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## Early Impacts of the Grameen America Program

March 2019

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BUILDING KNOWLEDGE
TO IMPROVE SOCIAL POLICY

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# Overview

This report summarizes early findings from the evaluation of the Grameen America program, a microfinance model that provides loans to low-income women in the United States who are seeking to start or expand their small businesses. The program is based on the Grameen Bank model developed in Bangladesh during the mid-1970s. Its objective is to reduce poverty through the provision of loans, financial training, and peer support.

The Grameen America evaluation is using a randomized controlled trial design to explore the mechanisms of program operations and whether the model leads to improved outcomes for borrowers. Special care was taken to design the evaluation to overcome some of the limitations observed in previous studies of microfinance programs. The evaluation includes an implementation analysis, which is examining how the program operates and the experiences of borrowers and program staff, and an impact analysis, which is assessing the program's effects on participants' outcomes, including wages and self-employment, earnings and other income, assets, and financial well-being. The impact findings in this report are based on sample members' responses to a survey administered six months after the study began and credit report data from a major credit reporting agency. All outcomes in this report are considered mediating or secondary outcomes. The Grameen America evaluation is funded by the Robin Hood Foundation, and this report is made possible by Citi Community Development.

## Key Findings

- Initial findings from in-depth interviews with program participants indicate that borrowers often combine multiple sources of income to make ends meet. These findings suggest that the extent of investment in a small business may be contingent on other sources of income and specific household economic circumstances.

- Six months after enrolling in the study, Grameen America group respondents are more likely to be operating their own business than control group respondents. This effect is observed despite a high rate of business operation among the control group respondents, and suggests there is a very high rate of business operation among Grameen America group respondents.

- The Grameen America program produced improvements in several measures of material hardship — for example, how often the respondent ran out of money in the three months preceding the survey, the respondent's ability to afford necessities, and the respondent's current financial situation compared with the previous year. These effects are encouraging, as it is often difficult for any intervention to have an impact on measures of material hardship.

- Grameen America group members were more likely than control group members to have established a credit record and have a VantageScore (an alternative to the more commonly used FICO credit score), and to have a "prime" VantageScore (a score in the highest range, between 650 and 850) at 7 to 12 months after study entry. This effect is promising: Credit scores are linked to access to mainstream financial markets, lower interest rates, and better employment opportunities.

These early findings are encouraging. It is too early to tell, however, whether the impacts will persist over the long term or translate into increases in overall income, one of the study's primary outcomes. Future reports will present more information about Grameen America program operations, the experiences of borrowers and program staff, and longer-term impact findings on a wider range of outcomes, including earnings and income.

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# Acknowledgments

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Most of all, we would like to thank the Grameen America evaluation research participants, whose involvement in the study is helping us to better understand how to support and assist individuals trying to advance economically though self-employment.

The Authors

## Introduction

Safe and affordable financial services provide opportunities for economic mobility by enabling users to save, borrow, and invest.[1] These services are not always available to everyone, however, especially those in the lowest income brackets. Microfinance — or microlending — programs seek to address this gap by offering small loans to low-income individuals looking to start and operate small businesses with the potential to both generate income and eventually improve overall well-being.[2] The field of microfinance has expanded exponentially since it originated in the 1970s, following early excitement about its promise to reduce poverty for loan recipients. As of the end of 2013, more than 3,000 microfinance institutions were estimated to be lending to over 211 million individuals worldwide.[3]

This report presents early findings from an ongoing evaluation of a microfinance program operating in the United States, the Grameen America program. The study represents an important contribution to the literature as the first random assignment evaluation of the Grameen America program and perhaps the most rigorous test of group microlending in the United States to date.[4] Grameen America provides microloans to low-income female entrepreneurs, and its model is based on and similar to the Grameen Bank model developed in Bangladesh in the mid-1970s.[5] One main difference between the programs is the business types pursued by borrowers, reflecting the differences in opportunities between a rural, nonindustrialized country and an industrialized country with a robust low-wage labor market.[6] In rural Bangladesh, common businesses include dairy farming, rice trading, growing vegetables, and operating grocery shops. In the United States,

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[1]Demirguc-Kunt et al. (2018).

[2]The terms microfinance, microcredit, and microlending are often used interchangeably. In the past few decades, the definition of microfinance has expanded and now covers microcredit and additional financial services — such as savings, insurance, training, and health services — that are offered to low-income individuals.

[3]Reed (2015).

[4]Random assignment evaluations are often considered the "gold standard" in evaluation research. In these evaluations, individuals are assigned at random into either a program group or a control group. Individuals in the program group are eligible to receive the program services, while individuals in the control group are not. Because the two groups are similar on both measurable and unmeasurable characteristics, they can be compared reliably, and the difference in their outcomes is used to measure the program's *impact*. Differences — or impacts — that are statistically significant can be attributed with a high degree of confidence to the program.

[5]The founder of Grameen Bank, Muhammad Yunus, won the Nobel Peace Prize for his work in developing the model.

[6]Other differences exist between the Grameen Bank program and the Grameen America program. For instance, in both programs, participants have to live in close proximity to one another, but in the U.S. context, "living in close proximity" varies from city to city depending on whether there is easy access to public transportation. The program in Bangladesh has borrowers commit to "16 Decisions" before obtaining a loan. These include "We shall educate our children and ensure that they can earn to pay for their education" and "We shall build and use pit-latrines." The Grameen America program has reduced the number of Decisions to five and adapted them to American borrowers, although the Decisions do not seem as embedded in the implementation of the program as they are in the Grameen Bank program. Participants in Grameen America recite the mantra "unity, discipline, and hard work are the key to success" at trainings and center meetings.

Grameen America borrowers sell food items, operate direct-sales businesses, run cosmetics stores and beauty salons, and provide personal goods and services.

The Grameen America program uses a group microlending model that was pioneered by the original Grameen Bank program and has since spread throughout the nonindustrialized world.[7] In this model, individuals must form a group before they are eligible to apply for a loan. Each individual in the group receives her own loan and is responsible for paying it back. No one in the group can receive another loan until each member of the group has repaid her loan. Thus, group vetting (and group social pressure) is used as a means of ensuring repayment, as opposed to traditional loan underwriting. Despite the lack of traditional underwriting, the model has been found to have very high loan repayment rates, as evidenced by Grameen America's reported 99 percent repayment rate.[8] Consistent with Grameen America's mission to empower women, the organization gives loans only to female entrepreneurs.

Despite the widespread implementation of microfinance programs, including the Grameen America program, only limited rigorous evidence is available on the model's effects on loan recipients' employment, income, poverty reduction, and other outcomes, particularly in advanced economies.[9] The rigorous evidence that is available (which is mostly from international studies) shows that microfinancing can lead to modest positive impacts on some outcomes for some groups.[10] For example, an evaluation done in Morocco saw no impact on health, education, or female empowerment,[11] but it did find increases in self-employment activities.[12] Another analysis comparing six evaluations of microcredit found that all of the programs increased business activity, but only some increased wages or business income, and none increased overall household income.[13] Studies have also shown that microlending programs work better for individuals who have existing businesses.[14] One commonality across most of the evaluations is that they were looking at programs in nonindustrialized countries, and it is unclear whether those results can be generalized to a program operating in an industrialized country like the United States. In addition,

[7]For example, see Coleman (1999).

[8]Grameen America (2018).

[9]Numerous quasi-experimental studies have been conducted on group microfinance programs. However, most of these studies lacked a reliable counterfactual — that is, a means of determining what would have happened in the absence of the microfinance programs being studied — making it difficult to estimate the impacts of the programs. See Karlan and Goldberg (2011) for a review of methodological issues when evaluating microfinance programs.

[10]Bauchet et al. (2011) provides a summary of the interventions and findings from several randomized experiments with microfinance programs.

[11]Female empowerment was measured, for example, by the number of activities that a female household member managed and by qualitative indicators, such as a woman's decision-making authority and her mobility inside and outside her village.

[12]Crépon, Devoto, Duflo, and Pariente (2011).

[13]Banerjee, Karlan, and Zinman (2015). This paper also discusses some of the challenges in evaluating microcredit programs.

[14]Crépon, Devoto, Duflo, and Pariente (2011); Angelucci, Karlan, and Zinman (2013).

some of the studies suffered from study implementation problems that led to only small differences in the percentage of participants receiving microloans when the program and control groups were compared (known as the "treatment contrast") and were therefore not ideal tests of the model.[15]

The Grameen America evaluation is using a randomized controlled trial design to explore the mechanisms behind how the program operates and whether the model translates into improved outcomes for borrowers. Special care was taken to design the evaluation to overcome some of the limitations observed in previous studies. Notably, intact lending groups were randomized to maximize the difference in take-up of microloans between the program and control groups. Though this made it difficult to recruit for the study, it set the study up to have a larger treatment contrast and, therefore, provide a fairer test of the group-lending model than some of the tests designed previously.[16]

This report provides a summary of the Grameen America model and evaluation, profiles the study population and how participants make ends meet, and provides a look at early findings from the evaluation's impact analysis. The early impact findings are encouraging but are not the final word. Six months after enrolling in the study, Grameen America group members are more likely than control group members to be operating their own businesses, and the program has produced reductions in several measures of material hardship. It is too early, however, to know whether these impacts will hold in the longer term or whether they will translate into increases in overall earnings and income, which are the ultimate goals of the Grameen America program. Future reports on the Grameen America evaluation will present longer-term impacts on a much wider range of outcomes.

## Grameen America Model and Evaluation Design

Grameen America was founded in 2008 and opened its first branch in Queens, New York. The model seeks to reduce poverty by providing microloans, financial training, and peer support to low-income, female entrepreneurs using a group-based structure. The rationale behind the model is that there is demand for low-cost capital, particularly among low-income women living in American cities, and that enabling those women to expand or open their own businesses would allow

[15]Findings from the first experimental study of the traditional group microlending model were released in 2010 (and updated in 2015). The study was conducted in Hyderabad, India. Fifty-two slums (defined as permanent settlements with concrete houses and some public amenities) were selected to open a Spandana branch (a growing microfinance institution in the area), and 52 were selected to serve as a control group. This seminal study found no impacts on average consumption, human development outcomes, health, education, or women's decision-making, but it did find increases in the purchase of durable goods (especially for the purposes of operating a business). A major limitation of this study was that loan take-up rates were very low — less than 20 percent — because the study did randomization at the neighborhood level. Another limitation was that other microfinance institutions opened in control areas during the study period, so the impact on borrowing from any microfinance institution (the treatment contrast) was only 8 percentage points. See Banerjee, Duflo, Glennerster, and Kinnan (2015).

[16]Recruitment for the study took a year longer than expected and required numerous design changes.

them to achieve economic benefits beyond those they could achieve in the wage-labor market. As of September 2018, Grameen America reported having distributed $1 billion in loans to more than 100,000 borrowers and was operating 20 branches in 13 cities across the country.

### Grameen America Model

The Grameen America model (illustrated in Figure 1) requires potential borrowers to form a group of five women to participate in the program.[17] All individuals in the group must know one another (but not be immediate kin), live near one another, and have a business purpose — tied to investing in either a new venture or an existing business — for a loan. This is distinct from most loans, which require credit scores, business plans, and substantial underwriting. Everyone in the group receives her own loan and is responsible for repaying the loan. Loans are repaid on a weekly basis at a mandatory meeting. No group member may receive another loan until all members of the group have repaid their previous loans, a structure that provides a strong incentive for everyone in the group to pay back their loans. Each group member seeks funding for herself and her own business(es), and group members do not need to be operating similar businesses.

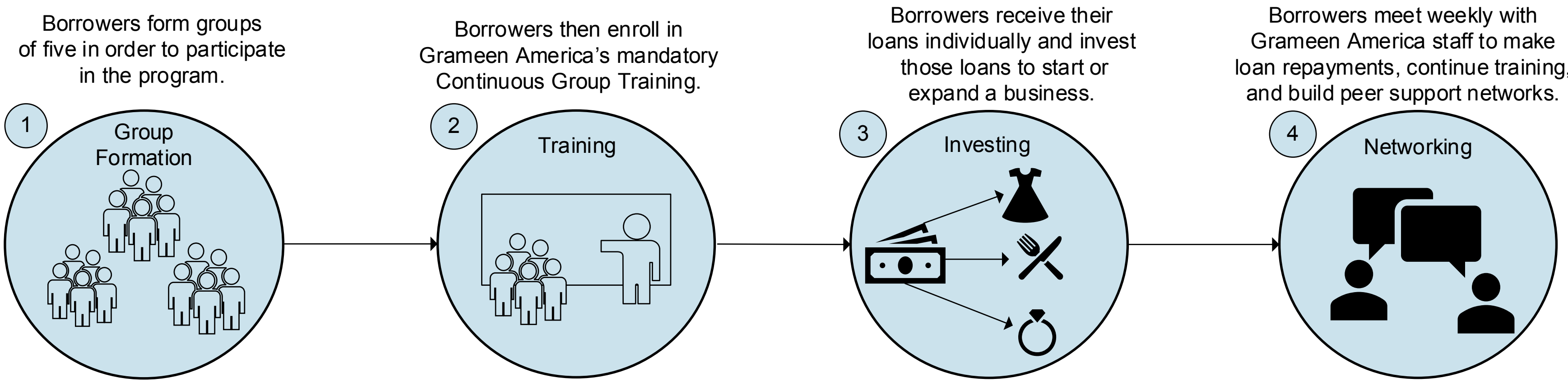
After forming a group of five, borrowers participate in Grameen America's mandatory continuous group training. Here, the model specifies that borrowers learn about interest rates, loan repayments, savings, credit establishment, asset accumulation, and the merits and risks of loans. The training is intended to occur over five consecutive days with one session per day lasting one- to two-hours. The final steps in the enrollment process are a home visit, during which Grameen America staff members confirm applicants' addresses and low-income status, and a group interview, during which staff members assess applicants' knowledge of loan conditions, program rules, and how well they know the other group members.

Each member of the approved group then receives her first loan from Grameen America. First loans are typically between $500 and $2,000, and borrowers repay their loans over a roughly six-month period. Several groups of borrowers come together to form a "center," which generally has one to six groups under its purview. Center meetings are held weekly and are supervised by center managers (who are Grameen America staff members). At the center meetings, the center managers collect principal and interest payments,[18] as well as a required contribution to savings

[17]Worldwide, both group and individual microlending programs are popular, and there is substantial debate about the relative merits of the two approaches. See Gine and Karlan (2014) for a discussion.

[18]Collection of loan repayments across all Grameen America branches has evolved over time. Beginning in December 2017 and continuing at least to the present (October 2018), borrowers make loan payments at a convenience store, such as 7/11, in advance of the center meetings. At the meetings, Grameen America staff collect receipts of the payments made and record them electronically. Borrowers receive a text confirmation that their payment has been received. Recently, because of the streamlined repayment process, Grameen America has explored using the center meetings as a platform for activities other than loan repayment. Grameen PrimaCare, an affiliate of Grameen America, has piloted a program at its Bronx branch called Promotoras, which provides health and well-being information and referrals (such as domestic violence services and preventive health care screenings) at the meetings. Plans are under way to introduce similar activities throughout more Grameen America branches now that loan repayment occurs before the meetings.

**Figure 1**
**Grameen America Model**



accounts.[19] Attendance at the weekly center meetings is mandatory, allowing Grameen America to connect with its borrowers regularly. The meetings are also intended to provide financial education and be a forum to discuss socioeconomic issues affecting the borrowers.

Once all members of a group have paid off their loans, the group is eligible to apply for additional loans. Subsequent loans are often for higher amounts and are designed to help members expand their businesses.[20] The repayments of each member of the group affect the ability of the entire group to qualify for increases on successive loans.

### Theory of Change

The idea behind the Grameen America model is that it will help expand loan recipients' incomes. Then, in turn, it will improve participants' financial well-being and, over the course of several years, lift their households out of poverty. The research team identified four main mechanisms through which the Grameen America model may achieve this goal:

1. **Access to low-interest credit:** Grameen America offers lower interest rates on its loans than typical lenders, allowing borrowers to access capital without having to turn to subprime or informal credit markets (like friends and family). The Grameen America interest rate is far lower than alternatives like payday or other subprime loans,[21] which can have annual percentage rates between 200 and 400 percent.[22] Another alternative is informal credit from friends and family, which has a variety of benefits and drawbacks. On the one hand, much of the funding raised in this manner comes in the form of gifts or non-interest loans, so there is no burden of interest payments or default. On the other hand, this type of borrowing comes with social costs. It may be shameful to request aid from kin or to mix business and family. The funds may also come with the expectation that the favor will be returned somehow — for example, by employing a relative, providing deals on merchandise, or offering a much larger sum once the borrower has "made it." These reciprocal obligations can sink a business or make it difficult to move beyond subsistence.

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[19]The procedure for contributing to savings accounts at the Union City branch (where the evaluation took place) changed during the study period. At first, the branch had difficulty negotiating the requirements for borrowers to open a savings account at a local bank, as is typical in other branches. Thus, the savings aspects of the program for borrowers in Union City began later than in the other cities. Also, in early 2017, Grameen America started asking borrowers in Union City to save $10 per month. The savings are not collected at the meeting, however; participants are asked to add $10 monthly to their savings account on their own. Savings might be used to determine loan amounts in the future, as is typical in other branches. This practice of saving $10 per month is different from the standard savings model in which Grameen America facilitates a $2 per week savings deposit at branch meetings.

[20]Loans tend to increase by up to $500 during early loan cycles and by up to $1,000 during later loan cycles.

[21]The subprime lending market offers products, such as payday and installment loans, to borrowers with weak credit histories and reduced repayment capabilities. Payday loans are short-term, high-interest, single-payment loans with repayment due at the time of the borrower's next payday. Installment loans are paid back over time with multiple payments that range in amounts from hundreds to thousands of dollars.

[22]The interest rate for Grameen America loans was 15 percent through June 2016 and 18 percent thereafter.

2. **Credit to build business:** Borrowers are expected to spend their loans to start or expand a small business. Self-employment may be a viable path to economic advancement and could provide greater or at least more stable income, independence, and a better work environment than the type of wage-earning jobs that are typically available to the population targeted by the program. In rural Bangladesh, where the Grameen Bank model was first implemented, self-employment is often the only path to economic advancement for landless individuals, as the country's formal and informal job markets provide limited alternatives. In an industrialized, urban setting such as in certain areas of the United States, this is, of course, not the case. Individuals have access to a range of formal and informal employment opportunities.

   These options may not provide a good, reliable path for advancement for those typically served by Grameen America, though. The jobs available to the lowest-skilled workers (particularly those who are not fluent in English) are usually low paying and low quality, with few if any benefits. Furthermore, the work is often seasonal or offered on a short-term contract basis, which can lead to income fluctuations that can increase material hardship and reliance on high-interest, subprime credit to help cover expenses. Also, wage labor may not be an option for everyone, particularly for those needing child care services. For low-income mothers, the independence associated with small business ownership may be particularly important. More flexible hours and the potential to work closer to or at home can allow them to spend more time with their children, even if doing so brings about a double burden for them by having to do both activities at once.

   Business ownership comes with a series of potential pitfalls, however. Many businesses fail due to lack of demand or mismanagement. Those who take out business loans may underestimate the difficulties associated with achieving sustainable profit. Business failure can leave borrowers with debt and few means to repay it. Businesses may also suffer from seasonal or other (for example, economic- or weather-oriented) fluctuations.

   Analysis of the potential for economic advancement through business ownership is further complicated by the realization that many business owners operate "part time" and continue to engage in wage labor. Their business may then provide supplemental income and, if it is only a small part of overall income, expose the borrower only weakly to the potential benefits and drawbacks of self-employment. It is an open, empirical question whether business ownership in a developed economy with a robust low-wage labor market provides a more viable path to economic advancement than singular reliance on wage labor.

3. **Credit rating establishment:** Grameen America reports repayment of its loans to credit agencies. This gives borrowers the opportunity to generate and strengthen their credit histories, which may in turn help them access mainstream credit and its associated lower effective interest rates. With poor or nonexistent credit histories, low-

income people are often cut off from mainstream credit access — such as bank loans (for example, an auto or mortgage loan) or credit cards — which middle- and upper-class individuals may use for the purchase of durable goods. Having low (or no) credit scores also limits options for housing and (in some states) affects employment prospects. Low-income individuals are often forced to rely on pawn shops, rent-to-own stores, and other ersatz credit sources. Borrowing from these sources can lead to debt burdens that make escaping the poverty trap more difficult. On the other hand, those who fail to repay their Grameen America loans in a timely manner would not gain this benefit and may even further damage an already weak credit score. Whether Grameen America borrowers do graduate into mainstream credit or gain the ability to borrow at lower interest rates than those who do not take such loans remains an open question.

4. **Social network development:** As noted, Grameen America organizes borrowers into groups of five women, and these groups are organized into larger centers of up to 30 members each. One of the program requirements is that members of a group must know one another before joining. The weekly center meetings may serve as a venue for borrowers to exchange tips, strategies, and information to help them succeed in their businesses. Interactions within loan groups and centers may also strengthen the social networks of borrowers, providing them with additional friends and acquaintances to call upon in times of need (for example, for rides, babysitting, or cooking). The potential benefits and drawbacks of using "social capital" in this manner are described above in "Access to low-interest credit."

   Given that Grameen America borrowers are recruited through existing social networks, however, lending groups may often overlap with preexisting ties, and thus, participation in the program may not necessarily expand existing social network structures. Then again, individuals recruited in this manner may forge new or stronger connections with those with whom they would otherwise have had only tenuous connections (such as friends of friends), especially with members from different groups within the same center, given that they meet at the same time and place on a weekly basis for the duration of the loan. The centers bring together individuals with more distant social ties and provide a mechanism for increasing social networks.

The evaluation of the Grameen America program will provide evidence on whether and how these four mechanisms are operating in practice. Program impacts can come from multiple channels either separately or in combination. Notably, material hardship may be reduced through one or more program mediators, such as social network development, stronger credit scores, the loans themselves, and/or increased savings.

### Grameen America Evaluation

The Grameen America model is being evaluated at the organization's branch in Union City, New Jersey. The branch was initially opened for this study in early 2014 and serves borrowers in Union City, Jersey City, Hoboken, and the surrounding municipalities in northern New Jersey.

To accommodate Grameen America's group-lending model, the program is being evaluated using a clustered randomized controlled trial design. Potential loan groups were assigned at random to either the program (Grameen America) group or the control group. Loan groups assigned to the Grameen America group were eligible to receive a loan from Grameen America, while loan groups assigned to the control group were not eligible for a loan from or any services offered by Grameen America.[23] Between March 2014 and March 2017, 1,492 women (in 300 loan groups) enrolled in the Grameen America evaluation.[24] Roughly 70 percent of the sample participants were in the Grameen America group, while the other 30 percent were in the control group.[25]

The Grameen America evaluation has two main components: an *implementation analysis* and an *impact analysis*. The implementation analysis is examining how the Grameen America program operates, the experiences of program staff and borrowers, and whether and how the mechanisms behind the theory of change work in practice. This report presents initial themes that have emerged from one piece of this analysis: the first round of interviews with program participants. These interviews focused mainly on the financial lives and household economies of Grameen America borrowers, and the initial findings from the interviews are summarized in this report, as they provide context for the study. Future reports will present findings from a set of longitudinal case studies based on four rounds of participant interviews completed over a three-year period, as well as findings from program observations, program-tracking and loan repayment data from Grameen America's management information system, interviews with Grameen America staff, and two focus groups with Grameen America group members.[26]

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[23]Randomization took place after a group had formed, but before the group attended the continuous group training. The interim report will contain more technical details of the evaluation design, including its statistical power and the estimation strategy used. For the full analysis plan, see Hendra, Nuñez, and Schaberg (2018).

[24]At the end of a loan cycle, any Grameen America participant can decide to not take out a subsequent loan. When this happens, the remaining group members must find a replacement for that individual before they can receive another loan. Starting in June 2016, these replacements were also randomly assigned using an 80/20 random assignment ratio. In total, 246 replacements were randomly assigned, 188 to the Grameen America group and 58 to the control group. The replacements are not included in the findings presented in this report.

[25]A "cascading" random assignment ratio was used because of the nature of Grameen America's recruitment process. Nearly all recruitment occurs through recommendations and referrals from existing loan groups, and it is, therefore, necessary to quickly build up enough loan groups (that is, Grameen America groups) to get to a tipping point where recruitment takes off. Random assignment slows this process. Therefore, after an initial period of very slow recruitment using a 50/50 random assignment ratio, the ratio was changed to 80/20 and then later to 65/35. The statistical analysis adjusts for these changes in ratios.

[26]The 15 program participants included in the case studies were selected from the 28 participants who were initially interviewed and were chosen based on key patterns observed during an initial scan of the findings from

The impact analysis will assess the impact of the Grameen America program on participant outcomes — including its impact on self- and wage-based employment, earnings and income, assets, and financial well-being. These outcomes will come from follow-up surveys completed at 6, 18, and 36 months, as well as from credit report data from a major credit reporting agency. This report examines a limited set of outcomes to provide early evidence on the effectiveness of the Grameen America program, as measured by the six-month survey and credit report data. These findings are considered exploratory, and future reports will provide more confirmatory evidence on a wider range of outcomes (including total income) that will also capture a longer follow-up period.

## Characteristics of Study Participants

The Grameen America program targets female entrepreneurs with incomes below the federal poverty line. Table 1 shows selected characteristics for the 1,492 women enrolled in the Grameen America evaluation at the time they entered the study. Future reports will examine how the demographics of the Union City branch compare with those of other Grameen America branches.

When they entered the study, the typical study participant was 41 years old, was Hispanic or Latina, and was born outside of the United States. Of those born in another country, 80 percent had moved to the United States more than five years earlier.[27] Almost all sample members reported that they spoke Spanish well (not shown in the table), and a little over one-fourth reported that they spoke English well. Sixty-five percent of the sample participants had one or more children under age 19 living in their household. In terms of education, 34 percent of sample members had less than a high school education, and 32 percent had no more education than a high school diploma or a General Educational Development (GED) certificate.

Half of all sample members were working for an employer at the time they entered the study and, perhaps surprisingly, 73 percent were operating their own business. (Box 1 lists the most common types of businesses that sample members were operating or intended to operate.) Sample members' average household income was around $23,000 per year, with most of that money being their own income (around $18,655). Almost half of sample members reported their income varied greatly month to month, and 65 percent said they had sometimes or often run out of money in the three months before entering the study. At baseline, despite their low income, only 20 percent of sample members were receiving food stamps through the Supplemental Nutrition Assistance Program (SNAP), and 25 percent were on Medicaid or other public health insurance (not shown in table).

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those interviews. Based on observations from these interviews, the research team focused the second set of interviews on participants' employment histories to learn more about how they combine work and business. The third round of interviews will focus on the social capital and networks in the program and the participants' communities, as well as topics related to financial inclusion. The focus of the fourth stage of interviews is yet to be determined. The full set of interviews will allow for a deep understanding of borrowers' lives, businesses, experiences in the program, and factors that shape their financial decisions.

[27]To protect the privacy of study participants, the research team did not ask participants about their immigration status.

**Table 1**

**Selected Baseline Characteristics for All Sample Members**

| Characteristic | Mean |
|---|---|
| Grameen America group (%) | 70.0 |
| Average age (years) | 41 |
| Hispanic or Latina (%) | 98.5 |
| Not born in the United States (%) | 91.0 |
| Among those born in another country, moved to the United States in the 5 years before study enrollment | 20.4 |
| Speaks English well[a] (%) | 26.6 |
| High school diploma or GED certificate highest credential earned (%) | 66.4 |
| Lives with spouse or partner (%) | 42.0 |
| Parent of at least one child living in household (%) | 65.3 |
| Currently working for an employer (%) | 50.0 |
| Currently operating own business (%) | 72.6 |
| Average annual participant income ($) | 18,655 |
| Average annual household income ($) | 22,990 |
| Often or sometimes ran out of money in the 3 months before study enrollment[b] (%) | 65.3 |
| Knows all group members well or very well[c] (%) | 37.8 |
| Sample size | 1,492 |

SOURCE: MDRC calculations from the Grameen America baseline information form.

NOTES: GED = General Educational Development.
Sample sizes may vary because of missing values.
[a]Self-reported.
[b]Data not available for first 195 participants randomly assigned.
[c]Group familiarity is measured on a scale from 1 to 5, with 1 not knowing the group member at all and 5 knowing the group member very well.

As mentioned, the Grameen America model relies heavily on social networks, and potential borrowers are expected to vet their fellow loan group members before joining the program. A little more than one-third of sample members reported knowing all their group members well or very well at the study baseline, though a little more than a third reported not knowing at least one of their group members well (not shown in table).

**Box 1**

## Grameen America Sample Members' Business Types and the Direct-Selling Business Model

Grameen America requires its borrowers to use their loans to start or expand a business, but borrowers choose the type of business they want to operate. The table below lists the most common business types that sample members reported operating or planning to operate at the time they enrolled in the study.

Another way to characterize the businesses that sample members chose is by business *model*. "Direct selling" is one model that is used in some of the businesses chosen by sample members. In this model, individuals sell products directly to consumers in a nonretail environment, such as from their home. There is also some variation within direct-selling business models. For example, in some direct-selling businesses, sellers earn money based on their individual sales (that is, they earn a commission) as well as a percentage of sales made by individuals they recruit.*

Thirty-three percent of sample members were operating or intended to operate a direct-selling business at study entry. Examples of the listed businesses include cosmetics companies like Avon, Jafra, and Mary Kay; herbal/natural medicine companies like Herbalife; cookware companies like Royal Prestige; and companies like Amway that sell a variety of personal and home products.

Future analyses will compare the impacts on a range of outcomes — including self-employment, earnings, and income — for individuals who intended to operate direct-selling businesses versus individuals who intended to operate other kinds of businesses (such as babysitting).

| Business Type | Percentage |
|---|---|
| Cosmetics | 35.6 |
| Clothing/shoes | 27.0 |
| Jewelry | 21.1 |
| Herbal/natural medicine products | 19.6 |
| Food | 15.8 |
| Home décor | 9.9 |
| Salon/spa services | 8.2 |
| Other | 6.4 |
| Sample size | 1,492 |

SOURCE: MDRC calculations from the Grameen America baseline information form.

NOTE: Sample members could select more than one business type.

*See Xardel (1994) for an overview of the direct-selling business model.

## Financial Lives of Grameen America Borrowers

One of the primary research questions in the evaluation is whether the Grameen America model supports and improves the financial well-being of low-income women. To provide context for this question, as well as to understand the underlying mechanisms behind program effects, the implementation analysis is examining the array of economic strategies devised by Grameen America borrowers and the role that self-employment — supported by a Grameen America loan— plays in the borrowers' lives. To explore this area, the research team conducted a set of in-depth interviews to learn more about the financial lives of 28 program participants.[28] This section presents initial patterns that have emerged from the interviews and include the following early themes:

- Borrowers combine multiple sources of income to make ends meet. As one among other financial strategies devised by interviewees, investment in a small business seems contingent on other sources of income and specific household economic circumstances.

- Borrowers experience varying degrees of income fluctuation from month to month. Many interviewees try to overcome this fluctuation by maintaining the source of financial support that provides them with the most income and benefit stability.

To maintain the anonymity of participants, the cases presented below are composites based on the interviews with the 28 program participants.[29]

### Combining Multiple Sources of Income

Consistent with research on low-income households, many of the Grameen America borrowers who were interviewed use multiple strategies to make ends meet.[30] Interviewees indicated that they often supplement low-wage employment (for example, cleaning houses or working at a supermarket or restaurant) by operating one or more small businesses, sharing household expenses with family members, renting out a room in their home, and/or having their working-age children contribute to the household income or cover their own living expenses. Two interviewees, referred to here as Elvia and Inés, shared how they combine various income sources.

[28]The 28 interviewees were randomly selected at three different stages, depending on the year they were enrolled into the study (the first group was enrolled in 2014, the second in 2015, and the last in 2016 and 2017). When selecting potential interviewees, an effort was made to include participants with various types of businesses and to include participants from a diverse representation of countries of origin and household circumstances. The interviews attempted to get a general overview of the composition of participants' households and their financial arrangements, the history of their businesses, and their views of the Grameen America program. The study is developing longitudinal case studies drawing from these initial interviews. The case studies will include additional interviews at various points in time with 15 of the initial 28 interviewees.

[29]Creating composites is a writing device that ethnographers use to protect the anonymity of human subjects when the nature of the setting studied and/or details of the cases might risk revealing an individual's identity. See, for instance, Watson (2003) and Humphreys and Watson (2009).

[30]See, for instance, U.S. Financial Diaries (n.d.) and Edin and Lein (1997).

A few months after enrolling in the Grameen America program, Elvia, a Central American woman who migrated to the United States about a decade ago, was selling food on the weekends. She complemented income from this business by caring for children during the week and by cleaning houses every other weekend. Her brother and son, who both lived in her house, also contributed to the household income — her brother contributed a set monthly amount, and her son, who was in high school, contributed what he earned from occasional factory jobs and from mowing lawns. As can be seen, Elvia relied not only on her own income, but also on income from family members, to cover basic monthly expenses.

Another participant, Inés, also draws from various sources to make a living and support her family. When she joined the Grameen America program, Inés had been living in the United States for about 15 years. She had a full-time job in retail and planned to use the Grameen America loan to start a business selling kitchen utensils from a direct-sales company. Inés shared some of her household expenses — such as rent and utilities — with her cousin and her cousin's daughter, who also lived with her.

The cases of Elvia and Inés illustrate a pattern observed in many of the interviews: Participants use a patchwork of income strategies to survive. One Grameen America borrower described the need for this approach: "Here [in the United States], you have to find your way and do anything; otherwise you'll never get ahead." Her sentiment was shared by other participants, who also saw the combination of income sources as a necessity.

### Seeking Income Stability

Similar to other low-income populations, Grameen America borrowers experience frequent income fluctuations. One pattern observed in the interviews is the desire of Grameen America borrowers for a steady source of income. In general, the interview findings suggest that those working for an employer see wage-based employment as a stable source of income even if the income is low. Conversely, interviewees often see small businesses as providing less stable income and being riskier endeavors that require time to build.

Take the case of Anita, a woman who had been working part time at a school cafeteria for several years and had a business selling beauty products at the time of her interview. She earned the minimum wage at her job, but it was a steady source of income and provided some benefits (such as paid sick leave and vacation time), which her business did not provide. When asked about future plans for her business, Anita noted:

> I cannot leave my job right now and dedicate [time to my business], which would provide me with money, but I'd have to spend a lot of time, a lot of time. . . . My job is secure money compared to my business. . . . I do [my business] as a part time, I have funds in there and if I need anything, I can withdraw from my profit, but to leave my job and dedicate myself to [my business], I cannot do it yet.

Although Anita wished that she could dedicate herself full time to her business, she did not want to leave the stability of her wage-paying job.

One strategy that some borrowers use to maintain income stability is to expand their business incrementally while maintaining their paid employment. For instance, before joining the Grameen America program, Gabriela, a woman from South America, worked at various restaurants, usually earning minimum wage and working 10-hour shifts. She supplemented her income by selling homemade meals to three boarders in her house and by occasionally cleaning houses. Gabriella started to invest more in her food business, and little by little and through word of mouth, she expanded the business. By the time she joined Grameen America, she had about 30 clients and was dedicating entire weekends to selling food. A year later, Gabriela decided to leave her restaurant job and devote herself full time to the business. She borrowed money from friends and family and rented a small space to open a canteen where she and a cousin work.

### Varying Degrees of Investment in Small Business

Interviewees invest varying amounts of time and resources into their small businesses, depending on the availability of other sources of income and the specific economic circumstances they and their households are facing at the time. One of the interviewees, identified here as Domitilia, illustrates how participants make decisions about their businesses. Domitilia moved in and out of wage-based employment and self-employment in response to events in her life.

Upon arriving in the United States, Domitilia took two jobs, one at a bakery and one as a waitress. Eventually, she married and had children. When her second child was born, she decided to leave her jobs to look after her children. Her husband provided for the household during this time, and Domitilia made some extra money by caring for a friend's children.

A few years later, a friend invited Domitilia to try selling herbal products. Domitilia liked the products and decided to start a business. She partnered with a few other women, and together they opened a shop in a storefront. The partnership was strained, however, and eventually, Domitilia decided to go it alone. Running the business on her own proved to be too time consuming, and she had to scale the business down. She eventually found two new partners, and the three women shared rent and other expenses related to the business. About a year later, Domitilia's mother became ill and needed someone to care for her. Domitilia moved her into her family's house. She tried to keep her business afloat during this time, but caring for her mother took a toll, and she had to set the business aside. She did take a seasonal job with a flexible schedule to earn some extra income.

The decisions Domitilia made to cope with her family's changing circumstances illustrate not only her ability to adapt, but also her constant and shrewd management of time and resources in her business and in her wage employment. Her business took on different levels of priority in her life depending on the circumstances she was facing at the time.

## Early Impact Findings

As the cases above illustrate, at least some Grameen America borrowers make ends meet by combining multiple income sources. One of the key goals of the Grameen America program is to provide access to credit to help start or expand businesses that can supplement income and help reduce material hardship. This section builds on the findings from the participant interviews and examines whether the different financial strategies employed by Grameen America borrowers translate into higher, more stable incomes. The early impact findings presented here come from two sources: a survey conducted around 6 months after individuals entered the study and credit report data collected from a major credit reporting agency.[31] The credit report data show individuals' credit scores and attributes as of 7 to 12 months after they entered the study.[32]

The outcomes shown in this report must be considered preliminary because of the short follow-up period. Future reports on the Grameen America evaluation will present longer-term findings on a wider range of outcomes coming from two additional surveys — at 18 months and at 36 months after study enrollment — and from additional pulls of the credit report data. Those findings will provide more definitive evidence on the effectiveness of the Grameen America program in meeting its goal of reducing poverty.

### Impacts on Employment Status

The first four measures in Table 2 show impacts on employment status as measured by the six-month survey.[33] Despite a high rate of control group respondents operating their own business (85 percent), the Grameen America program increased self-employment by a statistically significant amount. Almost 96 percent of Grameen America group respondents reported operating their own business six months after enrolling in the study. This finding is encouraging and suggests there are high rates of business operation and of participation in the program among Grameen America group members.[34]

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[31]The six-month survey had an 80 percent response rate overall (80 percent among the Grameen America group and 78 percent among the control group) and was completed by sample members between month 6 and month 19 (with 93 percent of respondents completing the survey between month 6 and month 10).

[32]The credit report data were collected every six months. This schedule accounts for the range of follow-up months.

[33]The six-month survey was fielded to replacements, but those individuals are not included in the impact estimates in Table 2. Replacements were excluded to maintain a consistent sample across data sources. The research team was not able to collect credit report data for replacements (due to privacy requirements of the data provider), and replacements will not be included in the 18- or 36-month surveys (due to resource constraints).

[34]A preliminary analysis of program-tracking data provided by Grameen America also shows a high rate of actual loan use: 87 percent of Grameen America group members took out at least one loan. Additionally, among an early cohort of Grameen America group members, 90 percent took out two loans or more.

**Table 2**

**Six-Month Survey Impacts**

| Outcome (%) | Grameen America Group | Control Group | Difference (Impact) | 90 percent confidence interval Lower | Upper |
|---|---|---|---|---|---|
| Employment status | | | | | |
| Currently operates own business | 95.9 | 84.5 | 11.4*** | 7.0 | 15.8 |
| Currently works for an employer | 56.1 | 59.8 | -3.8 | -9.4 | 1.8 |
| Currently operates own business and works for an employer | 53.7 | 47.0 | 6.7* | 0.6 | 12.8 |
| Currently operates own business and does not work for an employer | 42.2 | 37.5 | 4.7 | -1.0 | 10.4 |
| Currently does not operate own business and works for an employer | 2.4 | 12.8 | -10.4*** | -14.4 | -6.5 |
| Currently does not operate own business and does not work for an employer | 1.7 | 2.6 | -0.9 | -2.4 | 0.6 |
| Material hardship | | | | | |
| Often or sometimes ran out of money in the past 3 months | 52.2 | 58.5 | -6.3* | -12.4 | -0.3 |
| Respondent agrees that: | | | | | |
| She can afford to buy things that are needed | 95.3 | 82.3 | 13.0*** | 8.9 | 17.1 |
| The way money is managed today will affect the future | 84.9 | 83.0 | 1.9 | -2.7 | 6.5 |
| Her financial situation is better than it was last year | 94.3 | 81.3 | 13.0*** | 9.0 | 17.0 |
| Respondent disagrees that: | | | | | |
| She never has enough money to buy things or go somewhere fun | 38.7 | 32.0 | 6.8* | 0.6 | 12.9 |
| She worries about having money in the future | 3.1 | 4.6 | -1.5 | -3.8 | 0.8 |
| Sample size | 845 | 351 | | | |

SOURCE: MDRC calculations from responses to the Grameen America six-month survey.

NOTES: Sample sizes may vary because of missing values.
Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.

While the Grameen America model promotes and enables self-employment, it is important to understand whether program participants rely solely on earnings from their own business (in place of having to work at a wage-earning job) or whether participants supplement income from their own business by also working at a wage-earning job. Early findings appear to indicate that borrowers use a mix of strategies.

The percentage of respondents who reported working for an employer was lower in the Grameen America group (56 percent) than in the control group (60 percent). Furthermore, the Grameen America group had a higher rate of self-employment alone (42 percent versus 38 percent for the control group). Neither of these estimated impacts is statistically significant. However, Grameen America group respondents are more likely than control group respondents to work both at their own business and for an employer (54 percent compared with 47 percent). This is consistent with findings from the implementation analysis suggesting that at least some participants combine income from multiple sources to make ends meet. Future reports will present impacts on earnings and income and will speak more to whether the Grameen America program meets its goal of increasing income overall.

### Impacts on Material Hardship

The second half of Table 2 presents impacts on several measures of material hardship. Material hardship measures are often thought to be affected only after individuals increase their incomes. In the case of the Grameen America program, however, program mediators such as social network development, stronger credit scores, the loans themselves, and/or increased savings might also drive potential reductions in material hardship.

The Grameen America program produced reductions in several measures of material hardship. Grameen America group respondents were less likely than control group respondents to have often or sometimes run out of money in the three months before the survey (52 percent compared with 59 percent). The Grameen America program also increased the likelihood (by 13 percentage points) that respondents perceived they could afford to buy the things they needed and that their financial situation was better than it was the previous year. It is unclear at this point in the study what led to the estimated reductions in material hardship, but the findings are encouraging, as it is often difficult to affect measures of material hardship.

Impacts on employment status and material hardship were also examined for several different subgroups — including subgroups based on whether individuals had a business when they entered the study, the type of business they were operating or intended to operate, and whether they were single parents. Early indications suggest that there does not seem to be any significant difference in impacts across subgroups. The subgroup findings will be presented in full in future reports.

### Impacts on Credit Scores

Table 3 shows impacts on VantageScores —credit scores developed by the three major credit bureaus — at 7 to 12 months after individuals enrolled in the study. A report by the Federal Reserve finds that VantageScores are highly correlated with the more commonly used FICO credit scores.[35] VantageScores were collected instead of FICO scores for the study because of

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[35]Beer, Ionescu, and Li (2018).

**Table 3**

**Impacts on Credit Score at 7 to 12 Months After Random Assignment**

| Outcome | Grameen America Group | Control Group | Difference (Impact) | 90 percent confidence interval Lower | Upper |
|---|---|---|---|---|---|
| Has a VantageScore[a] (%) | 78.3 | 56.3 | 22.0*** | 18.3 | 25.7 |
| Has a prime VantageScore[a,b] (%) | 17.7 | 11.9 | 5.8*** | 2.3 | 9.3 |
| Sample size | 1,041 | 448 | | | |

SOURCE: MDRC calculations from credit report data from a major credit reporting agency.

NOTES: Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.
[a]A VantageScore is a credit score developed by the three national reporting companies. VantageScores range from 300 to 850.
[b]A prime VantageScore is a score of 650 to 850.

resource constraints, as FICO scores were too expensive to collect. VantageScores factor in recurring payments, such as utilities and rent, as well as the typical loan products used to calculate FICO credit scores, allowing individuals with less complete credit histories to be scored, which in turn could have a substantial impact on their financial well-being.[36] As mentioned, Grameen America reports borrowers' repayment of loans to major credit bureaus.

Grameen America group members were more likely than control group members to have a VantageScore (which can range from 300 to 850) and to have a coveted "prime" VantageScore (a score of 650 to 850). Seventy-eight percent of Grameen America group members had a VantageScore, a statistically significant increase of 22 percentage points over the control group average.[37] These findings are encouraging given that credit scores are linked to several positive financial outcomes, including access to formal credit, lower interest rates, and better employment opportunities.

The credit report data that were collected also included several credit attributes.[38] One attribute of interest captures whether individuals have a business loan (including the Grameen America loan). This attribute speaks to the treatment differential — or whether the rate of participation in services, including receiving a business loan, differs between the Grameen America

[36]DeNicola (2018).

[37]In fall 2017, there was a period when not all Grameen America loans were included in the credit report data. When the issue was resolved, all missing loans and transactions were reported retroactively. The credit data files pulled for this report may not reflect the full credit history of all Grameen America group members, however, potentially muting the impact estimates related to the VantageScores.

[38]Future reports will show impacts on the individual credit attributes, including "has a mortgage tradeline," "has an auto loan or lease tradeline," and "has at least one tradeline that became derogatory in the past six months."

and control groups. Preliminary analysis of this attribute shows that very few control group members have a business loan in their credit report, suggesting there is likely a treatment differential and, therefore, that the study will provide a good test of the effectiveness of the Grameen America model.[39]

## Next Steps

This report provides some context for the Grameen America evaluation, as well as findings based on very early outcomes. While the early results are encouraging, they also raise some important questions that will be answered only when more data are available:

*Will the impact on self-employment translate into an impact on overall income?* So far, business ownership has increased (by 11 percentage points), but there is a small — though statistically insignificant — reduction in wage-based employment. It is unclear whether business ownership will lead to higher overall incomes or whether the income associated with self-employment will simply offset income from a wage-earning job. The 18-month survey findings will shed some light on this question.

*What mechanism led to the early impacts on material hardship?* It seems unlikely at this early stage that these effects would be driven by increased income from businesses, but they may relate to the availability of the Grameen America loans (itself a positive outcome). The interview findings paint a picture of turbulent income situations among some Grameen America borrowers, so it seems plausible that the loans are having effects simply by providing extra funds during dry patches.

*Will the impacts on credit scores hold up in the long term?* The improvement in credit scores is promising, but it will be important to learn whether the control group "catches up" to the Grameen America group over time. Control group members may seek loans from other lenders to finance their businesses. It is also possible that some Grameen America borrowers will eventually revert to having no credit score if they do not take out subsequent loans.

An interim report on the Grameen America evaluation is scheduled to be released in 2020, and a final report is scheduled to be released in 2021. Those reports will present more information about how the program operates, show statistics on loan take-up and repayment rates, describe the experiences of borrowers and program staff members, and show longer-term impacts on a wider range of outcomes, including earnings and income. The impact findings in those reports will come from additional follow-up surveys (at 18 and 36 months), as well as from additional pulls of the credit report data (collected at roughly two years and four years after sample members enrolled in the evaluation). The upcoming reports will help shed light on the effectiveness of the Grameen America program over a wider range of outcomes and over a longer period.

[39]The 18-month survey will assess the extent to which these impacts might be partly offset by informal or other subprime loans that are not reported to credit agencies.

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# About MDRC

MDRC is a nonprofit, nonpartisan social and education policy research organization dedicated to learning what works to improve the well-being of low-income people. Through its research and the active communication of its findings, MDRC seeks to enhance the effectiveness of social and education policies and programs.

Founded in 1974 and located in New York; Oakland, California; Washington, DC; and Los Angeles, MDRC is best known for mounting rigorous, large-scale, real-world tests of new and existing policies and programs. Its projects are a mix of demonstrations (field tests of promising new program approaches) and evaluations of ongoing government and community initiatives. MDRC's staff members bring an unusual combination of research and organizational experience to their work, providing expertise on the latest in qualitative and quantitative methods and on program design, development, implementation, and management. MDRC seeks to learn not just whether a program is effective but also how and why the program's effects occur. In addition, it tries to place each project's findings in the broader context of related research — in order to build knowledge about what works across the social and education policy fields. MDRC's findings, lessons, and best practices are shared with a broad audience in the policy and practitioner community as well as with the general public and the media.

Over the years, MDRC has brought its unique approach to an ever-growing range of policy areas and target populations. Once known primarily for evaluations of state welfare-to-work programs, today MDRC is also studying public school reforms, employment programs for ex-prisoners, and programs to help low-income students succeed in college. MDRC's projects are organized into five areas:

- Promoting Family Well-Being and Children's Development
- Improving Public Education
- Raising Academic Achievement and Persistence in College
- Supporting Low-Wage Workers and Communities
- Overcoming Barriers to Employment

Working in almost every state, all of the nation's largest cities, and Canada and the United Kingdom, MDRC conducts its projects in partnership with national, state, and local governments, public school systems, community organizations, and numerous private philanthropies.