

A Critical Examination of Microenterprise Programs:

A Look at Effectiveness and Sustainability in
Alleviating Poverty

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**International Development
Conference**

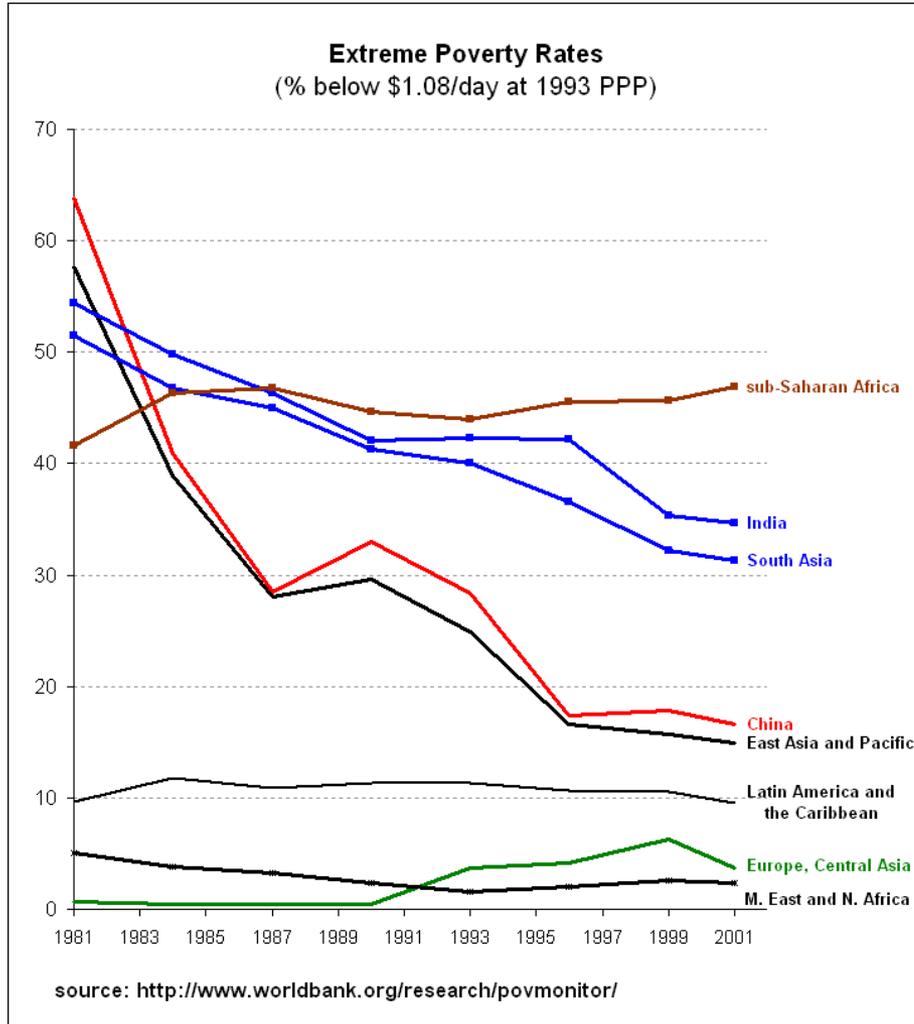
Presented December 3, 2012



Agenda

- Research Problem
- Research Questions
- Literature Review Method
- Review of Existing Studies and Findings
- Critique of the Existing Literature and Future Directions
- Conclusion

World Poverty



Poverty Picture 1990 - 2008

People in developing world living on less than \$1.25 a day

1990



1.9 billion

2008



1.29 billion

Number of people



43 percent

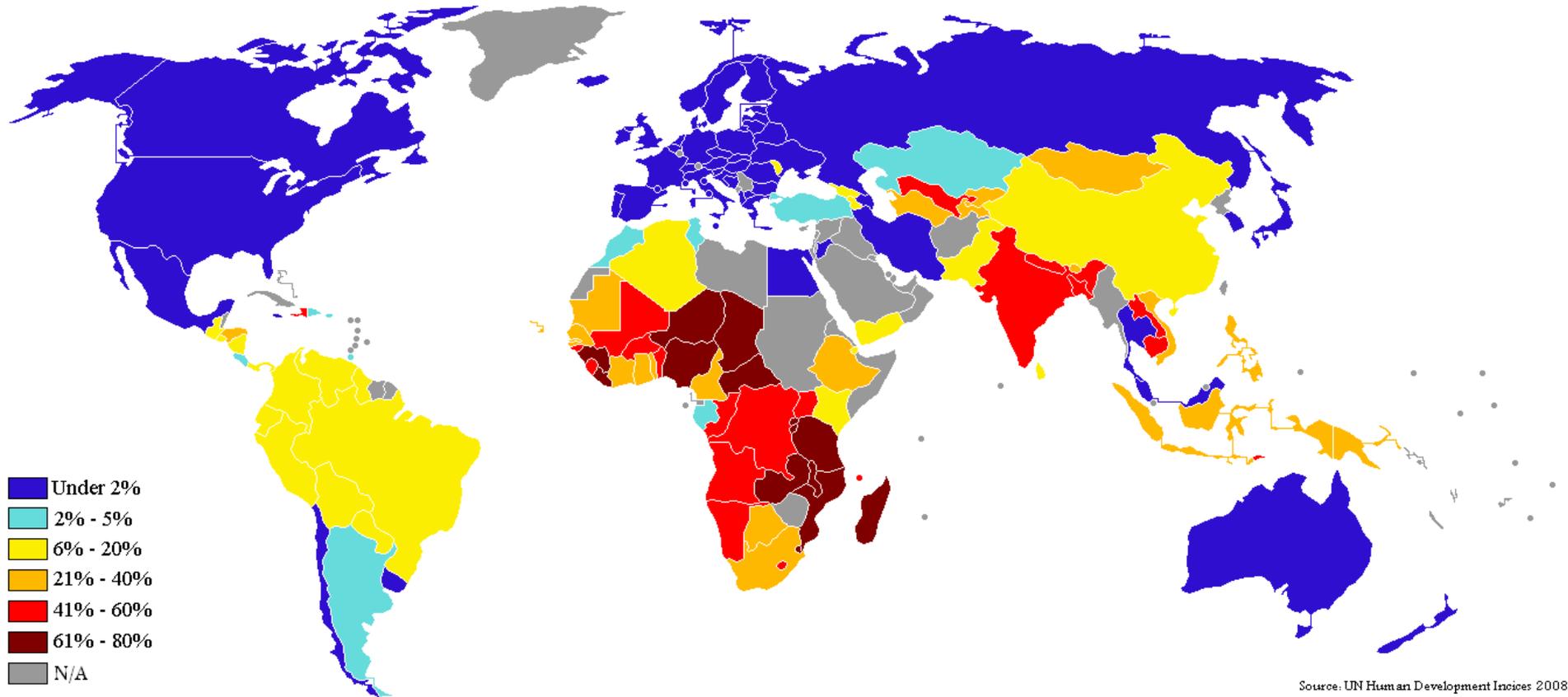
Percentage of population



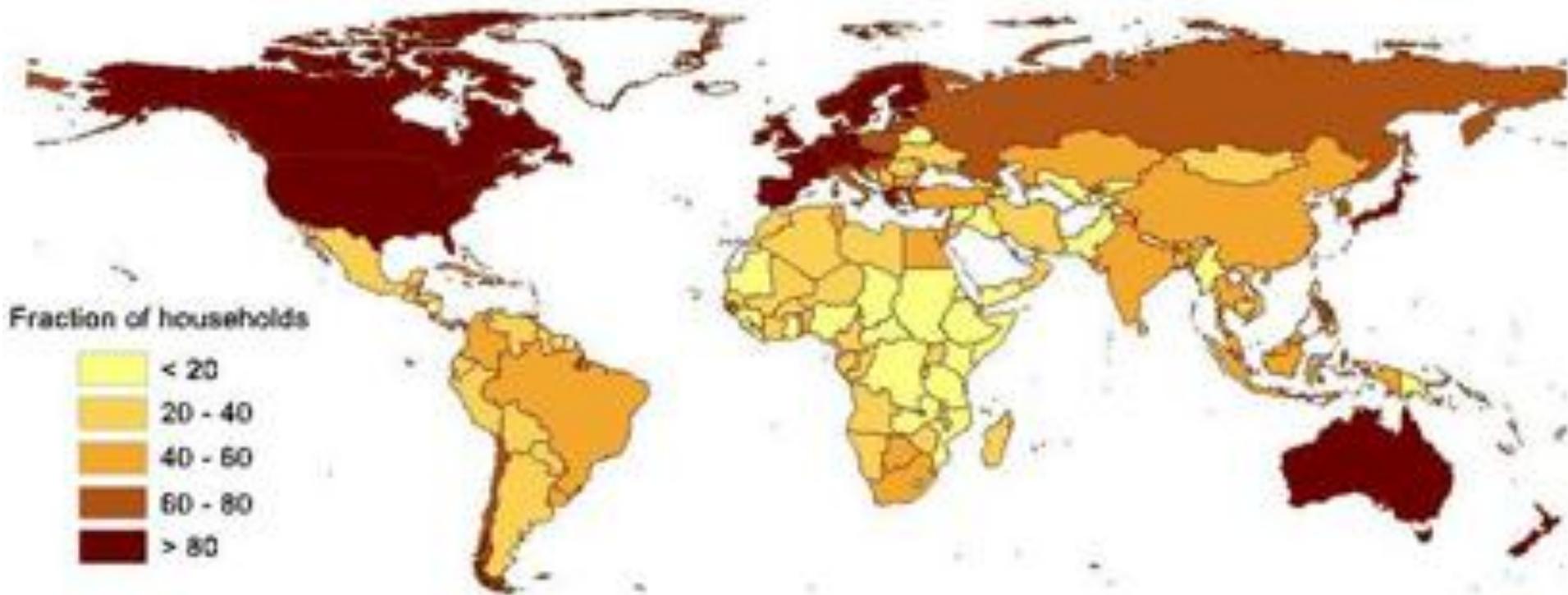
22.4 percent

Source: World Bank

Percentage Population Living on Less than 1 Dollar a Day 2007-2008



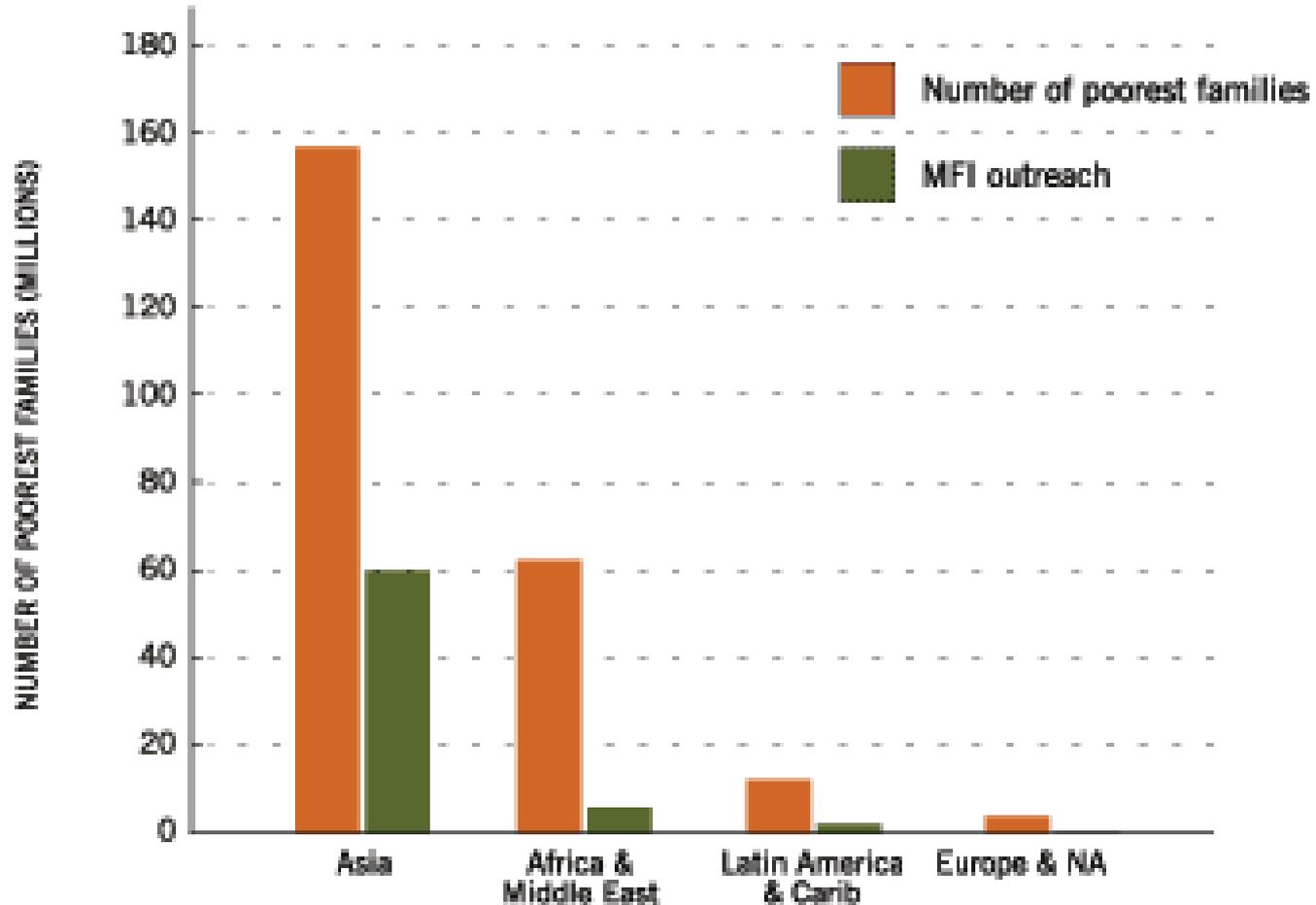
Access to Financing around the Globe



Research Problem

- 1/6 of poor people throughout the world have access to formal financial services (World Bank)
- Estimated 7,000 microfinance institutions serving approximately 16 million poor individuals (World Bank)

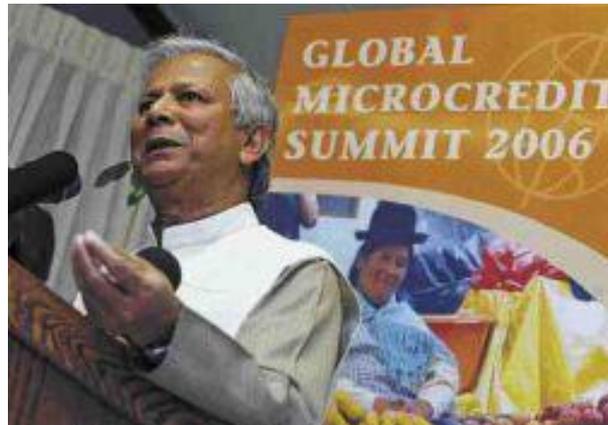
Regional Breakdown of Availability of Microfinance Services



Source: www.unitus.com/wwd_whatismf.asp

The Microfinance “Revolution”??

- Growing popularity of microfinance in recent years
- New legitimacy??
 - Muhammad Yunus (founder of Grameen Bank) won Nobel Peace Prize in 2006



Research Questions

1. What is the record of microfinance programs?
 - What is the effectiveness/ineffectiveness of such programs on reducing poverty?
 - What are the predominant methodological approaches in the microfinance literature?

Literature Review Method

- EBSCO Host Research Databases search
- “Microfinance and poverty” and “microcredit and poverty”
- Scholarly articles published between 1996-2011
- Read abstracts and selected articles that seemed to best fit question/report on different aspects for full view
- Looked at some popular media sources
- Looked at MFI websites

Background to Microfinance

- Microfinance started in Bangladesh around 1976 with Muhammad Yunas and Grameen Bank
- Financial services offered to low SES individuals that are excluded from the traditional financial system
- “Joint Liability Concept”: groups of individuals, usually women, group together to apply for loans, and hold joint accountability for repayment of the loan
- MF unique as a development tool because of potential to be self-sustaining

Some Reported Positive Impacts of Microfinance

- Effective way to provide low-cost financial services to poor individuals and families (Miller and Martinez 2006; Stephens and Tazi 2006)
- Standard of living increases at the individual and household levels (Khandker 2005)
- Empowerment of women, through opportunities to take on leadership roles and responsibilities (Goetz and Gupta 1995)

Microfinance Alleviating poverty??

- **MFI help to alleviate poverty** (Khandker 2005); poverty in the sample villages declined 17% between the two waves of the survey, and extreme poverty declined 13%
 - **MFI do not help to alleviate poverty** (Morris and Barnes 2005; Kan, Olds, and Kah 2005; Goetz and Gupta 1996)
 - **Mixed results** (Copestake, Bhalotra, and Johnson 2001; Morduch 1998)
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- **Positive:** Standard of living increases, which help to eradicate extreme poverty and hunger, have occurred at both the individual and household levels as a result of microfinance programs (Khandker 2005)
 - **Negative:** Says that other studies are “overly optimistic” on MFI role in alleviate poverty (Kan, Olds, and Kah 2005, p. 146)
 - **Negative:** Microfinance programs benefit the moderately poor more than the destitute?? (Copestake et al. 2001; Morduch 1998; Dugger 2004)
 - **Mixed:** Reducing financial vulnerability, not reducing poverty? (Morris and Barnes 2005; Morduch 1998)

Critique of the Existing Literature and Future Directions

- “While strong claims are made for the ability of microfinance to reduce poverty, only a handful of studies use sizable samples and appropriate treatment/control frameworks to answer the question” (Morduch 1998, p. 1)

- Study Design Problems
 - Program feasibility studies and case-study approaches
 - Cross-sectional Data
 - Self-report Measures (including cultural bias)
 - Non-Random Sampling Procedures (including convenience sampling)
 - Generalizability Problems
 - Replicability Problems

- Future Directions
 - A need for more rigorous quantitative studies
 - Do MFI cannibalize other programs? (see Neff 1996)
 - Does microcredit hurt the poor?—microcredit dependency? (Copestake et al. 2001; Morduch 1998)

Conclusion: Revisiting Initial Questions

- What is the record of microfinance programs?
 - “Expectations are high, but evidence of the impact of microcredit remains in short supply” (Copestake, Bhalotra, and Johnson 2001)

- What is the effectiveness/ineffectiveness of such programs on reducing poverty?
 - Mixed... some studies report positive effects on alleviating poverty, some report negative effects, and some report mixed effects
 - MFI may be better equipped to reduce financial vulnerability and help moderately poor than to alleviate extreme poverty

- What are the predominant methodological approaches in the microfinance literature?
 - Not rigorous enough; more rigorous quantitative studies needed