



 Blogs that Link Here



Now Reading...

Thursday, July 29, 2010

MICROFINANCE PAPER WRAP-UP: Why Microfinance Take-up Rates Are Low & Why It Matters, by Dean Karlan, Jonathan Morduch and Sendhil Mullainathan

» Posted by [Conner Brannen](#) in Category: [Interest Rates](#), [Trends/Challenges](#) at 7:16 am

By Dean Karlan, Jonathan Morduch and Sendhil Mullainathan, published by Financial Access Initiative, June 2010, available at: http://financialaccess.org/sites/default/files/RFN11_Why_microfinance_takeup_rates_are_low%286-17-10%29.pdf

Evidence indicates that under half of eligible households participate in microfinance. In this paper, Mr Karlan, Mr Morduch and Mr Mullainathan begin by reviewing why take-up rates are important and how they can be measured. Data from thirteen projects show that take-up rates vary from 2 to 84 percent of eligible individuals. Understanding these numbers is important for several reasons. First, the fact that participation is not complete indicates that microfinance is not for everyone – it is not a panacea. Second, participation rates

reveal valuable information about a customers' interest in a particular product or service. This can help practitioners understand how to design and price products that best serve clients.

Three different ways to measure take-up rates are considered. The first makes use of population-based aggregate estimates from administrative records of regulators and other government entities. The second uses household surveys, and the third relies on analyses of specific products or services.

Two major points can be made based on the data considered. First, take-up rates measured by controlled analyses were lower (2 to 8.7 percent) than those measured by household surveys (38 to 76 percent). The former typically involve one lender only, which may explain the low estimates of take-up, because target individuals may already be borrowing or saving elsewhere. Household surveys, however, are able to capture take-up of a wider variety of loan and saving products from more lenders.

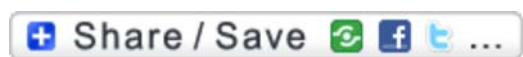
The second major point is that no clear pattern emerges when comparing take-up rates of credit, savings and insurance products. Nonetheless, take-up of credit products demonstrates the largest variation (2 to 84 percent), while rates of take-up of savings products do not exceed 55 percent, and no more than half of households or individuals accepted an insurance product when offered.

The authors then gathered data on why individuals choose not to borrow. While self-reported data cannot be taken entirely at face value, several important points are conveyed by the data. First, the most common self-reported reason for avoiding borrowing is a fear of debt. Second, high interest rates are cited as a reason for not borrowing by 10 to 13 percent of respondents. Third, the design of loan products is a critical factor in take-up. Many respondents never participated in a microfinance scheme because they could not find an appropriate loan product. Expanding financial access therefore requires studying, testing and evaluating better products.

Mr Karlan, Mr Morduch and Mr Mullainathan conclude by presenting ways to address low take-up. Although it is not the most cited reason for not taking up, they argue that understanding borrowers' sensitivity to interest rates is paramount.

By Conner Brannen, Research Assistant

Browse the MicroCapital Universe and add your entry to the wiki <http://www.microcapital.org/microfinanceuniverse/>



Comments are closed.

All content is protected under copyright © 2010 by [MicroCapital](#) - [Sitemap](#)

[MicroCapital](#) powered by [WordPress](#) • Site design based on [xMark Theme](#) by: [Lisa Sabin-Wilson](#)