

*Impact of microfinance on the poor in
South Asia*

Evidence from a Systematic Review

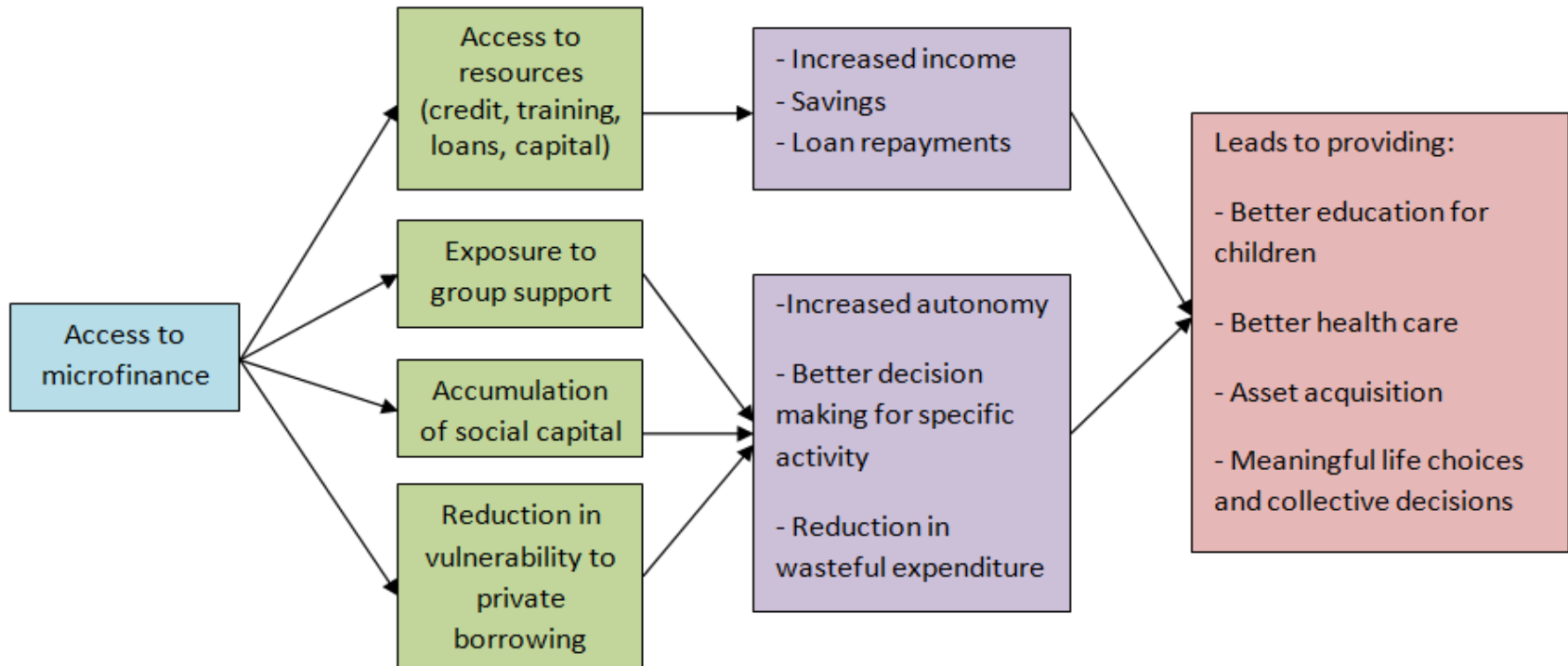
Need for a systematic review

- Studies indicating positive effect of microfinance
 - Longitudinal multipoint household survey data
- Lack of rigorous quantitative evidence
- Studies have questioned the positive effects
- MFIs not reached the poorest of the poor in Asia
- MF program alone not successful in alleviating poverty
- Positive if accompanied by developmental initiatives.

Microfinance in the South Asian context

- Heterogeneous
- Variation in per-capita incomes
- Mixed evidence based on intervention types and region
- Incidence of poverty or social exclusion higher in SA
- Disparity in interventions, delivery, outcomes, impact
- No single or combination of models with replicability
- All SA economies run high risk of poverty, social exclusion

Conceptual framework



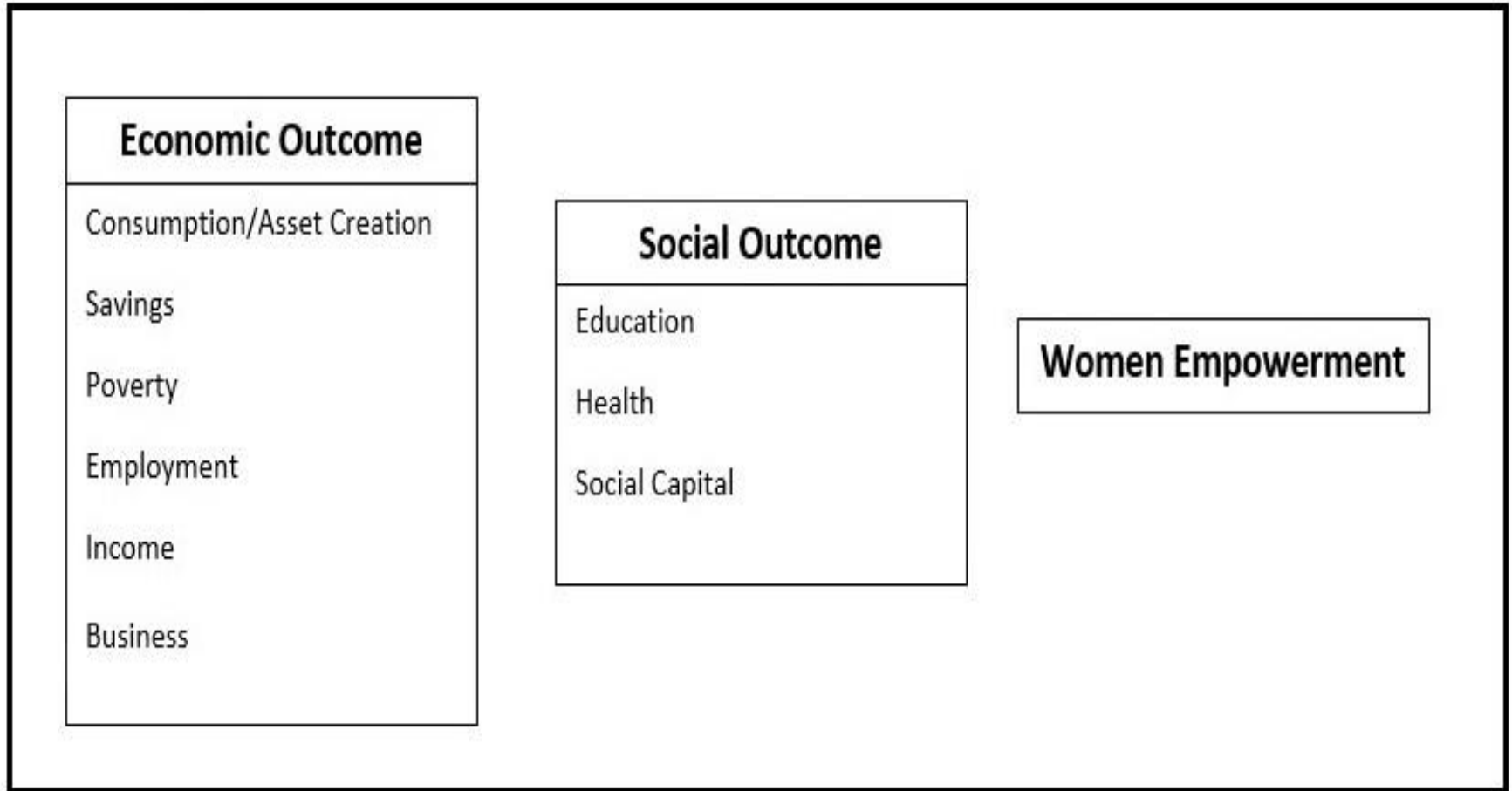
Primary review question

What is the impact of microfinance on the well-being of the poor and what are the conditions for making microfinance work for the poor in South Asia?

Sub-questions

- Type of interventions or their components that affect the well-being of the poor on particular outcomes?
- Direct and indirect, positive and negative, effects on the participants and non-participants?
- Distribution of effects across target segments and outcome
- Varied effects on individuals, households, small businesses and communities
- Critical success factors or enabling conditions at meso, macro and micro level for achieving greater positive benefits
- Context /circumstances enabling interventions succeed / fail

Taxonomy of Outcomes



Screening process

Title screening

- Country context,
- Intervention type,
- Indications of outcomes,
- Type of publication
- Year of publication

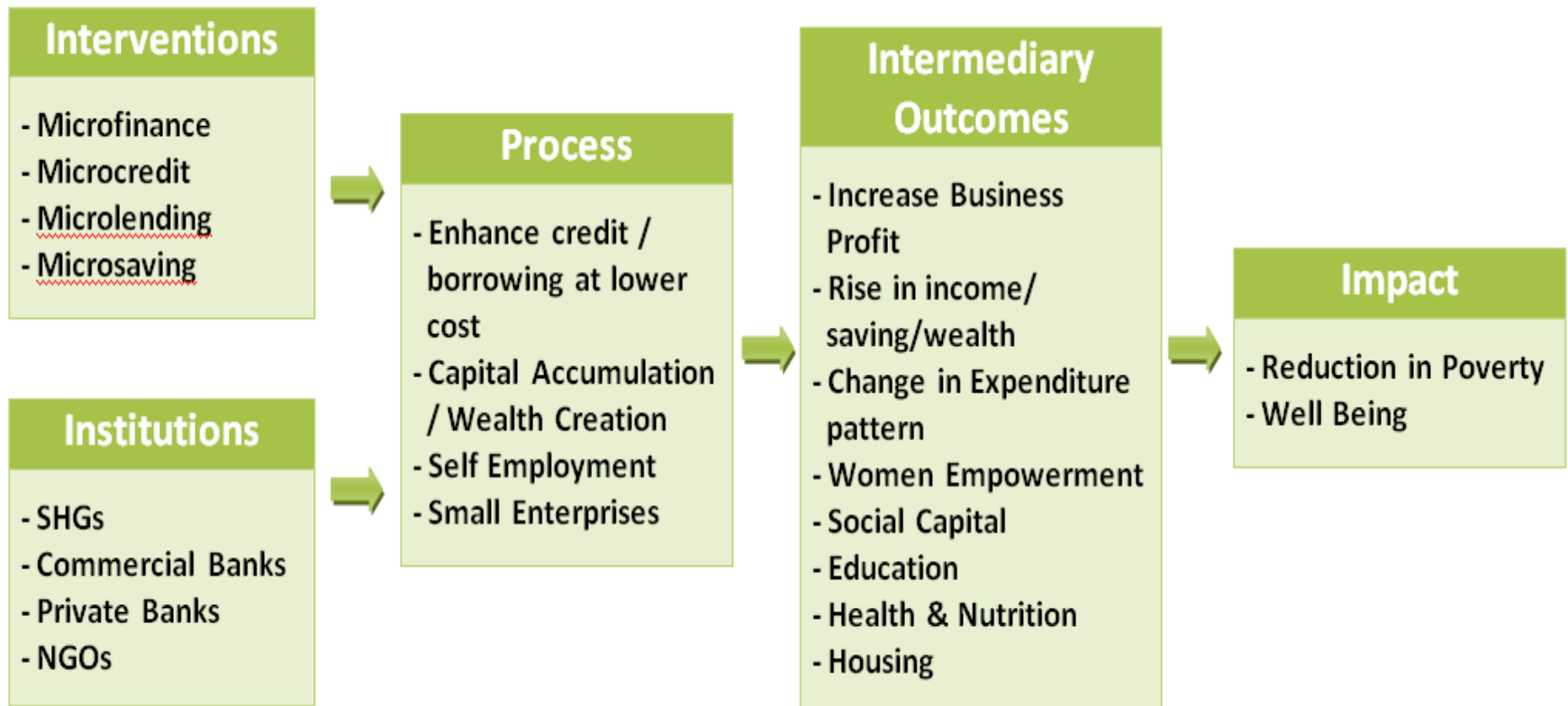
Abstract screening

- Inclusion/exclusion
- Intervention type,
- Outcomes
- Methodology

Full text screening

- Nature / type of intervention,
- Methodology
- Study design
- Outcomes
- Pathway

Process flow pathway



Process flow path

We then drew on the relevant studies which:

- Measured the impact of microfinance, microcredit on the incomes of the poor
- Measured the impact of microfinance, microcredit on the wealth of the poor
- Measured the impact of microfinance, microcredit on the level of poor people's expenditure and asset accumulation
- Measured the impact of microfinance, microcredit on other non-financial outcomes for the poor such as health, education, empowerment

Description of included studies

Shortlisted studies = 69

Method of analysis	No. of studies	%
Multivariate regression analysis (OLS, IV, 2SLS)	20	33%
Logistic regression (Probit, Tobit)	18	30%
Difference-in-Difference analysis	4	7%
Propensity score matching	10	17%
Other treatment effect model	6	10%
Simple statistical method	2	3%
Total	60	100%

Nine studies have not been included in this table as they are replication studies

Meta-analysis criteria were met by 26 studies

Narrative synthesis criteria were met by 64 studies

Overlapping studies were 21

Quality appraisal process

Selected studies were assessed for

- Methodological quality and
- Quality of theoretical framework.

- Quality of attribution methods
- The possibility of spill overs in comparison groups
- Outcome and analysis reporting biases.

The studies were screened for

- Selection bias
- Performance bias
- Detection bias,
- Attribution bias
- Reporting bias

Microfinance impact on income

- Positive impact on household income of poor people.
- Studies have assessed the impact of microfinance or microcredit on the individual incomes of poor
- Few have assessed on differences in the sources of increase in incomes

Two broad Channels

- Additional incomes generated through self-employment
- Enhanced business incomes

Both of these point to the entrepreneurial route

- Dampening of seasonal variations in the context of agricultural incomes.

Microfinance impact on consumption / expenditure

- Micro-savings for women have significant impact on their individual expenditure
- Positive association between micro-credit and expenditure in Bangladesh
- Significant association between women's loans and household per capita expenditure
- The poorest of the poor were more likely to be benefited from the participation compared to other poor groups

Microfinance impact on poverty

- One of the most debated issue in terms of the outcome of microfinance interventions
- Microfinance has minimal impact on reduction of poverty
- Access to microfinance contribute to poverty reduction especially for female participants
- Evidence of declining vulnerability for members who have been in the programme for more than a year

Microfinance impact on employment

- There exists little evidence of quantum increase in employment in the villages.
- Gender differentiated impact analysis reveal that female employment has grown.
- The increase in female employment has been largely in the non-farm employment.
- Majority of the studies have reported increase in male wages.

Microfinance impact on women empowerment

- Helped women gain control over assets
- Subsequently acquire self-esteem, knowledge and power
- Women borrowers relinquish the use of their loans, to their spouses
- Unlikely to experience an increase in bargaining power within the household
- Household consumption increases more if a woman takes a loan rather than a man

Findings

- Our analysis reveals that the evidence on the impact of microfinance on the set of outcome indicators examined is mixed.
- Meta-analysis results indicate that there is an overall positive evidence on increases in income however the effect seems to be small and not statistically significant.
- The results indicate that there is limited effect on enhancing income through the MF interventions.
- Results on the outcome indicator, assets suggest that the overall effect size is positive and statistically significant. It can also be noted that the magnitude of the effect size is higher than that of income indicating a positive impact on asset creation for participants.

Implications

IMPLICATIONS FOR RESEARCH:

- There exists a need for high quality of databases for assessing the impacts. A thicker description of the data and methods employed for collecting data would be useful while reporting the impacts. This would help in formulating more meaningful policies as well as producing higher quality evidence on the impacts.
- Conceptual mapping of the benefits need to be spelt out before venturing into any analysis of the impacts.
- There exists a need to recognize the heterogeneity among target groups, be it the poor or gender categories.
- Comparisons across beneficiaries and non-beneficiaries needs further refinements in terms of proper identification.
- From a methodological perspective the challenge of ensuring randomization needs to be addressed.
- A richer description of the contextual setting of interventions would help in terms of more meaningful interpretation of evidence.
- Inclusion of more situational and behavioural variables in assessing impacts would be useful in shedding more light on the benefits accrued.

Implications

IMPLICATIONS FOR PRACTICE AND POLICY:

- For designing microfinance interventions the following possible directives could lead to better accrual of benefits
- Interventions should target sustained income generations through asset creation. The benefit accrued in terms of savings in interest cost due to MF borrowing does not necessarily lead to a sustained benefits.
- Programs should help in diversification of income as it is an effective vulnerability mitigation strategy.
- Consumption smoothing benefits need to be inbuilt to the initiatives. However consumption of 'temptation goods' need to be discouraged by the program.
- A more realistic approach incorporating the possibility of generating child labour could be effective to enhance school education benefits especially for the girl child.
- Microenterprise linked initiatives could resolve some of the issues regarding asset creation, income generation and consumption smoothing.
- A model incorporating credit plus programs need to be designed for sustained income generation that could replace the stand alone lending model.
- Finally training and exposure is a key component that needs to be built in to the initiatives which is vital for income generation, women empowerment, and employment creation.