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MICROFINANCE BEYOND SELF-EMPLOYMENT: EVIDENCE FOR FIRMS IN BULGARIA

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Abstract

This paper provides new evidence on the impact of microfinance on job creation beyond self-employment. We examine wage-employment effects for a typical program in Eastern Europe with average loan sizes that are considerably above what has been studied so far. We apply propensity score matching extended by a difference-in-differences estimator to panel data from an individual-lending program to firms in Bulgaria. Our results indicate that microcredit has very positive effects on job creation. Participating firms have on average 2.5 (or 33 percent) more employees two years after receiving a microcredit than matched non-participants. This strong effect seems to be related to a certain loan size threshold necessary for positive impacts to unfold. Effects are largest for the smallest firms, supporting findings from other studies that small firms are more constrained by credit than large firms. Investigating dynamic effects for up to six years after treatment, we furthermore show that effects are long lasting.

Keywords: microfinance, wage employment, small firms, impact evaluation, Bulgaria

JEL Classification Number: G21, J23, D21, C21, P34

1 INTRODUCTION

Microfinance is deemed to be a strategy for creating jobs. The European Union (EU, 2010), for example, has embraced microfinance as a measure to increase employment levels in Europe until 2020. The rationale on which the promise to create jobs rests is typically as follows: Poor entrepreneurial individuals could earn high marginal returns through business activity but are credit constrained. Access to microcredit, defined as small loans to underserved entrepreneurs and their micro-enterprises, would then help realize growth opportunities by starting or expanding businesses, thus spurring employment (see Banerjee and Duflo, 2014; De Mel et al., 2008; Fafchamps and Schündeln, 2013; Karlan and Morduch, 2010; McKenzie and Woodruff, 2008).

Given that job creation is a major concern for policymakers worldwide, it is one of the reasons why microfinance has become increasingly popular since its emergence in the mid-1970s. Microfinance programs that provide microcredit next to other financial services are now widespread in low- and middle-income countries and have recently emerged in high-income countries as well. In total, about 200 million people worldwide are considered to be clients of some 3,600 microfinance institutions

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