Microfinance And Poverty Alleviation- A Multi-Dimensional Literature Review

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Abstract

This paper aims to offer a review of literature on microfinance for poverty alleviation, focusing on the different dimensions of how microfinance plays a positive role in alleviating poverty. A narrative-contextual method was used to review the relevant literature. In total, 53 relevant articles on microfinance and the role it plays in alleviating poverty were reviewed and synthesized in different dimensions to provide a holistic picture of the positive relationship.

Findings support microfinance indeed plays a significant role in improving the living standards of its beneficiaries but there is room for improvement in microfinance program-design. Findings suggest that in addition to micro-loans, the poor population need access to non-financial support to complement them in the hope to uplift them out of poverty. There is a need for matching of demand and supply sides in terms of products and delivery mechanisms.

Research implications – The findings can be used by microfinance practitioners to assess and improve their program designs to match the needs of their clients, address the sustainability issues and work with policy makers to facilitate such policy implications like access to education, clean water and infrastructure.

Keywords – bottom of the pyramid, financial inclusion, microfinance, mobile banking, poverty

1. Introduction

1.1 Background: Poverty- The global problem

There has been a growing debate as to what is the best strategy for alleviating global poverty ever since The United Nations(UN) recognized poverty alleviation as a key goal of development throughout the world (UN Millennium Development Goals 2000). In 2015, Sustainable Development Goals(SDGs) were developed to replace the Millennium Development Goals (MDGs) with ‘End poverty in all its forms everywhere’ as the first of the 17 SDGs.

The World Bank defines two thresholds of poverty-the ‘extreme poor’ who live on less than $1.25 a day and the merely ‘poor’ who live on less than $2 a day based on consumption per capita (Banerjee and Duflo, 2007). The updated baseline for extreme poverty is those living on less than $1.90 a day (World Bank, 2016). Mukherjee(2013) proposed two groups of poor people; the working poor and the ultra-poor. The working poor are working people whose income falls below the poverty line, may have certain level of skills and may be able to run petty business successfully. The ultra-poor as defines by Lipton, (1983) are those receiving less than 80 percent of minimum calorie intake while spending more than 80 percent of income on food. Therefore, it is evident that this section of the global population has no financial access and lives in extreme poverty prompting global interventions.

1.2 Microfinance for poverty alleviation

The potential of microfinance (MF) as a bottom-up development strategy to contribute directly to the first goal of the SDGs warrants the need to take a closer look at the role it plays on poverty alleviation. The United Nations has even shown numerous supports on the evolution of MF, such as when the UN General Assembly designated 2005 as the year of Microcredit, and in MDGs Summit 2010, Microfinance was accepted as one of the tools to achieve the MDGs (UNDP 2010). Since then, Microfinance (the provision of small loans to the poor aimed at lifting them out of poverty) has been...
used as a key poverty reduction strategy and has spread rapidly and widely, attracting researchers from both academia and policy making institutions. With more than 7000 Microfinance Institutions (MFIs) serving some 16 million poor people worldwide with an estimated total cash turnover of US$2.5 billion, the microfinance movement has the ability to make a significant dent in economic poverty (World Bank, 2010).

The types of organizations and institutions providing microfinance go from formal financial institutions-FFIs (like private commercial banks, state owned banks and microfinance banks) to cooperatives financial institutions-CFIs (like credit unions) and Non-Governmental Financial organizations and community-based microfinance organizations-CBFOs (like village banks, self-help groups) (Munoz, 2010).

The research about the role microfinance plays in poverty alleviation has seen tremendous inputs in the last three decades. Most of the recent studies have one thing in common, that is, microfinance indeed plays a role in reducing poverty levels (Hiatt and Woodworth, 2006; Hermes and Lensink, 2011; Imai et al., 2010, 2012; Mahmuda et al., 2014; Samer et al., 2015; Toindepi, 2016; Ullah and Khan, 2017). The discussion seems mostly focused on the impact studies of microfinance on typical poverty indicators like income, education, standard of living, women empowerment as well as health and wellness. According to research, microfinance encourages entrepreneurship, increase income generating activities, empowers the poor (especially women), increases access to health and education and builds social capital among poor and vulnerable communities (Khandker, 2005; Aghion and Morduch, 2005). Although many research arguments are in favor of the positive impacts of MF on poverty, others have a different opinion as Mosley (2001) finds that there is sufficient evidence that microfinance may in fact throw participants into a vicious circle of poverty. There are claims that microfinance does not reach the poorest of the poor, who include casual laborers in remote rural areas, ethnic and indigenous minorities, older people, widows, migrants, and bonded laborers among others (Scully, 2004; Marr, 2004). Despite these mixed findings, there is no strong evidence against microfinance’s role in poverty alleviation and therefore, this paper goes along with the status quo of the global evidence and hypothesizes that expansion of MF programs across the nations has a positive impact on poverty levels. A comprehensive review of existing literature on the positive role of microfinance in poverty alleviation will be discussed in the next sections of this paper by following a multi-dimensional synthesis of research findings.

The rest of paper is organized as follows; next section will explain the methodology used to identify and select the reference papers used in the article, third section will discuss the review of literature following a multi-dimensional narrative approach, fourth section will discuss and conclude the reviewed findings and suggest important practical and policy recommendations.

2. Methodology

2.1 Sample selection method

This paper aims to investigate the relevant literature on the topic of microfinance for poverty alleviation through different socio-economic dimensions. We chose to proceed with the narrative method because of its suitability for finding the outcomes of our main objective as a form of evidence-based synthesis of the available literature. Moreover, the type of the literature being investigated covers a wide range of research methodologies therefore preventing the use of other methods of analysis such as statistical meta-analysis of the data.

To ensure the author identifies all the relevant and most recent literature for inclusion in this review, a search of microfinance for poverty alleviation was conducted using the electronic online databases. The databases included Emerald, JSTRO, ScienceDirect, Sage, library resources as well as individual organizational websites. The initial search inclusion criteria included the following key words searched in combination; microfinance, poverty, financial inclusion, bottom of the pyramid or any variation of the four (e.g. microcredit, poor). About 218 papers were initially found. To be more specific and after a thorough skimming for relevancy, 127 papers were short listed for further screening. A thorough in-depth review of abstracts, keywords and findings left out 53 papers which were deemed irrelevant enough to cover the intended topic.
2.2 Classification

The paper further categorizes the data according to the socio-economic dimensions. In total six dimensions were found that directly link the role of microfinance in poverty alleviation. These dimensions are financial inclusion, financial literacy, skills training, social capital, mobile telephone technology and microfinance program design. In accordance with the research findings and many suggestions for further research, the sustainability dimension was included as a complementary issue that may moderate the relationship in the long run and thus it was necessary to include it in our discussion.

3. Literature Review

The paper reviews various literatures on the positive relationship between microfinance and poverty alleviation by analyzing the different dimensions in support of the role microfinance can play in favor of the poor. It attempts to be global in scope by conducting a review of literature from both developed and developing countries and covers a wide range of academic journals in different disciplines. The intended outcome of this review is to synthesize the findings of the existing literature that will be of value to academia, practitioners and policy makers by pointing out the gaps and providing directions for future research for the role microfinance plays in solving the global poverty problem. In its own way, the paper intends to paint a holistic picture of how microfinance can work in favor of the global poor population.

3.1 Microfinance and poverty alleviation nexus

The existing literature on the relationship between microfinance and poverty is vast and greatly controversial. Some researchers find a positive relationship (Khandker, 2005; Imai et al., 2010;), some negative (Banerjee and Jackson, 2017) and some none at all or inconclusive. With the paper’s objectives in mind, the literature in support of the positive relationship between microfinance interventions and poverty alleviation will be the focus of this review. Findings from both micro and macro level data covering a wide range of studies from different datasets will be analyzed. With Poverty being a multi-faceted issue, the next section will be presented by analyzing the microfinance-poverty alleviation nexus through different socio-economic dimensions with regards to the microfinance positive impacts on poverty and poor population.

3.1.1 The financial inclusion dimension

Does access to finance alleviate poverty? The answer to this lies in the financial inclusion literature which encompasses Microfinance interventions. It is universally accepted that affordable access to financial services helps poor households to plan for routine expenses, cope with external shocks and facilitate better access to more productive activities. Financial inclusion may be defined as the use of formal financial services by the poor. According to a UN report, financial inclusion is the sustainable provision of affordable financial services that bring the poor into the formal economy (United Nations 2016).

Many studies concluded that financial inclusion is pro-poor and pro-growth by pointing out that it helps low income households to access financial services like savings, credit and insurance which in turn leads to the increase in the standard of living (Khaki and Sangmi, 2016; Lal 2017). With increased access to formal financial services, individuals who were previously financially excluded will be able to make investments in education, food, sanitation, increase savings and launch businesses which in turn contribute to poverty reduction and economic growth. Dave (2006) points out that financial inclusion can be viewed both as a business opportunity and social responsibility when self-help groups (SHGs) and microfinance institutions participate in inclusion programs, because these two agents are important for financial inclusion.

In the last few decades, microfinance institutions (MFIs) are being regarded as the banks for the poor. They have been able to provide crucial financial services to poor people including microcredits, savings, insurance and payment services. Under the microfinance programs, poor people get a loan without collateral or a steady income if they use it to start a business enterprise. Various study findings suggest that this kind of access to finance has a direct and positive impact on the socio-
economic conditions of the microfinance beneficiaries. A cross sectional household data study in India confirmed positive effects of MFIs access on the multidimensional welfare indicator, suggesting that MFIs play a significant role in poverty reduction (Imai et al., 2010). Similar findings were made by Khaki and Sangmi, (2017) using the Multidimensional Poverty Index to study progression of the MFIs participants with results indicating that access to finance has reduced the deprivations in almost all dimensions of multidimensional poverty. Financial inclusion through cooperatives is found to have significant impact on poverty alleviation as concluded by Lal (2017). In central America, a study found that clients who have participated in their village bank program for more than a year, earned more money daily and hence were less poor than those who had recently joined the microfinance program (Hiatt and Woodworth, 2006). All these study findings implicitly suggest that access to finance leads to increase in the productive processes at the micro level and that marginal returns are higher at micro level and that financial inclusion is an effective way for combating poverty, unemployment and inequality. This is the underlying principle for inclusive finance.

The foundations of inclusive financial sector are based on the argument that unrestrained access to material resources and particularly to finance enables people to engage in productive activities. Inclusive growth greatly depends on upon equitable distribution of growth opportunities and benefits and financial inclusion is one of these opportunities which needs to be equally distributed to attain inclusive growth (Lal, 2017). If the key problem in explaining poverty is lack of working capital for the poor, then empowering them with microloans will enable them to improve the quality of their lives thus lift themselves out of poverty.

3.1.2 Financial literacy and skill training dimension

Credit alone cannot solve the problems of the ultra-poor, but if coupled with human capital formation through capacity building can make a favorable impact for them (Mukherjee, 2014). Similarly, bringing savings, credit and other financial services to the poor through microfinance may not necessarily be enough for financial inclusion (Rapier, 2014). There is a need to provide such financial services together with financial education to enable the poor to make better financial decisions for themselves.

Recently, the concept of inclusive growth has gained a lot of attention in which its proponents argue that the main driver of such growth is a well-developed and comprehensive financial system and extension of financial literacy (Manju and Mohika 2015). There is a body of research that found evidence of interrelationship between financial literacy and financial behavior (Van Rooij et al., 2011; Arrondel et al., 2014) leading to a conclusion that financial literacy affects financial decision making. For microfinance to be useful to the poor, financial knowledge is a necessity as higher level of financial literacy could lead to more households’ engagement in formal financial institutions and more specifically in banking (Amari, 2015). It promotes savings by increasing awareness and knowledge of financial products and thus influence their saving as well as financial planning behavior. A study by Bongomin et al., (2017) on financial literacy in emerging economies found that financial literacy training increases financial knowledge which affects financial behavior of poor households. Their results strongly suggest that there is a positive relationship between poor households’ attitude and financial inclusion. These findings are in support of Holzmann (2010) who argues that attitude of poor households, which is their willingness to save, borrow or use insurance products, affect financial inclusion among poor households in low-income countries.

A similar study by Mouna and Anis (2017) who analyzed the relationship between financial literacy and stock ownership found that financial literacy indeed affects financial decision making and that there is a strong correlation between being financially literate and being highly educated, suggesting the importance of formal education on one hand and financial training on the other. Many other previous studies show that financial knowledge enhances a range of behaviors such as savings, insurance, financial market participation, bank account ownership, debt management, retirement planning and investments, which are critical for the poor in developing countries. From these study findings, we make a general conclusion that, for microfinance to meet the financial inclusion goal that will ultimately influence poverty levels, the poor population needs to be financially empowered not
only by credit provision but also through a range of financial education programs to enhance their financial sophistication.

Closely linked to financial education training is the skills training in the capacity building context. Skills training has been found to be a crucial part of Microfinance success due to the realization that the poorest of the poor need basic services and confidence building before entering a microfinance programs. Hulme and Mosley (1996) had long concluded that even though credit is an important factor, there is a need for other complementary factors like entrepreneurial skills to help the poor out of poverty. Karnani (2007) noted that the poorest of the poor lack skills, creativity and persistence to be entrepreneurial. Studies by Barnejee et al., (2009) concludes that poor people lack education and experience to manage low level business activities. What all these studies have in common is that for microfinance to work, other inputs are required to complement the efforts more importantly technical training, infrastructure and entrepreneurial skills (Mahajan 2005). To make microfinance an effective tool for fighting poverty, it should integrate strategies for improving access to economic-financial capital with programs that build social-community capital and capacity (Tavanti, 2012). He further argues that the achievement of economic self-reliance through microfinance is contingent upon the development of capacity building, social capital and empowerment at the individual, collective and systemic levels. Rahman et al., (2017) study on the effects of microfinance on women empowerment concluded that capacity building of poor women is essential and in order to increase their empowerment through capacity building, microcredit must be supplemented by a significant amount of skills training and education opportunities for them. Such educational activities can be referred to as credit-plus financing as they include the provision of credit plus other skills training necessary to promote successful entrepreneurial skills and capabilities.

3.1.3 The Social capital dimension

It is evident that poor communities lack economic assets and financial capital. However, their social relations and networks play a very important role in sustaining their livelihoods (Banerjee and Jackson, 2017). There is some evidence suggesting that communities with strong social networks are better able to deal with poverty and vulnerability because these networks generate social capital reflecting the general goodwill and resources arising from networks of relationships in a community (Moser, 1998; Adler and Kwon 2002). The literature included in this section will focus on answering the questions of what social capital is and how does it relate to microfinance and poverty. Social capital is a multidimensional concept comprising of structural, relational and cognitive components where network configurations and associations belong to the structural components, network and ties fostered through communication and shared meanings belong to cognitive component and the extent of trust, reciprocity and cooperation between individuals in a network belong to the relational component (Nahapiet and Ghoshal, 1998). Two types of social capital can be found in literature as distinguished by Putnam (1993), bonding social capital and bridging social capital. The former is characterized by horizontal relationships based on reciprocity, trust, shared norms, values and beliefs that promote solidarity between individuals within a network. This type of capital enables an individual to ‘get by’. The latter is characterized by ability of individuals in a network to gain privileged access to resources and information from external network in an attempt to get ahead (Woolock and Narayan, 2000). As a form of ‘finance’, Microfinance’s uniqueness rests with the social value it creates and has been globally recognized as an investment innovation that helps to leverage economic and social values (Dash, 2009). The World Bank and other mainstream development agencies have also recognized the potential of microfinance programs to mobilize social capital within communities. Most Bottom of the Pyramid (BoP) advocates are in support of the view that microfinance can indeed deliver economic development and social empowerment by creating bridging social capital that allows impoverished individuals to access external resources and networks. The use of group lending approach by MFIs is a good example of how social capital can be utilized in favor of the poor communities and has had tremendous results in terms of loan repayment rates. Self-help groups (SHGs) have been found to be successful in some communities due to the supportive nature of the group dynamics in building trust and fostering accountability among members. According to Wydick et al., (2011) research innovation
that focus on the use of existing social networks between existing and potentially new microfinance clients, they suggested that MFIs could make more use of these networks when reaching out to the poor as it turn out that households may be willing to apply for microfinance because other households in the same network do so as well.

3.1.4 The mobile telephony technology dimension

It is a general understanding that many of those who are financially excluded are not excluded from mobile networks. The number of mobile phone users has long exceeded the number of poor people with bank accounts across the world (Medhi and Ratan, 2009). Approximately over two billion people in emerging markets do not have bank accounts but do have mobile phones (CGAP, 2007). The inherent characteristics of anytime, anywhere and convenience of mobile technologies provide an unprecedented potential solution to the financial access problem faced by emerging economies. By enabling people to receive and send money as and when they need it, mobile banking has led to ‘anytime’ financial inclusion (Stuart and Cohen, 2011). Here, the term mobile banking is defined as banking transactions using mobile devices such as cellphones, smartphones, PDAs and other portable devices. In general, mobile financial services can be categorized into three groups; mobile payments, mobile microfinance and mobile banking (Ghosh, 2017). In the poverty alleviation context, the role of mobile microfinance is linked to the financial inclusion aspect.

The world is slowly beginning to see and appreciate the many ways in which mobile phone technology reduces poverty. Emerging literature from developing countries provides numerous examples of innovative applications of mobile telephony technologies to support inclusive growth and economic development. Recent research by Asongu and Nwachukwu (2018) concluded that financial access through mobile banking is positively related to inclusive development from a dataset of 93 developing countries. In accordance with World Bank’s position on the critical role of mobile phone/banking in agricultural and rural development, its potential in tackling global issues of non-inclusive growth, inequality and poverty should not be ignored.

For example, mobile banking introduced 90 per cent of Kenyans who did not have bank accounts into the formal financial world of money transfers (Wambalaba et al., 2009). Access to mobile phones in Peru increased the prices that farmers received for their products and in turn, increased production and employment. According to the International labor organization (ILO), employment creation and poverty reduction are inherently linked. Moreover, farmers in Bangladesh have been using mobile telephones to monitor market prices of rice, vegetables and other farm produce (Dholakia and Kshetri, 2002), while the introduction of basic telephony services including mobile in rural China has reduced price dispersion and purchase prices of various commodities (Eggleston et al., 2002). In terms of access to market, mobile telephony has become a strategic tool for linking sellers with buyers and service providers with those needing services (Frempong, 2009).

The appeal of mobile phones is obvious in improving the living standards of rural population by lifting the many restrictions confronted by them such as barriers to information acquisition. In many developing countries, economic opportunities are being improved progressively with the conversion of mobile phones into pocket banks to facilitate financial access to the excluded population. However, it is important to note that the adoption of mobile devices for banking in many developing counties is because of the absence of alternatives. Their ability and potential to be transformational is what makes the adoption favorable in such economies. The market failure problem (i.e. access to financial services) facing the rural poor especially farmers are being resolved by mobile phone-based money transfer services (Asongu and Nwachukwu, 2018). Microfinance and mobile money can help reduce vulnerability by providing a safety net for the working poor, help in promoting women empowerment as well as the contribution to the job market (i.e. employment). A good example of mobile microfinance can be drawn from The Grameen Foundation which has extended mobile phone usage to tackle more than just financial services. Its mobile livelihood program connects people with potential jobs through text messages while its agricultural programs use mobile phones to provide up to date information to farmers about how to manage their crops.
3.1.5 The program design Dimension

Perhaps one of the most important aspects of microfinance is the program design which encompasses inter alia, the type of products offered and delivery mechanism. Most impact studies have shown that many failures in the field have been due to product mismatches with the product being offered not meeting the needs of the target market (Cull et al., 2009). Even though financing small businesses is the most common use of microloans, research shows that about half the volume of borrowing by poor households is for non-business purposes (Johnston and Morduch, 2008). Such findings suggest a potential mismatch of products and customer demand and indicate the need to look at the microfinance’s programs need to shift in focus and approach. Microcredit for microenterprise approach should shift towards credit for general purposes such as consumption and other non-business purposes (Johnston and Morduch, 2008; Cull et al., 2009; Cheng and Ahmed, 2014; Bauchet et al., 2015). Other findings suggest more flexible products such as provision of flex loans and combining of credit with insurance against specific aspects (Weber and Musshoff, 2013) and customizing loan programs to meet the needs of targeted borrowers i.e. product adaptation (Xiang et al., 2014; Bauchet et al., 2015; Toindepi, 2016). The separation between income or consumption poverty in microfinance product designs must be looked at as complementary objective rather than competing one. Among many innovations, one successful example that stands out is the asset financing program named Challenging the Frontiers of Poverty Reduction (CFPR) by BRAC in Bangladesh which included provision of asset to support the micro enterprise activities of its members. BRAC recognized that providing the poor with cash may help them for a short term, but it cannot ensure a sustainable income generation, driving BRAC to initiate the CFPR program by identifying the ultra-poor and providing them microfinancing through transfer of assets to develop self-employment. The program also included supporting packages to the CFPR beneficiary which included a weekly stipend, health care support and training (Mahmuda et al., 2014). This approach of coupling financial support with asset transfer and training help the recipients to build new livelihoods as self-employed, small-scale entrepreneurs thus lifting them from the life of extreme poverty into a life of economic self-sufficiency (Bandiera et al., 2013). Further related findings on the delivery mechanism of loan programs suggest the need for microfinance institutions to take a “hands on” view of the business models of their loan recipients in order to improve efficiency and avoid shifting of funds away from the intended purpose (Fontenay and Wood, 2018).

The close monitoring of micro enterprise projects will ensure proper utilization of funds as well as true improvements in the lives of the poor due to the availability of constant support system from the MFIs experts. Cheng and Ahmed (2014) found that the high loan repayment rate was due to the insider information through loan officials and group guarantee enforced by the center chiefs living in the villages. Other findings are in support of flexible operating models, group lending programs, weekly visits, training, business planning and local monitoring to help ensure sustainability of the funded micro-enterprises (Hermes and Lensink, 2011; Shankar, 2013; Hudon and Meyer, 2016). What all these studies have in common is that the poor are not a homogenous group, therefore a greater understanding of their needs will ensure proper targeting through product design and program designs through delivery mechanisms that are in favor of achieving the poverty alleviation goal of microfinance.

3.2 Addressing the sustainability vs. Outreach issue

The original promise of microcredit was to reduce poverty by promoting self-employment in low income communities, an idea first promoted in mass scale in Bangladesh (Yunus, 1999). Since its inception in the early 1970s, many observers have praised microfinance for the achievement of its primary goal (Littlefield et al., 2003; Bauchet and Morduch, 2013). Besides this role, microfinance also aims at being a financially sustainable concept and therefore tends to pursue a double bottom line approach making it a hybrid organization focused on both social and financial objectives (Zamore, 2017). In practice however, microfinance has become a financial sector characterized by ambiguity and uncertainty in whether its primary goal should be poverty alleviation, profitability or both (Duvendack et al., 2011). Due to this ambiguity, critics of microfinance have raised the important issue
of sustainability of microfinance programs claiming an existence of trade-off between sustainability and outreach (Morduch, 1999; Hermes and Lensink, 2011). This conflict between meeting both goals has raised the issue of financial sustainability of the microfinance institutions on one hand, and sustainability of its customers (outreach) on the other hand.

It is well known that providing microfinance is a costly business due to high transactions and information cost therefore a large number of microfinance programs are still depending on donor subsidies to meet these costs. Critics of the subsidized microfinance argue that these donor-funded bailouts of poorly performing MFIs reduce their incentive for cost-cutting and becoming independent from donors, leading to inefficiencies (Bhutt and Tang, 2001). Considering the poverty alleviation role of microfinance may justify donor funding and research suggest various approaches solve the subsidy dependence dilemma in the hopes of reducing inefficiencies and promote sustainability. Findings by Hudon and Traca (2009) are in support of donor funds view and concluded that MFIs that receive subsidies are more efficient than those that do not. Aghion and Morduch (2005) caution the use of subsidies and suggest targeting subsidies in financing start-up expenses and institutional capacity building. The challenge however, is to design efficient or ‘smart subsidies’ which are not likely to introduce long-term subsidy dependence (UNCDF, 2005). Zamore (2017) found that revenue diversification by MFIs has a positive relationship with MFIs financial performance, implying that microfinance institutions could expand and sustain their revenue generating activities in order to take advantage of diversification benefits, hence rendering them financially sustainable.

On the demand side, sustainability of the customer means the ability to survive without the assistance of the lender after an initial period and achieve steady cash flows from their business ventures. Research by Jose and Chacko (2017) on the sustainable development of microfinance customers found that diversion of funds by borrowers as the main contributor to failure. Their findings are in support of similar research findings by Hulme (2007) that the diversification of funds is the reason why microenterprises fail to achieve sustainability. In view of these findings, recognizing the needs of the poor beyond microenterprise venture is key to control the diversification problem. Microfinance institutions must make it their inherent responsibility to make sure their customers are made aware of the issue and its consequences while providing supporting programs to cover their non-enterprise financial needs.

4 Discussion And Conclusion

4.1 Discussion

This paper conducts a review of the literature on the role of microfinance in poverty alleviation. The objective is to provide an overview of the literature that points out the successful ways to combat poverty through microfinance. Poverty is a multidimensional phenomenon encompassing a person’s economic, social, health, education, security, and capacity. It’s not only lack of economic resources but also lack of access to services and basic capacity to participate effectively in society.

Karnani, (2007) argues that instead of viewing the poor as consumers, we need to see them as producers, workers, and entrepreneurs and that a mix of entrepreneurship, jobs, and education will provide the help needed to move them out of extreme poverty. Karnani is particularly concerned that a consumption-based approach in a market where people are poor, have limited education, and suffer from poor health is simply setting them up for exploitation. In other words, these findings imply that poverty reduction requires, in addition to finance, investment in infrastructure, market opportunities, skills of entrepreneurs and promotion of growth-oriented activities (Aghion and Morduch, 2005).

Our paper reveals other models of financing being suggested by research findings to stress on the role microfinance can further play in poverty alleviation. Bauchet and Morduch (2012) suggest SME finance as a possible alternative to microcredit investment to fight poverty notably because SME provide employment on a much larger scale than microenterprises supported by microfinance. We clearly note that poverty reduction requires borrowers to engage in higher return activities than those that microfinance usually support. On the other hand, most research in support of the group lending approach suggest this model for higher repayment rates but caution the generalizability of the model in different cultural contexts. Our findings further reveal that the use of mobile telephone technologies
such as mobile money transfers is found to have been most effective in many developing economies like the success of the MPESA in Kenya suggesting an alternative to MFIs to provide services through this channel. Other researchers suggest the market based approach to attain sustainability through commercialization of microfinance (Koveos and Randhawa, 2004) but caution the MFIs about the conflict of interest with the MFIs societal objectives.

4.2 Conclusion

Even though the evidence suggests that Microfinance interventions have not resulted in a poverty-free world, they have however come a long way towards building hope for such a world. The ultimate success of MFIs would be eradication of poverty as envisioned by Mohammad Yunus, when he first introduced Grameen bank in Bangladesh in 1976 to provide loans to poor entrepreneurs in hopes of improving their living standard through micro loans.

The study makes contributions towards the role of microfinance in poverty alleviation literature and fills up the research gap to some extent by synthesizing the findings and classifying them into different socio-economic dimensions that may best explain the relationship. The findings suggest that MFIs are yet to develop a consistent framework to monitor the usage of loans and we suggest the need to provide more options in the delivery of the services that may promote productive use of loans for maximum impact. The paper may help policy makers and other stakeholders in formulating more policy choices that will be favorable in making microfinance institutions efficient and effective in meeting their poverty alleviation goals in a sustainable manner.

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