Does Microfinance Foster Business Growth?

The Importance of Entrepreneurial Heterogeneity

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Big Questions

This session:
• What do small businesses need in order to grow and thrive? Skills? Credit?
• How to channel reasonably-priced credit to entrepreneurs?

This project:
• Does microfinance foster business growth?
• Does this growth continue even once microfinance is no longer available?
• Which types of businesses benefit the most from access to credit?
• Regulation: How to balance consumer protection and access to credit?
What are the impacts of microfinance?

Evidence is mixed:

• Positive effects on business creation and business asset growth
• No effects on consumption, education spending, female empowerment
Who is borrowing?

Novices: microfinance causes some people to start a business
Who is borrowing?

Seasoned entrepreneurs: others use microfinance to expand existing businesses
Persistent growth of business assets for seasoned entrepreneurs

Treatment Effects: Business Assets

- Stock
  - Novices: 0
  - Seasoned: 4,000

- Flow
  - Novices: 0
  - Seasoned: 60

Stock amount (rupees)

Flow amount (rupees)
Persistent growth of revenues and inputs for seasoned entrepreneurs

Treatment Effects: Business Activity

- Expenses
- Revenue

Log rupees
Novices
Seasoned
Seasoned entrepreneurs with more access to credit work more hours in their businesses.
Seasoned entrepreneurs substitute microfinance with informal credit

Treatment Effects: Informal Loans

Informal loan amount (rupees)

-15,000 -10,000 -5,000 0 5,000 10,000 15,000 20,000 25,000

- Novices
- Seasoned
Policy implications

- Credit constraints do bind for entrepreneurs
- Microenterprises can grow large enough to generate employment for themselves and for others
- Policies to scale back microfinance detrimental to businesses
- If goal is to provide financing for business growth, lenders could do a much better job screening borrowers
- Also suggests that channeling larger loans to high-quality entrepreneurs could help business grow much faster
Outstanding Questions

• Christopher Blattman: Skills training
  – How to develop the “novices” into “seasoned” entrepreneurs?
  – Role of cash transfers (i.e. Give Directly) to jumpstart new ventures?

• Ronnie Chatterji: Access to credit
  – Financing and barriers to entry?

• Amit Khandelwal: Constraints for SMEs
  – Once firms reach a large enough scale, what other constraints start to bind?