Notes on Microlending Reading

English 2A, Class #8

Investment of $1500 = 160,000 yen

Return of about 3%

It’s the **break** she’s always needed.

Note that **break** has three possible meanings:

1. New way; opportunity, chance
2. A short period of time (“coffee break”)
3. To destroy, crack

They often didn’t own enough **property** or other forms of **collateral** to secure a loan.

property = wealth (e.g., estate, money, house, land)

collateral = money or property which is used as a guarantee that someone will repay a loan.

Women would be more **susceptible** to group pressures to repay.

susceptible to = easily influenced

anecdote = a story

Far more **devastating** to the image of microfinance was a series of economic studies begun in the early 2000s.

= A series of economic studies begun in the early 2000s was far more devastating to the image of microfinance.

devastating = destructive

Karlan notes that at the time the entire notion of applying scientific methods to studying efforts to **alleviate** poverty was new.

The borrower **offset** a boost in income from their business by decreasing their work at a wage-paying job.

# Your Homework

1. Working with a small group, summarize one section of this reading. In other words, tell us the main idea (or ideas) and explain using examples from the text.
2. Note: you should **not** just read the reading from class!
3. Your group will also add material (examples). You should find this material on the Internet.

*Each group should speak for at least 5 minutes, and EVERY member must speak!*

*For example, if your group has this piece of the micro-lending reading, …*

**Does It Work?**

At first the power of this vision seemed confirmed by many reports from microlenders and other analysts touting the stories of borrowers. There were tales of women who had been held back by crushing circumstances but finally broke free from poverty. So great was the excitement over microfinancing’s promise that in 2006 Mohammad Yunus was awarded the Nobel Peace Prize, yet a backlash was brewing. For one thing, news reports started surfacing of poor people who were selling off their last **assets** to repay loans.

Of course, these horror cases were just as **anecdotal** as the success stories. Far more **devastating** to the image of microfinance was a series of economic studies begun in the early 2000s. Dean Karlan, a professor of economics at Yale University who co-authored several of the studies, explains that all those rosy before-and-after stories were essentially meaningless. That’s because they failed to prove whether a successful borrower had succeeded as a result of the microloan or for some other reason. For that reason, Karlan and various others decided to design rigorous field experiments that would properly test the effectiveness of microloans. Karlan notes that at the time the entire notion of applying scientific methods to studying efforts to **alleviate** poverty was new. “When we started this work there had been very few studies using RCTs [randomized controlled trials] to answer a question on any development topic.”

Since then, about a dozen randomized controlled trials of microloan programs in multiple countries have been conducted—including six that were summarized in this paper in the *American Economic Journal: Applied Economics* and a seventh also included in this less technical roundup of studies. In each case they compared a randomly selected group of people who had been offered the loans to an otherwise identical group that had not. The studies looked at programs serving mostly women in countries that included India, Mexico, Mongolia and the Philippines.

**Across the board**, the findings were damning: To be sure, in all but one of the studies, borrowers who owned businesses did use the loan at least in part to expand their business. In two other studies, ownership of businesses increased, but these expansions were modest and seldom resulted in increased profits. Most disappointing of all, in no studies did the average microloan borrower end up significantly increasing income relative to the control group.

It’s worth noting that in some cases this was because the borrower **offset** a boost in income from their business by decreasing their work at a wage-paying job, leaving their overall income unchanged. Still, the main lesson about the impact of microloans on small businesses, and on poverty more generally, concludes Karlan, is that in study after study, “the results have just not been as dramatic as many advocates originally hoped.”

***NO:***

*You: “***Does It Work?** At first the power of this vision seemed confirmed by many reports from microlenders and other analysts touting the stories of borrowers. There were tales of women who had been held back by crushing circumstances but finally broke free from poverty. So great was the excitement over microfinancing’s …”

***YES***

You: “This morning we would like to explain whether the system works as planned. As we saw in the video in class, there are certainly stories of people that have benefited from micro-lending. The lady in Peru managed to expand her pottery business with the help of a $1500 micro-loan …

To expand our discussion, we went to the Internet to find information about … We found …”