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# Microcredit and Willingness to Pay for Environmental Quality: Evidence from a Randomized-Controlled Trial of Finance for Sanitation in Rural Cambodia\*

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## Abstract

Low willingness to pay (WTP) for environmental quality in developing countries is a key research question in environmental economics. One explanation is that missing credit markets may suppress WTP for environmental improvements that require large up-front investments. We test the impact of microloans on WTP for hygienic latrines via a randomized controlled trial in 30 villages in rural Cambodia. We find that microcredit dramatically raises WTP for improved latrines, with 60% of households in the Financing arm willing to purchase at an unsubsidized price, relative to 25% in the Non-financing arm. Effects on latrine installation are positive but muted by several factors, including a negative peer effect: randomly induced purchases by neighbors reduce a household's probability of installing its own latrine. On methodological grounds, this paper shows that a "decision-focused evaluation" can be integrated into academic analysis to provide insight into questions of general interest.

Keywords: sanitation, microcredit, Becker-DeGroot-Marschak, randomization inference, decision-focused evaluation

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