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Does Micro-finance Really Benefit the Poor?

Evidence from Bangladesh

SHAHID KHANDKER

Abstract

Impact assessment of micro-finance programs, like any other program, is sensitive to the evaluation method. Self-selected program participants and endogenous program placement may bias the impact estimates. Correction of such bias with cross-section data was attained through a quasi-experimental survey design. Cross-section results show that micro-finance makes a difference for the poor. This paper reports some preliminary impact assessments using panel household survey data from Bangladesh. The new findings seem to confirm that microfinance really benefits the poor participants as well as the local economy. The aggregate program impact is small; thus, large-scale poverty reduction is perhaps not possible with micro-finance.

Shahid Khandker is a senior economist in the Rural Development Group, Research Department of the World Bank. This paper is to be delivered at the *Asia and Pacific Forum on Poverty: Reforming Policies and Institutions for Poverty Reduction*, to be held at the Asian Development Bank, Manila, 5-9 February 2001. The paper is based on the author's past research and an ongoing research project on micro-finance with Mark Pitt of Brown University and M.Abdul Latif, Binayak Sen and others from Bangladesh Institute of Development Studies. The author would like to express his thanks to Mark Pitt for comments and suggestions, and to Nidhiya Menon and Hussain Samad for excellent research assistance. Views expressed in this paper are entirely his and do not reflect those of the World Bank or its affiliated organizations, nor of his research collaborators.