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DOES MICROFINANCE LEAD TO ASSET CREATION



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Aim

- Investigates if asset (long-term parameter) have increased for current Self Help Group (SHG) borrowers (which serves as a potential exit avenue for chronic poverty)
- Explore short-term impact parameters such as income
- Type of SHG linkage matters for asset creation (institutional mode of credit delivery of SHGs vs. MFI mode of delivery)

Self Help Groups (SHGs)

- Throughout India
- 3 Million SHGs and 40 Million Families (March 2007)
- How do they work ?
 - ✓ Ten to Twenty Members (NGO)
 - ✓ Savings for 6 Months
 - ✓ Link with bank to obtain loans

Assessing impact tainted by selection bias :

- Unmeasured attributes
- Decision to participate in SHGs depends on the same attributes that determine the impact variable (asset creation in this paper)
- Bias due to non-random program placement

Methodology

- Randomization - difficult to implement in a well-established program as it would upset certain constituencies.
- Holding a control group for long term impact problematic
- No strict exogenous rule to exploit for estimating unbiased impact.
- Adapt Coleman's approach (to compare current members to future members who have not yet received loans) to SHG framework.
- By design members have to wait to receive a loan from the bank (about six months) and we exploit this design feature to identify the self-selected members who have not yet received a loan.

Methodology

- Regression Equation:
- $$A_{ijs} = a + \alpha X_{ijs} + \beta V_{js} + \lambda D_s + \gamma M_{ijs} + \delta SHGMON_{ijs} + \eta_{ijs}$$
- M: Member/Non-Member of SHG - controls for the selection bias.
- SHGMON: Number of Months SHG Member (- 6 Months) - causal treatment effect

Results I: Assets

(x 10³)

Asset Variable/ Membership	Gross Assets	Net Assets	Gross - Savings
Member	-45.43 (2.36)	-46.86 (2.44)	-45.45 (2.34)
SHGMON	0.649 (1.99)	0.625 (1.92)	0.649 (2.00)

Results I: Interpretation

- Members poorer than Non Members
- ✓ Six Years of Membership to Catch Up
- ✓ Dependency Ratio, Education Matters
- Asset definition does not matter
- Disaggregated assets: Dwelling, Livestock*, Savings*, Other Borrowings

Results II: Income

(x 10³)

Asset Variable/ Membership	Total Income	Ag. Income	Other Income
Member	4.277 (1.68)	4.844 (1.59)	-0.488 (1.42)
SHGMON	-0.068 (1.56)	-0.139 (3.21)	0.019 (3.83)

Results II: Interpretation

- Training helps
- Movement away from agriculture
- Movement towards other sources: livestock, fisheries, etc.
- No impact on business profits and total expenditure
- Current vs. Future Impact



Thank you!
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The working paper is available at :
http://www.nek.uu.se/Pdf/wp2008_5.pdf