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**Abhijit Banerjee**  
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It is the fate of all really important ideas that people forget how the world used to be before they became common currency. I am, alas, old enough to have been around before microcredit acquired its present prominence. In 1992, when I read a paper about it in a conference, I was asked, quite literally, who cares about these strange things that they have down in Bangladesh?

There were, of course, poor people even in those primeval times. They borrowed, and as many of them still do, paid interest rates of 60 per cent a year or more (often much more). The world just assumed that this was part of being poor.

Now for the 150 million who already borrow from Micro-Finance Institutions (MFIs) and another 200 million or more who have the option of borrowing from an MFI, things are very different. MFI loans in

Bangladesh and India carry interest rates of no more than 30 per cent a year. In the slums of Hyderabad, where the average (non-MFI) interest rate, when we surveyed a couple of years ago, was around 60 per cent a year, borrowers can now borrow amounts of up to Rs 10,000 from MFIs like Spandana at about 24 per cent.

At the same time MFIs have managed to find ways to be financially sustainable and to keep growing fast. This in itself is a remarkable achievement. Very little works in many developing countries in terms of delivering to the poor; previous attempts to deliver credit, through state-run banks, for example, collapsed in the face of widespread corruption and defaults.

Moreover, we now have some evidence that microcredit delivers on its most basic promise — that it would help the poor improve their livelihoods. Researchers from the Jameel Poverty Action Lab have completed two randomised trials (the social science equivalent of a medical experiment) of microcredit — one in partnership with a Hyderabad-based MFI, Spandana, and the other with a Philippines-based First Macro Bank.

The two programmes evaluated are very different. First Macro Bank provides loan to existing business owners, male or female, on an individual basis. Spandana uses the classic group-lending model and lends only to women. Yet, at one level, the results are quite similar. The effect on businesses is not dramatic but something good does happen. In the Philippines, male-owned businesses increase profits although female-owned businesses do not. In India, borrowers who already own a business buy assets for their business. Of those who don't own a business, one in eight starts a business they would not have started otherwise.

Reassuringly, we see no evidence of people falling into a debt trap. A lot of people do borrow without starting a business, but many of them simply use the money to pay down another, more expensive, loan. Of the rest, some use it to deal with an urgent need (an illness, a wedding) that they would have had to borrow for in any case; others simply buy something they needed for their homes but would never have enough money to buy (a roof or a television). To pay for the loan, they cut back on some of their daily indulgences (a cup of tea here, a pan there), which, remarkably, is exactly what they had said that they wanted to cut before the experiment started.

All this is good news. Yet the reactions to these results in the media have been rather negative — one hears rumblings that microcredit might be the latest 'God that Failed'. Perhaps this is inevitable: so little has gone right with anti-poverty programmes in the last 50 years that it is hard not to hope for a miracle cure, and some of the boosters of microcredit indeed suggested that we finally have one. It has been argued, for example, that by putting more spending power in the hands of poor families and, perhaps more importantly, in the hands of women, microcredit can expand investment in child health and education, empower women and reduce discrimination against them. There was even the suggestion that by making people feel that their lives could be better and giving women independent access to capital, microcredit could fight the Aids epidemic.

Alas, at this point, 18 months after they got the loans, there is no evidence that microcredit has any effect on health,

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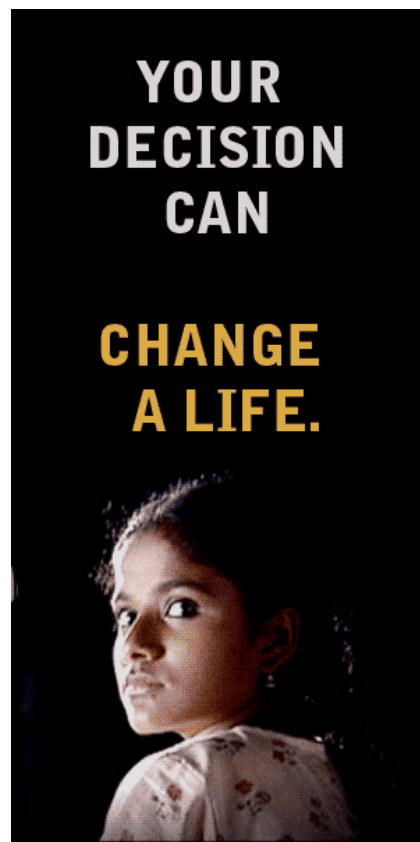
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education, or women empowerment. This is no surprise for Padmaja Reddy, the founder and CEO of Spandana, who has always insisted that real transformation of people's lives takes a long time — the next round of data collection is scheduled to start three years after the original loans were given, and there we might see something, she says — but it could still be a problem for her, if, for example, the Indian regulators, who have always been a little suspicious of microcredit, use the evidence as an excuse to start interfering more.

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