A Structural Evaluation of a Large-Scale Quasi-Experimental Microfinance Initiative

Joseph P. Kaboski and Robert M. Townsend†

April 29, 2010

Abstract

This paper uses a structural model to understand, predict, and evaluate the impact of an exogenous microcredit intervention program, the Thai Million Baht Village Fund program. We model household decisions in the face of borrowing constraints, income uncertainty, and high-yield indivisible investment opportunities. After estimation of parameters using pre-program data, we evaluate the model’s ability to predict and interpret the impact of the village fund intervention. Simulations from the model mirror the data in yielding a greater increase in consumption than credit, which is interpreted as evidence of credit constraints. A cost-benefit analysis using the model indicates that some households value the program much more than its per household cost, but overall the program costs 20 percent more than the sum of these benefits.