

**Economics  
Seminar  
Series  
2016**



SOUTH ASIAN UNIVERSITY  
FACULTY OF ECONOMICS

**Seminar**

***Impact of microcredit on returns to capital: Evidence from a randomized experiment in Pakistan***

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**Date:** August 19, 2016  
(Friday)  
**Time:** 2:30 p.m.  
**Venue:** FSI Hall, Akbar Bhawan  
Satya Marg, Chanakyapuri, New Delhi

**All are Welcome**

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**Abstract**

The global microfinance movement is driven by the claim that once poor micro-entrepreneurs are provided access to capital, they will be able to generate high returns. The existing evidence on returns to capital is mixed and too limited to substantiate this claim. This paper reports on a field experiment conducted in Pakistan in which an exogenous shock in the form of interest free loans was provided to the capital stock of randomly selected microenterprises. We find that treatment significantly increased monthly business profits and the average monthly returns to capital lies in the range of 8.6 – 11.9 percent a month. These returns are substantially higher than the interest rates charged by microfinance institutions in Pakistan.

**Key words:** Returns to Capital, Microfinance, Microenterprises, Randomized Experiment, Akhuwat Microfinance

JEL Codes: O17, O16, C93