. Loan officers saw top performers as risky, believing larger loans increased default risk more for them—suggesting past performance may not predict success with larger loans. Psychometric data, like cognitive capacity and risk aversion, may help lenders allocate loans more effectively than traditional firm characteristics.

Sources

[1.] Egypt Ministry of Planning and Economic Development, “Egypt’s 2021 Voluntary National Review,” United Nations Development Programme (2021), 46;

Banerjee, A., D. Karlan, and J. Zinman (2015): “Six randomized evaluations of microcredit: Introduction and further steps,” American Economic Journal: Applied Economics, 7, 1–21;

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Implementing Partners

Alexandria Business Association

Silatech