World Development Vol. 40, No. 11, pp. 2249–2262, 2012

0305-750X/

ELSEVIER
www.elsevier.com/locate/worlddev

http://dx.doi.org/10.1016/j.worlddev.2012.03.012

The Impact of Microfinance in Sub-Saharan Africa: A Systematic Review of the Evidence

C. VAN ROOYEN
University of Johannesburg, Aucklandpark, South Africa

R. STEWART
University of Johannesburg, Aucklandpark, South Africa
Institute of Education, University of London, UK

and

T. DE WET [*]
University of Johannesburg, Aucklandpark, South Africa

Summary. — Microfinance is seen as a key development tool, and despite the current deepening crisis within the industry, it continues to grow in sub-Saharan Africa. We systematically reviewed the evidence of the impacts of micro-credit and micro-savings on poor people in sub-Saharan Africa. We considered impacts on income, savings, expenditure, and the accumulation of assets, as well as non-financial outcomes including health, nutrition, food security, education, child labor, women's empowerment, housing, job creation, and social cohesion. The available evidence shows that microfinance does harm, as well as good, to the livelihoods of the poor.

Key words — microfinance, micro-credit, micro-savings, sub-Saharan Africa, poverty, impact

1. INTRODUCTION

The development industry, and in particular government agencies, are calling for greater evidence and a focus on "what works". There is therefore an urgent need to collate and review the available evidence of the impacts of major development programs. Microfinance is one of the largest development programs worldwide, both in financial terms and in relation to the number of poor people targeted. In this paper, we report the findings of the first systematic review to address the question "what works" in microfinance. In doing so we employ a rigorous and increasingly important methodology which is promoted as a valuable tool for bringing together the best quality, most relevant evidence (DFID, 2011; Petticrew & Roberts, 2006).

The provision of "micro" financial services to the poor (those earning less than \$2/day), in particular small loans of \$50–\$1000, has been hailed by advocates as an effective poverty alleviation and development tool (CGAP, 2003, pp. 1; Robinson, 2001; Yunus, 1999). Known collectively as microfinance, these services include micro-credit, micro-savings, micro-insurance, and money transfers, and have been attributed with enabling micro-entrepreneurs to build businesses and increase their income [1], as well as improving the general economic wellbeing of the poor. Furthermore, microfinance has been credited with improving other financial outcomes (including savings and the accumulation of assets such as furniture or a sewing machine), as well as non-financial outcomes such as health, food-security, nutrition, education, women's empowerment, housing, job creation, and social cohesion (Afrane, 2002; Barnes, 1996; Barnes & Keogh, 1999; Beck, Demirguc-Kunt, & Levine, 2004; Hietalahti & Linden, 2006; Hossain & Knight, 2008; Khandker, 2001; Odell, 2010; Schuler, Hashemi, & Riley, 1997; UNICEF, 1997; Wright, 2000). The underlying logic is that by providing financial services to the poor, for example in the form of credit or savings, they manage their money differently, investing, acquiring productive assets, increasing their skills levels, opening new businesses, etc.

But various studies have questioned these positive impacts. Some indicate much more mixed impacts, such as benefits for the poor but not for the poorest (e.g., Copestake, Bhalotra, & Johnson, 2001; Hulme & Mosley, 1996; Morduch, 1998; Mosley & Hulme, 1998; Zaman, 2001); or helping the poor to better manage the money they have (Rutherford, 1996, pp. 2) but not directly or sufficiently increasing income, empowering women, etc. (e.g., Husain, Mukherjee, & Dutta, 2010; Mayoux, 1999; Rahman, 1998) or that money spent on microfinances could be better used more effectively for other interventions (Karnani, 2007) or that a single intervention (such as microfinance) is much less effective as an

[*] The research on which this article is based was done for the UK Department for International Development (DFID). Regarding the DFID report, we want to express our thanks to our contacts at DFID, Max Gasteen and Angus Kirk, our peer reviewers (David Roodman and Gabriel Rada), Milford Bateman for his useful feedback, those individuals who assisted us with the review (Maboaleng Majoro and Kelly Dickson) including helping with the translation of papers, Claire Stansfield and Chloe Austerberry from the EPPI-Centre for their library and administrative input, as well as the researchers whose work we drew on in the review. For this article we gratefully acknowledge the detailed comments of four peer reviewers. Final revision accepted: March 12, 2012.

anti-poverty resource than simultaneous efforts that combine microfinance, health, education, etc. (Lipton, 1996). Others allude to negative impacts (i.e., that microfinance does harm), such as the exploitation of women, increased or at best unchanged poverty levels, increased income inequality, increased workloads and child labor, the creation of dependencies and barriers to sustainable local economic and social development (e.g., Adams & Von Pischke, 1992; Bateman & Chang, 2009; Copestake, 2002; Rogaly, 1996).

Microfinance is increasingly questioned, not only for its lack of proven poverty reduction and development outcomes, but also on ideological terms — for example, see Bateman (2010, 2011), Dichter (2007), Fernando (2006), and Roy (2010). The recent crisis which has hit the industry in India (but also in Bosnia, Morocco, Pakistan, Nicaragua, and Nigeria) where thousands are over-indebted with serious implications for people's livelihoods and communities, also increased the concerns. Further, an increase in the commercialization of the industry has been met with suspicion and concerns around the ethics of making money from the poor, and talk of "mission drift", even within the microfinance industry (Chang, 2007; Fernando, 2006; Karnani, 2009; Weber, 2006; Yunus & Weber, 2010). Especially in India the case for greater regulation has been voiced clearer and louder as businesses have failed and suicide rates risen. The evidence for the positive claims surrounding microfinance is being challenged, and rigorous evaluations sought. But much of the available research has focused on how to improve the industry, rather than how to prove impact (Hulme, 1997). What good research does exist has only served to deepen the controversy: the publication in 2009 of the first randomized controlled trials (RCTs) in India and the Philippines (Banerjee, Duflo, Glennerster, & Kinnan, 2009; Karlan & Zinman, 2010) failed to find evidence that microfinance alleviates poverty, sparking a defensive response from within the industry (Accíon International *et al*., 2010). There is a need to systematically bring together this varied evidence to establish what the combined good quality evidence shows about whether or not microfinance benefits the poor in terms of a wide range of outcomes. Furthermore, in acknowledgement that microfinance itself varies enormously and is available to a wide range of people in a variety of contexts (Goldberg, 2005; Odell, 2010, pp. 12), there is a need to consider what we know about the different types and models of microfinance and whether or not they work, for whom and in what circumstances.

While the level of evidence is gradually increasing, a simple search of bibliographic literature, and more thorough overviews of the evidence (Duvendack *et al.,* 2011), reveal that the majority of microfinance and of the related evaluations still emanate from Asia where the microfinance movement originated. Theory suggests however, that microfinance works differently in different regions where the population density, attitudes to debt, group-cohesion, enterprise development, financial literacy, and financial service providers all vary (Armendáriz de Aghion & Morduch, 2005; Fischer & Ghatak, 2011; MIX (Microfinance Information Exchange) & CGAP (Consultative Group to Assist the Poor), 2011). We believe there to be an increasing need to understand the evidence from sub-Saharan Africa, one of the poorest regions of the world where development aid is proportionally large (United Nations, 2008, pp. 1), and where there are still majority nonprofit service providers in the microfinance industry (MIX & CGAP, 2011, pp. 2).[2] International agencies are increasing their investment in a wide range of microfinance initiatives in the region (MIX & CGAP, 2011; World Bank & DFID, 2010, pp. 8), where microfinance has a long history pre-dating the better known micro-banks such as Grameen Bank; these include the credit unions of the 1950s and 1960s (Raftopoulos & Lacoste, 2001), and group-based savings and lending groups in the form of cooperatives (MIX & CGAP, 2011, pp. 3). At the same time, the microfinance industry in Africa is still relatively small and being concentrated in a small number of countries (MIX & CGAP, 2011, pp.10), but growing, thus providing an opportunity for research to shape decision-making, especially in the light of international agencies planning new initiatives to develop capacity in the region and seeking both the opinions of stakeholders (World Bank & DFID, 2010) and evidence of effectiveness (DFID, 2010).

Systematic review methodology provides an ideal opportunity to address this question of the state of the evidence of impact in the region thus far. While relatively new in the field of international development, this approach is standard practice in medicine, health promotion, and some areas of social policy, where policy-decisions are not made and new research not commissioned without first understanding the combined findings of the best-quality and most relevant research evidence as reported in a systematic review (Cochrane Collaboration, 2012; Cook, Mulrow, & Hayes, 1997; Mulrow, 1994; Sebba, 2004).

It is in this context that we set out to systematically review the evidence of impact of microfinance on the poor in Sub-Saharan Africa to test the claims for its successes and inform future decisions. Specifically we were commissioned by the UK's Department for International Development (DFID) to report on what is known about whether or not microfinance works in the region and, where possible, to differentiate between the different models of microfinance and their varying impacts in varying contexts. In doing so, we report the findings of the first published systematic review of the impact of microfinance on the poor.

2. METHODS

In line with systematic review methodology, we developed a protocol for this review which was peer reviewed and published at the start of the project (Stewart, van Rooyen, Majoro, & de Wet, 2010). This presented in detail the methodology described here and, through the process of review and publication, enabled us to take on board the views of wider stakeholders and ensured transparency of our approach. In addition to our multi-disciplinary international team, during the course of the project we drew on the expertise of potential users of the review, including researchers, policy advisers, and microfinance organizations, particularly seeking their input on where to search for relevant literature, on our initial findings and on how best to disseminate this work.

In order to ensure we identified all the relevant literature for inclusion in the review, we searched systematically for evaluations of micro-credit or micro-savings in sub-Saharan Africa, looking in three specialist systematic review libraries, 18 electronic online databases, the websites of 24 organizations, and an online directory of books. We also contacted 23 key organizations and individuals requesting relevant evidence, conducted citation searches for two key publications and searched the reference lists of initially included papers. In doing so, it was our intention to increase the sensitivity of our searching and avoid missing any relevant high quality research from the region.

Our search results were then screened for relevance in two stages. This involved systematically applying pre-specified "inclusion criteria". Research had to be: conducted in at least