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Microfinance: Burden or Blessing - Impact on the Economy (Based on Meta-analysis)

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ABSTRACT

The impact caused by microfinance on growth of the economy has always been a debatable issue. Ample researches have been conducted to determine whether it helps poor masses to get out of the poverty trap or it further deteriorates the financial position of the masses at individual level and the economy in aggregate. It is quite surprising that the results and findings of these researches vary. This study is aimed at excogitating whether microfinance actually proves to be a blessing or is an additional burden for the poor. It is a conceptual study based on meta-analysis. Existing literature based on studies conducted by researchers, analysts, scholars, institutions and policy makers around the world has been reviewed to determine the impact of microfinance and to conclude whether it is a burden or a blessing. Six different aspects through which the growth of the economy can be measured have been taken into consideration. These include women empowerment, SME/entrepreneurs, rural transportation, poverty alleviation, health and education. Findings indicate that overall microfinance proves to be a blessing for the users but it poses certain challenges that hamper its performance up to the desired optimal level. Policy makers in this regard should play a positive role in formulating a clear roadmap and designing strategies for microfinance.

Introduction

Countries all over the world whether developing or developed comprise under privileged sector that is a noticeable percentage of their total population i.e. the one suffering from poverty. Thus, to facilitate the poor masses to come out of the vicious cycle of poverty, various schemes and projects are formulated and implemented (Mawa, 2008). These include products provided by microfinance institutions; banks/ Development Financial Institutions (DFIs will be used hereafter) and various welfare organizations in both private and public sector institutions. These are aimed not only towards alleviating poverty but also towards enhancing the role of poor intellectual capital towards economy growth (Khan & Rahaman, 2007). Thus, they serve a twofold objective rationally.

Microfinance is aimed at helping the poor by providing the required funds. It provides financial services to the low-income classand groups that possess inadequate resources to cope up with the basic necessities of life (Kashif & Sridharan, 2012). Thus, it not only provides financial assistance to the users but also motivates them to explore their hidden talent by way of using the resources for productive purposes. Microfinance institutions provide loans to the users to help them alleviate poverty and to escape the vicious cycle of poverty (Shamsuddoha & Azad, 2004). It is now an important pillar just in the way banks and financial institutions are for the economy.

The significant role that microfinance institutions are playing towards uplifting the economy as well as the living standards of the masses is subject to controversies (Kashif & Sridharan, 2012; Okunnu, Adeyemi, Yusuf, & Idowu, 2010; Oliver, 2010). Massive studies have been conducted to determine whether it serves as a blessing or a burden that affects the poor masses and economy adversely. There have been variations among the researchers' findings.

As per some researches, it levies a positive impact on both individual as well as on aggregate level (Olasupo, Afolami, & Shittu, 2014b; Rafiq, 2013; Zand, 2010). On the other hand there are some studies that state that it affects the economy adversely (Ahiabor, 2013; Awojobi, 2013; Quibria, 2012). Further, some studies have explored a tradeoff between positive and negative impact that microfinance possess on the economy i.e. mixed or neutral impact (Gubert & Roubaud, 2011; Sang & Keror, 2012; Wang, 2013). One of the reasons behind the variations in the researchers' consensus is the economy under study i.e. developing and developed countries.

Aim of this study is to examine the impact that microfinance possess on the economy. It is based on content analysis. Meta-analysis of both the empirical as well as conceptual studies is done to widen our scope of the study instead of limiting it to a particular type of study. The impact of microfinance on various dimensions of economy such as women empowerment, entrepreneurship, rural transformation, health, education as well as poverty alleviation has been studied.

Microfinance

The concept of microfinance was originally introduced in 1976 by a renowned economist of Bangladesh "Muhammad Yunus" that led to the incorporation of "The GrameenBank" that succeeded in striving the objectives of helping the poor and enabling them to meet the basic needs that are bread and butter for life. This Bank is considered as the largest bank offering microfinance products to the poor masses at relatively low interest payments compared to other banks and other financial institutions. At present, microfinance institutions are working and providing services across the world not only in developing countries but also in developed countries.

Microfinance refers to providing financial services in the form of access of credit to those who do not have access to the traditional sources i.e. banks and DFIs (Stewart, van Rooyen,

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Dickson, Majoro, & de Wet, 2010). It is focused towards alleviating poverty through providing financial services. The concept of microfinance is not limited to provision of credit i.e. loan amounts to the users. It has a broad perspective. It also includes savings and insurance products (Murty, Kiran, & Goel, 2013) i.e. it includes microcredit as well as micro savings and micro insurance(CGAP website 2010; Brau and Woller 2004:3).

According to Canadian International Development Agency (CIDA)"*Microfinance is the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions."*

Contrary to commercial banks and DFIs, microfinance institutions does not require collateral from the users. It is generally for a short time period ranging from six months to one year. Upon repayment of loan amounts (originally extended to the users) these received funds are further recycled or extended to assist more users(Gubert & Roubaud, 2011). These microfinance products are sponsored by loans, grants and guarantees from governments, financial institutions, investors and some banks.

Impact of Microfinance on Economy

The impact that microfinance possesses on the economy has been opted by many researchers, analysts and policymakers. These include studies conducted by Ahiabor (2013), Durrani, Usman, Malik, and Ahmad (2011), Muhammad (2010), Wanambisi and Bwisa (2013), Rafiq (2013), and etcetera. The impact it possess on the economy being positive or negative is always a matter of debate for the scholars and analysts. This is because there have been variations across countries and not only for countries but within the dimensions of a country as well.

This study is conducted to excogitate whether microfinance affects the selected areas of the economy or not. Further, if it affects then to explore the direction being positive or negative of the impact according to the meta-analysis done on pastresearches.

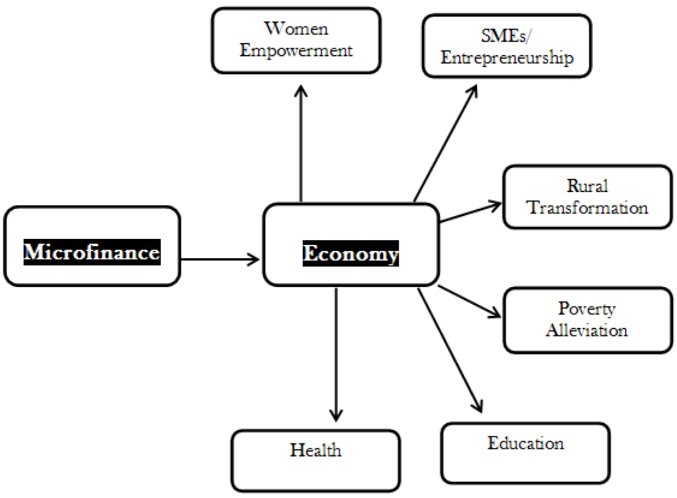

Figure 01: Microfinance and its Impact on the Economy

1) Microfinance and Women Empowerment

The significant role that women are playing towards uplifting the economy cannot be denied (Akanji, 2006). Generally, countries all over the world are dominated by females as indicated by the statistical reports of their population. However, the point to ponder is that out of this female majority, percentage of women doing business is less than the male counterparts (Akanji, 2006). This is primarily due to lack of decision making power and inadequate resources required to pursue a business plan/idea. This has revisited the need of formulating proper framework for empowering women.

Women empowerment is a concept associated with assuring provision of equal resources, human rights, education and decision making power to the women of a society (Quibria, 2012). This creates not only balance in the economy but also motivates women to come forward and get out of their shell. Increase mobility both physically and socially, self-esteem, access to knowledge and control over resources among women is the reflection of a country assuring women empowerment (Zand, 2011). Regardless of the challenges faced by women such as absence of sufficient resources both humanly as well as monetary and lack of exposure/expertise to enter the markets, women are still making noticeable contribution restricted not only to their own life but to the economy at large (Ocholah, Ojwang, Aila, & Oima, 2013).

Enormous studies have been conducted to investigate the impact that microfinance facility possess on women empowerment. These include studies conducted by Cheston and Kuhn (2002),Olasupo, Afolami, and Shittu (2014a), Zand (2011), Akanji (2006),(Quibria, 2012), etc. Majorly, there have been consensuses among researchers about the impact that microfinance possess on empowering women and the direction of impact.

With the increasing access of microfinance facility to the poor masses of rural as well as urban areas, women are getting empowered (Cheston & Kuhn, 2002; Zand, 2011). Through the provision of credit, women think out of their box and it open doors for available new opportunities. Availing these opportunities result in improving their living standards and helps promoting economy (Cheston & Kuhn, 2002) . Further, the timely repayment of women also facilitate granting credit to more entrepreneur women which in the case of male members is questionable as revealed based on the repayment history of loans (Quibria, 2012; Zand, 2011).

2) Microfinance and SME/Entrepreneurship

Microfinance credit or loan provided to the Small and Medium sized Enterprises (SMEs) has a positive impact on performance of the micro enterprises/SMEs and improving or increasing the level of sales and income, production and acreage of the cultivation field as evident from the studies of Gubert and Roubaud (2011); Sang and Keror (2012); Wanambisi and Bwisa (2013); and Wang (2013). Moreover, there is a bi-directional relationship between Microfinance Institutional (MFI) lending and the performance of SMEs. The results show that the increase in level of microfinance loans results in increase in sales and income generation that in turn helps in repaying the borrowed loan or fund.

However, as per Sang and Keror (2012) and Thio (2006) the microfinance facilities do not improve the living standards of the people because the microcredit granting institutes do not train the SMEs and farmers regarding the best utilization of such loans. These institutes lack proper framework that assures and monitors that the granted loans and facilities are utilized by the SMEs to the best of their capacity (Ahiabor, 2013; Wang, 2013). Moreover, studies highlight that the SMEs mostly turn down the microfinance facility due to short repayment period, collateral and high interest rates (Ahiabor, 2013). Besides the challenges faced by the microfinance institutes such as default in payment, government regulations with regard to entry and exit, inadequate skills, lack of linkages, inadequate capital, microfinancing facilities have a positive impact on the growth of the net profits and revenues of the SMEs (Ahiabor, 2013; Wang, 2013).

3) Microfinance and Rural Transformation

No nation can prosper or even imagine prosperity without taking its rural sector into consideration. Rural sector is in fact the backbone of any country (Odi, Olukotu, & Emmanuel, 2013). It contributes towards the provision of basic necessities to the citizens of the country as well as contributes majorly towards country's revenue by facilitating exports (Rafiq, 2013). However, lack of adequate resources for the poor massesis a matter of serious concern that is hindering this sector to play its role positively for the growth of a country.

Absence of sufficient resources affects the productivity of these areas. Further, it affects the living standard of the people that belong to those areas and caught them into a vicious cycle of poverty. This is where the need of microfinance facility arose majorly. Microfinancing is providing monetary support to the under privileged people of a country to help alleviate poverty and improve their living standards. Communally, it affects the social economic position of a country (Odi et al., 2013).

Microfinance has proved to be a blessing for the people of rural areas (Akanji, 2006). Majorly, positive impact of microcredit has been explored by the researchers and scholars (Olasupo et al., 2014a; Rafiq, 2013). However, the presence of obstacles such as products that match the requirements, repayment capacity of the borrowers and the absence of proper legal framework for granting and monitoring of such products, the users have limited pros associated with microfinancing (Odi et al., 2013; Olasupo et al., 2014a).

Overall, microfinancing levies positive impacts on transforming the rural sectors of countries (Moll, 2005; Olasupo et al., 2014a;Oliver, 2010). With proper nurturing, it will act as an acid to the brain for poverty alleviation. Designing proper framework, educating the masses about its required usage and monitoring the access as well as utilization of funds for which they were sought will help not only in improving rural transformation but on country's transformation at large.

4) Microfinance and Poverty Alleviation

Various studies show that the microfinance credit facilities have a significant positive impact on the profits earned by businesses, consumption or calorie intake, housing and shelter, income, resource and saving, expenditure on education, health care and medicine, clothing, social awareness, skill development, loan repayment ability, household durables (Awojobi, 2013; Bakhtiari, 2011; Durrani et al., 2011; Khan & Rahaman, 2007; Lhing, Ogundari, & Nanseki; Mawa, 2008; Murty et al., 2013; Pham & Lensink; Quibria, 2012; Shamsuddoha & Azad, 2004; Sivachithappa, 2013). However, the provision of microcredit facilities to the poor itself is not a yardstick for reducing level of poverty. This is because poverty, the state where the basic needs of life clothing, food and shelter for people are unmet, cannot be eliminated with the provision of loans or increasing wealth alone. The borrowers should have the skills and knowledge of the income generating activities for effective utilization of the credit or loan.

It is essential that some continuous mechanism is devised rather than a one-time activity. The access to the microcredit facilities provide the opportunity to the poor in setting and/or expanding their own business, in other words it creates employment opportunities for the poor (Awojobi, 2013; Bakhtiari, 2011; Durrani et al., 2011; Khan & Rahaman, 2007; Mawa, 2008; Quibria, 2012).

The provision of micro-loans is fruitful in the short-run but to make it a beneficial activity in the long-run it is the prime responsibility of the institutes granting this type of loan that the borrowers of this facility use the loan for the stated-purpose. It is necessary that the consumption patterns of the borrowers are controlled & monitored and altered by the institutes granting loan for increasing the savings and livelihood of the households. It is necessary that the awareness among the borrowers for reducing the expenditures and improving their incomes is promoted.

5) Microfinance: Impact on Health

Researchers and scholars agree to the famous proverb "Health is wealth" according to their findings of the studies done to explore the connection between health and microcredit. Living standards of the masses can improve only if they possess the strength and courage to fight with the difficulties of life irrespective of whether these difficulties arose out of financial constraints or domestic issues. Victims of poor health conditions are generally those people that belong to the lower income class (Salt, 2011). Absence of adequate resources required to meet the basic necessities of life leads the masses towards facing poor living circumstances trapping them into a vicious cycle of poverty. It further affects the health conditions of the masses (Awaworyi, 2014).

Microfinance helps in improving the health conditions of the masses of a country indirectly. This is because provision of resources increases financial stability of the masses through reduction in poverty. Consequently, it allows them to have proper health arrangements (Ahmed, Petzold, Kabir, & Tomson, 2006). Studies have found positive impact of microfinance on health conditions of masses (Ahmed et al., 2006; Awaworyi, 2014; Seiber & Robinson, 2007). Meaning by microcredit improves the financial position of people which further allow them to spend on maintaining their health up to the desired sound level.

However, the role of education in improving the financial as well as health conditions of the people cannot be ignored (Gertler, Levine, & Moretti, 2009). Microfinance can help in improving the financial condition of the masses only if they are aware of the appropriate use of the funds provided by microfinance institutions and this is where education acts as an intervening variable. Education of both appropriate use of microfinance (for the purpose for which such funds were sought) as well as health conditions is a perquisite in order to have positive affect of microfinancing services on masses (Kouassi, 2008).

6) Microfinance: Impact on Education

Human capital play predominant role towards expediting economic development of a country (Hytopoulos, 2011). It is the human capital that seeks, develops, follows and implements the roadmap designed to achieve the desired output. To have educated human capital is a perquisite to achieve millennium goals (Holvoet, 2004). In the absence of free education system, in developing countries, educating children is an idle hope for the poor parents. Examples are Pakistan, India, Turkey, Bangladesh, Nigeria, Thailand, and etcetera.

Striving for meeting physical and safety needs, education is a concept beyond the access of the poor masses (Gertler et al., 2009). This is where the need of education arises. Education is the only way through which nations can achieve the desired development goals in the long run. Education improves the working style of labor force and it increases the productivity rate. Eventually, it improves the socioeconomic status and leads to increase in economic development.

Researchers and scholars have studied the impact that microfinance play in educating the children of the micro credit users. These include studies conducted by Rafiq (2013), Holvoet (2004), Hytopoulos (2011) and Kouassi (2008).

There have been deviations among their findings with respect to whether microfinancing promote and increase education rate of children or not. However, positive impact of micro credit in improving literacy rate is observed in most of the studies.

Microfinance helps improve the living standards of the masses through increase in income, productivity and consumption pattern. It enables them to pay attention towards educating their children. In the presence of appropriate microfinance schemes designed to support the education needs of poor people, the impact of microfinance is even more encouraging (Awaworyi, 2014).

The interesting point to ponder is that there prevails a gender wise discrimination (Holvoet, 2004). Boys are given preference over girls in those circumstances when parents have to choose educating between the two. Further, birth order also matters. Child born earlier is given least preference with respect to educating him/her (Hytopoulos, 2011). These differences are hurdle in the way of noticeable role that microfinancing can play towards uplifting the literacy rate as well as in economic development.

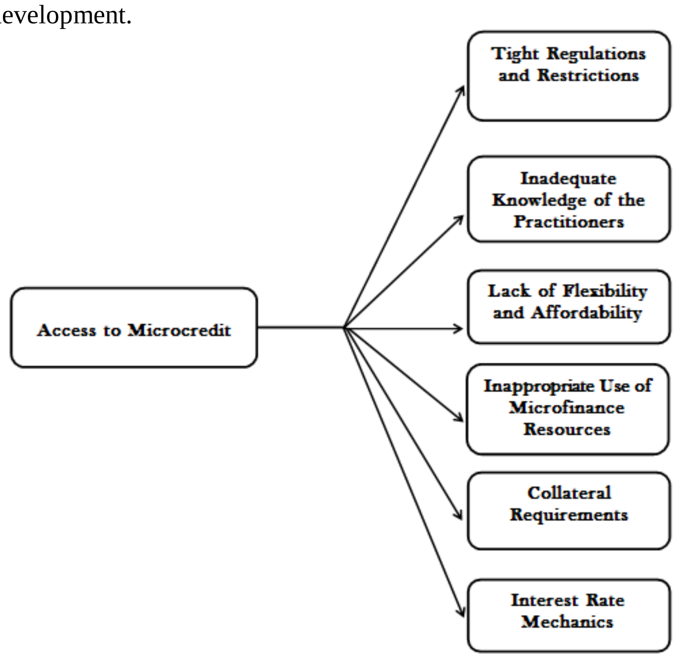

Figure 2: Obstacles and Challenges in the way of Microfinance

Challenges Faced by Microfinance Institutions

It is very important that smooth environment for running the system is appropriate else probability of not generating intended benefits of the system increases. According to Muhammad (2010), Bedson (2009), Durrani et al. (2011) and Kashif and Sridharan (2012), microfinance banks and institutions cannot run and function smoothly due to external factors like: policies, regulations and restrictions, fiscal stability, and government support. Further, there are internal factors too that affect smooth functioning of these bodies such as inadequate knowledge of the practitioners, insufficient capital, inappropriate use of microfinance resources resulting in increased default rates and diversification of products or services without affecting its convenience, flexibility and affordability. It has been observed that these institutions give more importance to financial sustainability then the social objectives or working with the poor. They should design and offer the services and products that are actually needed by the poor and help reduce poverty (Kondaveeti, Krishna, & Dileep; Nasir, 2013; Okunnu et al., 2010).

Obstacles in the way of Microfinance

Although the institutes are lending the microfinance facilities to the poor but still the intended benefits have not been obtained. There are several factors that are barrier for the poor masses in availing these facilities, some of which are related to the awareness, access and outreach of the microfinance facilities, interest rates charged on availing these facilities are usually high, paper work requirement and collateral for availing such facilities is generally essential, (Basu, 2005; Bedson, 2009; Durrani et al., 2011; Gubert & Roubaud, 2011; Kashif & Sridharan, 2012; Mawa, 2008; Nasir, 2013).

Recommendations

To increase the participation of the poor in the microfinance facility the interest rate should be minimized and the loan payback period should be extended by the microfinance institutions. The management of the microfinance institutions should provide special attention to the needs and problems of the SMEs and in monitoring and assessing credit management policies of SMEs for the effective utilization of the microcredit resources, success in business and repayment of the borrowed funds. In this context, the credit appraisal can be used by the microfinance institutions for proving the professional advice to SMEs on changing the amount of borrowed funds (Ahiabor, 2013).

To overcome the challenge of educating the children of poor one solution could be the fixation of the portion of microfinance fund for investment in human capital that is education, health and nutrition. This will not only attract the poor avail the microcredit facility but also increase the enrollment of children in schools.

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Taxonomy of Studies					
Sr. #	Type of Study (Empirical/Conceptual)	Author Name(s)	Direction of Relationship	Measuring Indicators	
				Dependent	Independent
1	Empirical Study	(Wanambisi & Bwisa, 2013)	Positive (+)	Level of access to MFI lending, acquisition of assets, and amount of loans.	Sales and Income
2	Empirical Study	(Sang & Keror, 2012; Thio, 2006)	Mixed	Level of production, resident's living standards, and number of acreage that small scale farmers plough.	Provision of microfinance creditfacilities (loan)
3	Empirical Study (Working Paper)	(Thio, 2006)	Mixed	Per capita consumption, collateral, cost of debt, and time duration for which the loan facility is provided.	SMEs performance (flow of revenues and expenses)
4	Empirical Study	(Ahiabor, 2013)	Negative (-)	Financial advice and monitoring, collateral, SMEs considerations, and high interest rates and other fees.	Access tomicrofinancecreditfacilities (loan)
5	Empirical Study	(Wang, 2013)	Mixed	Capital, number of employees, level of productivity, and weight of microfinancing in terms of total capital.	Growth of net profit and revenue
6	Empirical Study (Panel Data Analysis Using Surveys)	(Gubert & Roubaud, 2011)	Mixed	Questionnaire	Control and treatment group are compared to assess the impact of microfinance on various outcome measures
7	Empirical Study (Meta Analysis)	(Murty et al., 2013)	Positive (+)	Literature survey, reports and research paeprs	Impact of microfinance on poverty reduction
8	Empirical Study	(Sivachithappa, 2013)	Positive (+)	Economic benefits like improvement in livelihoods and access to resources and social benefits like improvement in knowledge and participation.	Microfinancecreditfacilities and programs
9	Empirical Study	(Shamsuddoha & Azad, 2004)	Positive (+)	Profit/business expansion, consumption/calorie intake, housing/shelter, income/resource/saving, expenditure on education, health care/medicine, better clothing, social awareness, loan repayment ability, household durables.	Microfinancecreditfacilities and programs
10	Empirical Study	(Awojobi, 2013)	Positive (+)	Income generation, business expansion, empowerment of women,well-being of households.	Microfinancecreditfacilities
11	Empirical Study	(Durrani et al., 2011)	Positive (+)	Improvement of life style, accommodation standard, income generation, life standard, purchasing power, expansion of business facility, self-employment and adoption of better technology, economic growth and development.	Microfinancecreditactivities
12	Empirical Study	(Mawa, 2008)	Positive (+)	Income generating activities, use and development of human skills, smooth consumption level, manage unexpected risks, build assets, educate children, and a better quality of life.	Microfinancecreditactivities
13	Empirical Study	(Khan & Rahaman, 2007)	Positive (+)	Health, education, legal rights, sanitation and other living standards.	Microfinancecreditfacilities
14	Empirical Study	(Bakhtiari, 2011)	Positive (+)	Earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education.	Access to microfinancecreditfacilities
15	Empirical Study	(Lhing et al.)	Positive (+)	Per capital income and per capita expenditure	Impact of microfinance on welfare of household
16	Empirical Study	(Quibria, 2012)	Negative (-)	Income, borrower's income, female	Impact of microfinance on

	(Working Paper)			empowerment and pattern of consumption.	poverty
17	Empirical Study (Report)	(Cheston & Kuhn, 2002)	Positive (+)	Questionnaire-Survey Based Women Empowerment	Loan/credit
18	Empirical Study	(Ocholah et al., 2013)	Positive (+)	Questionnaire-Survey Based Women Empowerment	Loan/credit
19	Empirical Study (Case study)	(Quibria, 2012; Rafiq, 2013; Sang & Keror, 2012; Zand, 2010)	Positive (+)	Questionnaire- Interview	Operational sustainability
20	Empirical Study	(Akanji, 2006)	Positive (+)	Questionnaire- Interview	High Interest Collateral Requirement
21	Empirical Study	(Odi et al., 2013)	Positive (+)	Level of Turnover and Level of Profit	Loan size, interest rate on loan and loan repayment rate
22	Empirical Study	(Rafiq, 2013)	Positive (+)	Income	Loan Source, Loan Amount, Interest Rate Repayment Time, Parent's Education, Educational Expenditure
23	Empirical Study	(Kouassi, 2008)	Positive (+)	Child mortality, height-for-age scores and weight-for-age scores	MicroCredit
24	Empirical Study	(Gertler et al., 2009)	Neutral	Log of nonmedical consumption per capita (questionnaire based)	Change in health
25	Conceptual Study (Meta Analysis)	(Awaworyi, 2014)	1) Negative (-)-- Poverty 2) Positive (+)Women Empowerment 3) Neurtal for Health, Education and Microenterprise	Poverty Women Empowerment Health, Education and Microenterprise	Microcredit
26	Empirical Study	(Seiber & Robinson, 2007)	Positive (+)	Quality and the viability and sustainability of small, private clinics (Clinic Exit Interviews)	Loan amounts
27	Empirical Study	(Ahmed et al., 2006)	Positive (+)	Health-seeking behavior of household members Questionnaire based	Microcredit
28	Empirical Study	(Hytopoulos, 2011)	Positive (+)	Changed in School attendance plus Interview Based	Amount of loan agreements
29	Empirical Study	(Holvoet, 2004)	Positive (+)	Number of years of schooling Interview based- Gender and Birth order wise study	Incidence of literacy Kind of schooling Incidence of schooling