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FEATURE STORY

# World Bank Group Forum Convenes Partners to Explore Implications of Latest Research on Microcredit

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Results of new empirical research that examined the impact of microcredit on poverty reduction in Bosnia and Herzegovina, Ethiopia, India, Mexico, Mongolia, and Morocco were the topic of discussion at a forum today held at the World Bank Group headquarters. The studies, conducted as randomized evaluations of microcredit from 2003 to 2012, found that while microcredit can be a valuable tool to help people expand business activities, it has not led to substantial improvements in household living standards or reductions in poverty.

The forum, jointly organized by the World Bank Group, [CGAP](#), [Innovations for Poverty Action](#) (IPA), and the [Abdul Latif Jameel Poverty Action Lab](#) (J-PAL), convened experts and renowned economists who examined how innovative designs and delivery of financial products can help reach the 2.5 billion “unbanked” adults around the world without access to formal financial services.

The studies, which were featured in the January 2015 edition of [American Economic Journal: Applied Economics](#), generally share the conclusion that expanded access to microcredit has a modestly positive, but not transformative effect on borrowers and communities. Evidence across all six studied also found that:

- There is little to no support for microcredit’s harshest critics, who argue that microcredit borrowers can

quickly become over-indebted: even in the case of individual lending at high interest rates, there was little evidence of harmful effects;

- Microcredit generally helped increase business activities, but rarely affected entrepreneurs' profits or household income;
- Microcredit did afford some people more freedom in optimizing the ways they earned money, consumed, invested, and managed their financial risk.

"The significance of the results from the studies is that they affirm our commitment toward financial inclusion," noted Bertrand Badré, Managing Director and World Bank Group Chief Financial Officer. "They also underscore that microcredit is just one financial tool. A multifaceted approach is needed if we are to meet the goal of universal financial access by 2020 that World Bank Group and partners put forward in 2013."

Participants of the forum also included representatives of donor organizations, investors, researchers, and financial service providers who reflected not only on the research findings but also on the importance of testing new products and delivery channels, and understanding how innovation - such as use of mobile phones - can expand the reach of a range of financial services to poor and unbanked populations.

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**Camille Busette**

Lead Financial Sector Specialist at CGAP

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"Digital channels reduce the cost of delivering financial services to remote areas, and make it possible for financial service providers to offer a variety of services adapted to customers' needs," said Camille Busette, Lead Financial Sector Specialist at CGAP. "Taking a one-size-fits-all approach to microfinance and financial inclusion is no longer an option. Product design, technology, and delivery channels can all be optimized to achieve impact for the consumer and efficiency for providers."

The research presented at the event is an important contribution to the field of financial inclusion, and will help determine the path forward. "Evidence from these studies helps us to take stock of what microcredit can do, as well as its limitations as a development tool," said economist Esther Duflo of the [Massachusetts Institute of Technology](#), a co-founder and co-director of [J-PAL](#), and co-author of the India and Morocco studies. "The lenders, products, and settings in these six studies are fairly representative of the microcredit industry worldwide, making the similarity in results quite noteworthy. Donors, investors, and microfinance institutions should take the results to heart."

#### **About the World Bank Group**

The World Bank Group plays a key role in the global effort to end extreme poverty and boost shared prosperity. It consists of five institutions: the World Bank, including the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). Working together in more than 100 countries, these institutions

provide financing, advice, and other solutions that enable countries to address the most urgent challenges of development. For more information, please visit [www.worldbank.org](http://www.worldbank.org), [www.miga.org](http://www.miga.org), and [www.ifc.org](http://www.ifc.org).

#### **About CGAP**

CGAP (the Consultative Group to Assist the Poor) is a global partnership of 34 leading organizations that seek to advance financial inclusion. CGAP develops innovative solutions through practical research and active engagement with financial service providers, policy makers, and funders to enable approaches at scale. Housed at the World Bank, CGAP combines a pragmatic approach to responsible market development with an evidence-based advocacy platform to increase access to the financial services the poor need to improve their lives. Our mission is to improve the lives of poor people by spurring innovations and advancing knowledge and solutions that promote responsible, sustainable, inclusive financial markets. More at [www.cgap.org](http://www.cgap.org).

**Innovations for Poverty Action (IPA)** discovers and promotes effective solutions to global poverty problems. IPA designs, rigorously evaluates, and refines these solutions and their applications together with decision-makers to ensure that the evidence created is used to improve opportunities for the world's poor. In the ten years since its founding IPA has worked with over 250 leading academics to conduct over 400 evaluations in 51 countries. More at [www.poverty-action.org/](http://www.poverty-action.org/)

**The Abdul Latif Jameel Poverty Action Lab (J-PAL)** was established in 2003 as a research center at MIT's Department of Economics. Since then, it has built a global network of 113 affiliated professors and regional offices in Africa, Europe, North America, South Asia, South East Asia, and Latin America and the Caribbean. J-PAL's mission is to reduce poverty by ensuring that policy is informed by scientific evidence. It does this by working with governments, non-profits, foundations and other development organizations to conduct rigorous impact evaluations in the field, policy outreach to widely disseminate the lessons from research, and building the capacity of practitioners to generate and use evidence. Over 200 million people have been reached by the scale-up of programs evaluated by J-PAL and found to be effective. More at [www.povertyactionlab.org](http://www.povertyactionlab.org)

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