Graduating Microenterprises to Larger Loans in Egypt

Researchers:

Gharad Bryan

Dean Karlan

Adam Osman

Sector(s): Finance

Location: Egypt-Alexandria, Behera, Gharbia, and Menoufia Governorates

Sample: 1,000 credit clients

Target group: Entrepreneurs Small and medium enterprises

Outcome of interest: Profits/revenues

Intervention type: Credit

AEA RCT registration number: AEARCTR-0004617

Research Papers: Big Loans to Small Businesses: Predicting Winners and Losers in an Entrepreneur...

Partner organization(s): Alexandria Business Association, Private Enterprise Development in Low-Income Countries (PEDL), Innovation Growth Lab, Argidius Foundation

Previous research found that microcredit does not substantially improve borrowers' income or social well-being, but less evidence exists on the impact of larger loans. In theory, if the size of microloans is too small to improve firm performance, then a larger loan size could potentially help microenterprises and microfinance institutions grow. From the perspective of the borrower, lack of capital can impede investment, businesses growth, and employment, so providing entrepreneurs with larger loans could support expansion of their business. From the perspective of the lender, larger loan amounts save administrative costs. This evaluation tests the impacts of providing larger loans to microcredit borrowers on both firms and microfinance institutions.

Policy issue

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Context of the evaluation

In Egypt, where this evaluation takes place, most firms are small and do not access formal financial institutions. Micro, small, and medium enterprises comprise 99 percent of all firms and account for nearly 95 percent of employment. Only 2 percent of small firms in Egypt use banks to finance business investments, compared to an average of 20 percent in the Middle East and North Africa region. It is estimated that there are over 400 microfinance institutions in Egypt, between NGOs and banks, but the

microfinance sector only serves 8 percent of the total possible market size, highlighting the unmet demand for financial services among Egypt's microentrepreneurs and the poor.

The study sample represents borrowers at a local lending institution, Alexandria Business Association (ABA), who recently applied for a relatively larger business loan. ABA provides micro loans of between US$85 and US$5,000 for microenterprises and small businesses with less than 15 employees. These borrowers previously took out a loan of average size in the past, but more recently applied for a loan at least four times the size of their previous amount.



A man running pottery business in Egypt.

Photo credit: Sherif M. Alyamany, Shutterstock.com

Details of the intervention

Researchers are working with ABA to evaluate the impact of providing qualifying microfinance clients with small loans on profits, business growth, employment, repayment, profitability for the bank, assets, and consumption. Of 1,000 individual applicants, 500 will be randomly assigned to receive loan offers of four to ten times the size of their most recent loan. The average loan amount for treatment firms will be 27,700 EGP (US$3,100). The remaining 500 will be eligible for loans of average size and will serve as the comparison group. Both groups will follow the usual process to obtain a loan.

The first borrowers enrolled in mid-2016, and enrollment continued for a year. Researchers plan to measure impacts after one and two years.

Results and policy lessons

Study ongoing; results forthcoming.

Bryan, Gharad, Dean Karlan, Adam Osman. 2022. “Big Loans to Small Businesses: Predicting Winners and Losers in an Entrepreneurial Lending Experiment” Working Paper.