Abstract

Microfinance has often been treated as an innovative path to capital for those excluded from formal finance in developing countries, which allows them to make a living and experience empowerment (Yunus, 2004; Lakwo, 2006; J-PAL, 2015). Some institutions have taken this ability as a moral imperative to focus on particularly disempowered groups, especially women (Hashemi, Schuler, and Riley, 1996). The evidence is mixed, however, on how powerful microfinance is, both as an institution and for the purpose of empowering women. By developed world standards, results do not seem to indicate empowerment by microfinance. This essay will focus on microcredit specifically, beginning with a brief history and an examination of some issues that face contemporary researchers. It will then review a selection of research on microcredit, followed by a deeper discussion of two papers: Pitt and Khandker (1998) and Bernhardt *et al*. (2019). The essay will conclude by suggesting an adjusted lens for microfinance research is needed to truly understand the impact of these programs.

Introduction to Microfinance

Microcredit involves small, collateral-free loans to promote self-employment and income generation, as described by Rahman (1999). Muhammad Yunus invented microcredit in 1976 when he experimented with loans for people living on the street outside his university in Bangladesh, whom he had observed and surveyed. He hoped his loan would prevent them from relying on moneylenders that imposed unbearable requirements. A total of $27 was loaned to 42 people and the success of these loans encouraged him to formalize this process, however, banks did not see the poor as worthwhile investments. Yunus guaranteed the loans to minimize the banks' risk, and in 1983, this giving of loans became the financial institution known as the Grameen Bank (Yunus, 2004; Armendáriz and Morduch, 2010). The Grameen Bank categorizes microcredit, and specifies that 'Grameencredit' must create self-employment opportunities in people's own communities, in non-legal group-based setups, and provide continuous opportunity with both obligatory and voluntary programmes (Grameen Bank, 2021). Henceforth, 'microcredit' will refer to Grameencredit since literature often refers to this specific model. The Grameen Bank spurred the growth of microcredit institutions, drawing attention to the failure of formal banking to address the needs of the poor. The group liability model was key to expanding these programs because the groups become responsible for screening and monitoring, which, unlike traditional bank models, results in lower costs (Lakwo, 2006).

Researchers of microfinance face many challenges in conducting their analysis. First and foremost, it is difficult to generalize results to the entire sphere of microcredit. While this is true for much of economics, in microfinance, programs differ widely and there are also many confounding factors to complicate results. These factors point also to endogeneity issues, including how to separate the impact of microfinance from other program components and the issue of intentional program placement (van Rooyen *et al.*, 2012; Khandker, 2005). Selection bias can arise from the fact that these programs are optional and those who choose to enrol are likely more enterprising (Hashemi, Schuler, and Riley, 1996). Generally, there is also concern that many studies are commissioned by microfinance institutes and therefore may not be objective (Vaessen *et al.*, 2014). These issues, as well as others, make microfinance a complex topic to research and contribute to the discontinuities in microfinance research.

Changes to and Debates in Microcredit

Expanding from credit into savings, insurance, and other financial products has created a larger sector of microfinance which was very welcome by microcredit customers (Vaessen *et al*. 2014; Collins *et al.*, 2009:26). With growing attention on this form of finance, there has also been a move to the 'businetization of microfinance' by large global organizations looking to standardize these processes and develop best practices in order to make these institutions self-sustaining (Lakwo, 2006:35). Some like Otera and Rhyne (1994) see this as a problem since it shifts the focus from the clients to financial performance and rearranges priorities.

As research has expanded, it has become clear that microcredit is not a straightforward, silver bullet to poverty (van Rooyen *et al.*, 2012). In light of new economic theories and models, as well as improved robustness checks, the strong evidence in support of microfinance has become dim. Increased usage of randomized controlled trials (RCTs) has shown that most of the impact of microcredit has not been on income, and even where income has increased, it has been due to microsavings (CGAP, 2010). There are some (e.g. Daley-Harris, 2005; CGAP, 2009) that argue that microcredit is still valuable because it can be paired with complementary services and its impact reaches clients much faster than other poverty-reduction methods. Moreover, others still argue for more minimalistic approaches and present data that says programs limited to microcredit do show results (Hashemi, Schuler, and Riley, 1996). While research has yet to settle these contentions, it is unquestionable that microcredit allows borrowers the ability to consume, invest, and employ in new ways, regardless of the consequences of these updated methods (J-PAL, 2015).

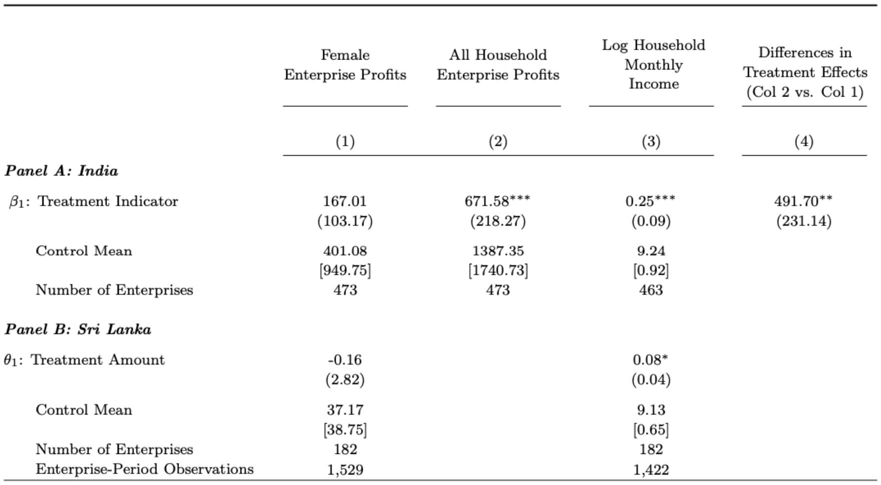
Empowerment for Women through Microcredit

Microcredit has an alleged ability to empower women by improving household income and by giving them a role in income generation (see, for example, Hashemi, Schuler, and Riley, 1996). Research in the last 30 years has found, however, that this empowerment is not as strong or universal as once thought, and that which exists is rarely direct or economic. The inconsistency stems partly from a lack of clarity on the meaning of empowerment. In a study deemed high-quality by the van Rooyen *et al.* review (2012), Pronyk *et al.* (2006) determined that household assets, membership of microcredit programs and expenditure all indicated improved economic wellbeing as a result of intervention programs that combined microfinance with sexual health training. Vaessen *et al.* (2014) took a narrower view of empowerment and argue that there is no evidence that microcredit has an impact on women's control over household spending, and therefore microcredit does not empower women. While reaching different conclusions, these two studies share an economic perspective on empowerment. A more qualitative perspective has been taken in studies that have created indicators like political awareness as proxies for general empowerment. Hashemi, Schuler, and Riley (1996) found that when adjusted for the duration of membership, Bangladeshi microcredit programs had a significant impact on five empowerment dimensions, and argued that the significant effect of membership duration indicated a 'true program effect' (641). On the other hand, Shimamura and Lastarria-Cornheil (2010) found that credit uptake was correlated with delays in school enrollment for girls and repeated grades for boys. The convoluted nature of results in this field indicate a need for further research, but some clarity can be gained when using clear definitions and providing contextual specifics.

Pitt and Khandker's 1998 study, 'The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?' (Henceforth 'PK'), is a key piece of literature on microcredit. This paper studied the impact of group-based credit programs in Bangladesh on different indicators of household behaviour and found a significant effect of credit on households that is greater for women. PK acknowledges that extreme poverty creates a unique trap because capital is needed to create income but there is a limit to the divisibility of capital; for the extremely poor, purchasing even the smallest amount of capital may require money to be taken from consumption, which could be life-threatening. Due to endogeneity issues, like those described earlier, the lack of effective proxies, and the computational and conceptual complexities of fixed effects, PK elect to use a quasi-experimental design with a Weighted Exogenous Sampling Maximum Likelihood- Limited Information Maximum Likelihood- Fixed Effects (WESML-LIML-FE) model. To illustrate the impact of heterogeneity bias (the different characteristics of context, including villages and participants), PK introduces four alternative estimators and uses them to compare their data from the WESML-LIML-FE model. The most famous result from this study is that 'annual household consumption expenditure, the most comprehensive measure available of program impact, increased 18 taka for every 100 additional taka borrowed by women from these credit program, compared with 11 taka for men' (Pitt and Khandker, 1998:2). This complex model, admired by many, attempts to control for the issues described but it is criticised for the obscurity it creates. Roodman and Morduch (2013) explored the PK model in detail and note that there are issues surrounding the robustness of the results as well as reclassification of households and resulting endogeneity, among other assumption violations. They argue that the previously mentioned key result is the mistaken use of an average effect as a marginal one. The central argument of this critique was that PK data can only be reproduced with assumptions that conflict with the data, and when removing outliers to reduce that conflict, the PK results cannot be replicated. What can be taken from the PK paper is not so much the results supporting the benefit of microcredit, but the exploration of the complexity of microcredit. The fact that so many different views and results can be drawn from microcredit scenarios indicate a complex issue, and PK further this claim with their complex model and their use of alternative models.

While PK's results fail to add clarity to the argument surrounding the gendered effect of microcredit, their seminal work encouraged further study. Bernhardt *et al.* (2019) is one such study which raises an interesting perspective. This paper argues that microcredit and increased liquidity might present different results than expected because research has mostly taken an individualist perspective instead of a household one. This paper explores data from three previous studies (Field *et al.*, 2013; De Mel *et al.*, 2008; Fafchamps *et al.*, 2014) that took place in Kolkata, India; Sri Lanka; and Ghana, respectively. In both the India and Sri Lanka studies, increases in household returns were seen when the woman received microcredit. This is likely because credit is somewhat fungible within the household and when households have a choice, credit is often delegated to male-run enterprises. This tendency is partially based on gender norms of male superiority but also on logic, as male enterprises tend to be in higher-value sectors (Goetz and Sen Gupta, 1995). Bernhardt *et al.* explore a variety of potential reasons for this including gender norms on earning and sectors and the expropriation of women's resources by other members of the household. They lean away from the expropriation explanation because the data does not represent this when women are the sole self-employed member of the household. The evidence in table 2, Panel A (Table 1 below) implies that women's credit is often invested in other household enterprises. This is evidenced by the significance of column (2), despite the insignificance of column (1). The difference between columns (1) and (2) are statistically significant and treatment has a significant, positive impact on the log of household monthly income. Panel B, based on Sri Lanka data, shows similar results to column (1), consistent with India, indicating that there is a treatment effect that is significant on log monthly household income. These results confirm that when there are enterprises run by both men and women in the household, more capital will be directed towards male-owned opportunities.

Table 1: Enterprise Profits and Household Income in India and Sri Lanka



	Female Enterprise Profits	All Household Enterprise Profits	Log Household Monthly Income	Differences in Treatment Effects (Col 2 vs. Col 1)
	(1)	(2)	(3)	(4)
Panel A: India				
β_1: Treatment Indicator	167.01	671.58***	0.25***	491.70**
	(103.17)	(218.27)	(0.09)	(231.14)
Control Mean	401.08	1387.35	9.24	
	[949.75]	[1740.73]	[0.92]	
Number of Enterprises	473	473	463	
Panel B: Sri Lanka				
θ_1: Treatment Amount	-0.16		0.08*	
	(2.82)		(0.04)	
Control Mean	37.17		9.13	
	[38.75]		[0.65]	
Number of Enterprises	182		182	
Enterprise-Period Observations	1,529		1,422	

This research also has its limitations, including issues with using income to measure impact. Income for impoverished families is often very hard to track because in low-income communities barter is frequent and there is little formalized saving, so income is mostly a process of consumption and recollection (Meyer and Sullivan, 2003; Collins *et al.*, 2009:11). Despite their new perspective and insightful conclusions, this data on empowerment is still unclear at best with the data from Ghana and India failung to show empowerment indicators as a predictor of income but the data from Sri Lanka showing a significant relationship.

Research points to the possibility that empowerment may not be reducible to a simple indicator or even to a vector of them. Pronyk *et al.* (2006) argue that there is evidence of positive results for women who are members of intervention programs, including more progressive attitudes towards gender violence and involvement in social groups and collective action. Another paper from 1997 (Schuler, Hashemi, and Riley) found that the contraceptive use of members of Bangladeshi microcredit programs was positively correlated with duration of program membership. There is evidence that microcredit programs allow women access to society, bring them economic resources, and 'loosen the stricture of the patriarchal family on their lives' (Schuler, Hashemi, and Riley, 1997:573). These are not simply measured by quantitative indicators, nor can they be easily indexed or proxied by one variable. Goetz and Sen Gupta (1995) further explain that the economic impact of women's access to microcredit is obfuscated by gendered markets. Until and unless markets operate differently, men will mediate the economic activities of women and there will be less of a direct impact of microcredit on women's empowerment. However, they also highlight the importance of the choices that do exist for women as a result of microcredit. The ability to transfer credit to men may provide 'an important survival strategy' in a world where marriage security is correlated so closely to the opportunities for women (Goetz and Sen Gupta, 1995:53-54). With so many factors muddying the relationships between women, microcredit programs, economic wellbeing and empowerment, studies struggle to establish a conclusive answer on the impact of microcredit.

New Standards for Microcredit

The studies detailed above and those consulted for this research have failed to clarify the impact of microcredit on women's empowerment. This is largely attributable to the developed world standards reflected in these works that explore the developing world. 37% of women in Goetz and Sen Gupta's study (1995) maintained partial or full control of their loans, yet this is overshadowed by the 63% of women who did not. The palliative nature of this finance system is eclipsed by its lack of calculable results. The developed narrative fails to note that a small increase in income may be a turning point for families in the low-income situations microcredit targets (Hashemi, Schuler, and Riley, 1996). What Rosenberg (2009) refers to as the 'value proposition' of microcredit is not that it solves poverty, but rather that each administration of this treatment requires less than other treatments for poverty. This treatment helps cope with poverty and institutes a formal system where there was once only informal systems plagued by as much uncertainty as poverty itself (Rosenberg 2009). While reliability may seem insignificant to the developed world, this is highly valued by those whose life circumstance is riddled with uncertainty, and they show their appreciation by prioritizing the repayment of loans from these institutions (Collins *et al.*, 2009:27). Despite concluding that microcredit does little for the empowerment of women in terms of spending, Vaessen *et al.* (2014) argue it best:

> Empowerment is highly context-specific and existing gender relations, norms and beliefs differ widely across regions and countries. Gender relations are shaped by a complex interplay of religious, cultural and socio-economic factors. Consequently, what in one case could be called 'empowering' in other cases is not, which has implications for the external validity of findings of individual studies as well as synthesis across studies (18).

To understand the true impact of microcredit, researchers must not only take into account contextual factors like program components and village characteristics but must also consider much more abstract factors like societal norms and local definitions of empowerment.

Conclusions

Microcredit was introduced to the world economic stage as a silver bullet to solving poverty, but over the last 50 years, research has shifted to a more critical view. Its status as a poverty-fighting tool has been challenged and it has been blamed for negative consequences of poverty such as disempowered women and limited education of children (e.g. Shimamura and Lastarria-Cornheil, 2010). Some (e.g. Pitt and Khandker, 1998) have continued to argue that microcredit impacts women more than men and others have even shown positive effects on indicators of empowerment (e.g. Hashemi, Schuler, and Riley, 1996). Complex, creative models like Pitt and Khandker (1998) have attempted to map out this convoluted institutional impact, but it appears that economic technologies may not yet be able to de-endogenize some of the key variables. Alternative ideas and approaches, like those presented in Bernhardt *et al*. (2019) and Goetz and Sen Gupta (1995), are part of the unyielding search for the 'right' answers about microcredit. Policy comparisons exploring the role of market structures in empowerment as suggested by Goetz and Sen Gupta (1995) may reveal structural barriers to social change. Cross-country comparisons, accounting for different levels of gendered relations, which Bernhardt *et al*. (2019) point to as an important factor in the gendered results, have the potential to contribute to the conversation as well. Moreover, it is possible it has not yet been long enough for us to fully understand microcredit. With barely half a century of data, it may not yet be possible to grasp the cycles or behaviours of microcredit. Researchers today may only be observing a fraction of microcredit's impact, which appears erratic– much like economic growth on a short horizon– but may eventually smooth out. Ultimately, it is unclear how economic research will come to a conclusion about microcredit, or when this might happen. What is clear, however, is that microcredit as a method of development cannot be viewed from a developed perspective. The effect of microcredit on women's empowerment may not appear significant and may not be reflected by the indicators formed by the developed world, but these models and indicators are not developed in the same contexts as these programs exist. The impact of microcredit on women's empowerment is dependent on what is viewed as empowerment and this is not the same for any woman, let alone generalizable across the divide of the developed and developing world.

Word Count: 2,993

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