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A Brief History

Women's community-based savings clubs were observed as early as the late 19th century across the Global South (from West Africa to Asia). The first ever record of these in the modern literature was by Ardener (1964), who described them as "an association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation". These types of savings groups are referred to as Rotating Savings and Credit Associations (ROSCAs) or by regional names such as *Merry-Go-Round*, *Partners*, *Susus* or *Tontines*. In all of these groups, members have access to the group "pot" for a set period of time until each member has had their turn.

This became the genesis for the later iterations of savings and credit services that were developed for women, with group-based delivery model remaining as the fundamental tenet. Institutional attention to women began only in the 1970s – when microcredit movements began to take hold in Bangladesh, India and Africa and the momentum continued to be built in the 1980s. Some of these earlier initiatives were called micro-enterprise credit – where essentially small loans were disbursed to groups of women with the intention to enhance self-employment opportunities – but as the financial services offered by the institutions expanded the term microfinance was coined (Roodman, 2011). Microfinance promised to provide financial services to the poor that lack access to formal banking – predominantly women in developing countries. Thus, it has become an important source of entrepreneurial finance (D'Espallier et al, 2017; Gul et al, 2017; Armendariz and Morduch, 2010). The next two decades were the golden era for microcredit. The year 2005 was declared the year of microcredit by the UN and Professor Mohammed Yunus (the founder of Grameen, Bangladesh) and Grameen Bank were jointly awarded the Nobel Peace Prize in 2006. According to a recent assessment, some 3700 microfinance institutions (MFIs) provide services to around 230 million people in over 100 countries with over 84 percent of them being women (Gul et al , 2017).

Microfinance markets have matured and globalized and have experienced remarkable growth in the decades leading up to 2010. A main reason behind such development is the huge investment flow into the industry, which makes MFIs less dependent on grants, charitable money, donations, concessional funding and subsidies (Ghosh and Van Tassel, 2013). According to Assefa et al. (2013), increased patronization and subsidized funding from governments, development agencies and commercially oriented funders (including commercial banks) are the main drivers of growth in microfinance operations. Such fast growth has led to increased competition among MFIs, which attributes to multiple borrowing, over-indebtedness and a growing repayment crisis. Although MFIs have a common goal of providing financial services to excluded clients (the poor and women), their performance differs significantly (Gul et al, 2017; Armendariz and Morduch, 2010; Banerjee, 2013; Hermes and Lensink, 2011; Kar and Bali Swain, 2018a, 2018b).

Microfinance is being implemented by policy-makers and development practitioners, and NGOs in different forms. These diversified range of institutions have incorporated microfinance in their

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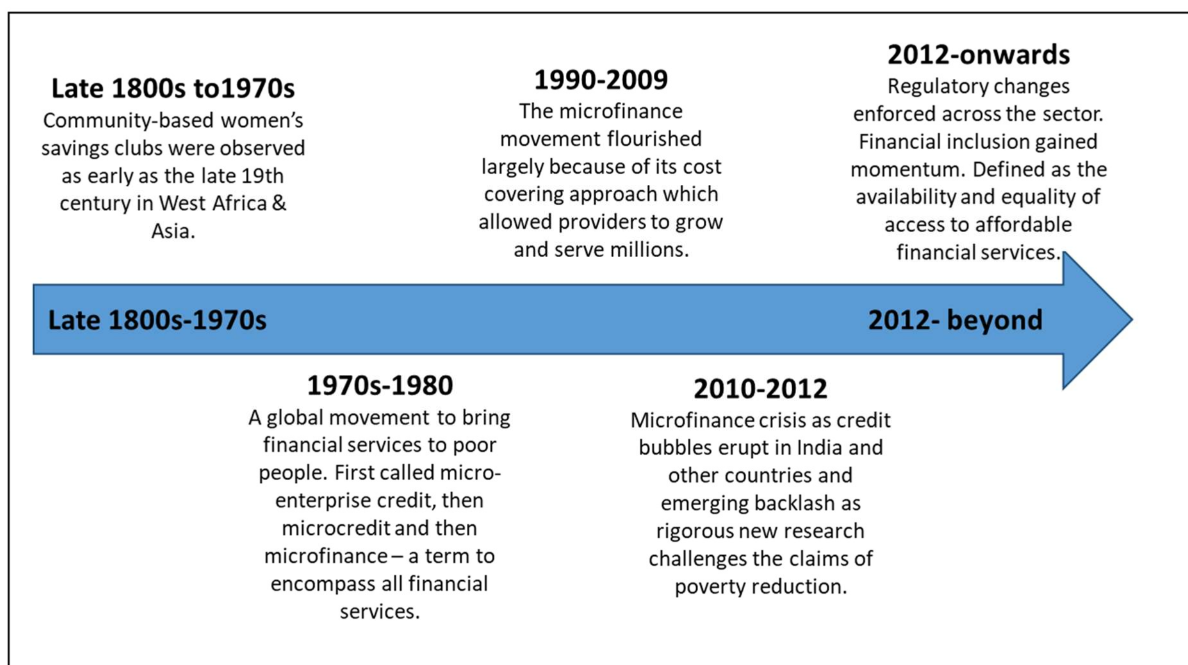
health or education or gender equity programs to attract funding from commercial markets and other sources. By delivering financial services (both savings and credit) to the poor, microfinance provides them with an opportunity to increase their income, become self-employed and improve their economic situation. By substituting tangible collateral with 'social collateral', microfinance facilitates access to credit by individuals who otherwise were rationed from the financial markets. Access to financial services leads to consumption smoothing, thereby encouraging potential borrowers to take risks. Finally, microfinance provides the poor with an opportunity to acquire skills and knowledge through 'learning collectively on the job'. It allows them to learn the credit culture and investment experience through the guarantee of a long-term relationship and training provided by MFIs.

It is also well established in the literature that there is a strong correlation between 'financial depth' (reflecting the stage of financial development of a country) and economic growth. One of the main achievements of micro-finance has been in creating an inclusive financial sector, which supports the participation and economic integration of the lower income levels of the population.

In recent years, along with the increasing inflow of commercial capital, microfinance institutions (MFIs) have faced growing controversy around high interest rates, unethical collection methods and allegations of suicide among borrowers, and the ongoing debate around profits, interest rates and mission drift has attained a new exigency. These issues came to a boil during the microfinance crisis of 2010 that unfolded in India but the impact of which was felt across the Global South. Regulatory changes were enforced across the sector. There was also a paradigm shift in the way development finance was considered within the policy and practitioner arena – which lead to the idea of financial inclusion taking a hold. Ensuring that every individual and business had an equal access to a range of affordable financial services became the key mantra of the sector.

Figure 1. Timeline for savings, credit and financial services in the Global South



To this date the main issue in this sector remain around the social efficacy of savings and credit services – mainly their promise to alleviate poverty and empower women. There is an intensely polarized debate on these issues in the vast literature that has emerged over the last three decades. Discussants hold diametrically opposite views – some maintaining that microfinance is effective

in meeting its social promises while others providing opposing evidence. Despite having more systematic reviews than any other area of development research (see, Duvendack *et al.* 2011; van Rooyen et al. 2012; Awaworyi, 2014; Vaessen *et al.* 2014; Brody *et al.* 2015; Bali Swain 2012a) - a meaningful and usable verdict is not yet at hand. Part of the problems comes because of the various methodologies used to study impact.[2] Synthesizing findings from these varied approaches in an accessible way that is meaningful for policy and practice is difficult. This paper attempts to provide such a synthesis of the existing evidence within an analytical framework that makes it possible to draw some meaningful conclusions on the social effectiveness of microfinance. We focus on two specific issues: the impact of credit on poverty and its impact on women's empowerment.

To overcome the challenges of synthesising the existing literature in an accessible way that is also meaningful to policy and research, we use an analytical framework drawn from a coalescence of basic methodological principles within feminist economics enquiries described by Power as 'social provisioning' (Power, 2004). Our focus is on two specific components of the emerging feminist methods that Power describes as constituting 'social provisioning': use of well-being as a central measure of economic success and the notion that human agency is important. The first component signifies the insufficiency of measuring success merely in term of income and the necessity to include a range of measures that are more indicative of well-being. The second idea suggests that 'processes' as well as 'outcomes' should be examined and this emphasis means that questions on power and unequal access to power form part of the analysis, and not merely as an afterthought. These two constituents of social provisioning are central to how we view the social efficacy of microfinance in alleviating poverty and furthering women's agency. Adopting a social provisioning framework requires a measurable departure in the way we synthesise literature from what is typically done by systematic reviews.

Studies that claim to systematically synthesise 'evidence-based' policy literature typically rank quantitative studies according to methodological rigour, and include only those which have addressed problems of endogeneity and selection bias – with randomised control trials representing the 'top grade'. This paper is not intended as such a systematic review. Many empirical studies that examine the social impact of microfinance fall short of these exacting standards – and a systematic review would mean that the overwhelming majority of studies relevant to this paper would be excluded which would 'effectively (wipe) clean the memory banks of past knowledge' (Bedecarrats et al. 2015). Instead we use a 'social provisioning' framework to examine the broad assessment literature, with a focus on specific questions on microcredit's efficacy in alleviating poverty and in promoting gender equality.

The Social Efficacy of Microcredit: Taking a 'Social Provisioning' Perspective

Microcredit's ability to alleviate poverty and enhance women's agency is intensely debated. Many remain sceptical about the positive impact of microfinance and it is in the interest of all stakeholders (governments, donors, practitioners and clients) to understand what its true impact on poverty is – in other words what works and what does not work in microfinance.

Using the 'social provisioning' framework we focus on a variety of measures of impact that move beyond the simple measure of income and are more indicative of well-being at both individual and household levels. We consider both amount borrowed (loan size) and access to credit (programme membership or receipt of loan) as relevant measures of microfinance. Purely quantitative studies that rely only on descriptive measures of assessment (mainly from client's own experiences) have

[2] For detailed discussion on impact assessment methods used in the literature on microfinance and their validity, see, Morduch (1999); Duvendack et al. (2011); Berhane and Gardebroek (2011); and Roodman and Morduch (2013).

been avoided because of issues with adaptive preferences (Elster, 1983; Sen, 1990). We also exclude studies that examine impacts on poverty indices constructed out of subjective study of poverty (like Imai et al., 2010; Imai et al. 2012)[3], and those that consider micro-savings as a measure of microfinance (e.g., Ashraf et al., 2010; Dupas and Robinson, 2013). We discuss the results that emerge from a review of the studies roughly in order of how long they have existed for and how well they are established within in the literature.

It is worth noting that while we want to arrive at clear and meaningful ideas that can help accessibly interpret the inestimably large literature on microfinance impact assessment that has accumulated by now – we fully recognise the danger of arriving at simple generalisations. Indeed if anything is clear from this literature it is that the vast global initiative of microfinance can hardly be expected to have one single, consistent impact story over the long assortment of product variations and geographical differences. Hunting for generalisations is futile and the focus of debate must move on to understanding the variety of experiences. That is indeed what we derive from the 'social provisioning' framework used to synthesise the literature that urges a move beyond the simple measure of income.

From the perspective of enhancing overall well-being, a longstanding conclusion that emerges from the literature is the positive impact microfinance has on the non-poor women. Microcredit schemes typically target the poor; however, at times beneficiaries may be from households that are somewhat above the poverty line – the better-off amongst the poor. Studies find that these borrowers benefit from microcredit – early work by Hulme and Mosley (1996) demonstrates this for a range of countries. This fits with the theoretical expectation that microfinance will have a positive impact if borrowers have viable investments and the necessary business skills. The better-off amongst the poor are more likely to have these conditions compared to the very poor – who may also be denied highly productive activities because of start-up costs or other constraints (Wood and Sharif, 1997). Where MFIs serve non-poor clients, the impacts of the interventions are usually positive. Evidence emerging from rural China and rural India also support this hypothesis (Li et al., 2011; Bali Swain and Wallentin, 2009; Garikipati, 2012). Other studies also support this idea indirectly – for instance, Stewart et al. (2012) proposes that any risk from microcredit can be mitigated by targeting at clients with a level of financial security – suggesting that there is risk involved in targeting the poorest of the poor. Zeller et al. (2001) indicate that access to credit can reduce risk through livelihood diversification, which has the potential to raise incomes – which once again suggests that the better-off among the poor are more likely to reap the benefits of credit. Studies however suggest that with the right type of support and training even the poorest of borrowers can succeed. For example, for Self Help Bank Linkage program in India several studies find a positive impact of proper credit delivery mechanism and training on borrowers (Bali Swain and Varghese, 2011, 2013; Bali Swain and Wallentin, 2017). Also see, Hulme and Moore (2007) for BRAC's ultra-poor programme called Income Generation for Vulnerable Group Development.

Another result impacting well-being but also more conventional measures of poverty and vulnerability that emerge from the literature is the positive impact of microfinance on household consumption and expenditure – especially in the short run. This is entirely unsurprising given that an injection of credit whether used for production or consumption will result in expenditure, at least in the short run. Several studies examine the impact of microfinance on at least one proxy for consumption. Khandker (2005), Bali Swain (2012b), Cuong (2008), Garikipati (2008), Gertler et al. (2009), Bali Swain and Floro (2012, 2014), Attanasio et al. (2011), Berhane and Gardebroek (2011), Imai and Azam (2012) and Kaboski and Townsend (2012) present evidence supporting the

[3] Evidence presented in both studies supports the poverty-reducing effect of microfinance.

positive effect of microfinance on consumption, especially in the short run. Pitt and Khandker (1998), Floro and Bali Swain (2013) also find this but mainly for female borrowers. Evidence presented by Hoque (2004), Banerjee et al. (2009), Augsburg et al. (2012) and Nghiem et al. (2012) indicate that the effects of microfinance on consumption is insignificant mainly due to the small value of microloans issued. The available evidence however overwhelmingly favours increased consumption in the short run. Impact on consumption in the long run is of course related to profits and income growth overtime (Crépon et al., 2014). We deal with these next.

The third result that we can find with some consistency is the positive impact that credit has on women's businesses. The emerging consensus is that microloans that are put into productive use impact positively on the productivity of microenterprises, especially when borrowers have the essential business skills. Tedeschi (2008), Copestake et al. (2001) and McKernan (2002), Bali Swain and Varghese (2014), Crépon et al. (2014) provide evidence to support the positive effects of microfinance on microenterprise profits. Furthermore, two factors seem to support higher profit – longevity of membership and flexible repayment terms. Copestake et al., (2001) finds that clients who remain in microcredit programmes rather than leave after their first loans also tend to have more profitable businesses. In contrast those clients who left after receiving their first loan were worse off. Rigid repayments schedule at a Peruvian MFI meant negative impact on business profits as it did not give borrowers, who had mostly invested in their farms, the opportunity to start receiving returns on their investment before repayments were due (Copestake et al.,2005). So it seems that as long as clients don't rush out of the door or MFIs are prepared to be flex repayment schedules around the needs of their clients, microfinance should help improve the profitability of microenterprises. Banerjee et al. (2009) and Attanasio et al. (2011) are two studies that do not support the result on positive impact on profits – in fact the latter finds a significant negative impact. Note that these two studies are randomised evaluations where intention to treat rather than actual intervention was used to measure access to microfinance.

Another result that is quite strong is microfinance's impact on women accumulating assets – most of the literature suggests a positive association, although an empirical synthesis of the literature shows that the impact is modest at best and hence may have little economic significance. One of the issues with using assets as a proxy for poverty is the need for longitudinal data that goes back a sufficient period. There is likely to be some trade-off in the short-run between consumption expenditure and asset expenditures – which are likely to only settle overtime – so to generate a sufficiently robust picture we would need data that covers a sufficiently long period. The results emerging from the literature suggest a positive impact of microfinance on long-term asset accumulation with the caveat that the association is modest to the extent where it is unlikely to be economically meaningful (Awaworyi; 2014). Pitt and Khandker (1998), Cotler and Woodruff (2008), Garikipati (2008), Gertler et al. (2009), Bali Swain and Varghese (2009) and Islam (2011) suggest a positive but modest impact of microfinance on asset accumulation while Takahashi et al (2010), Attanasio et al (2011) and Kaboski and Townsend (2012) suggest a negative impact.

An increase in profit typically also mean an increase in income – but this linear relationship does not seem to hold in the case of microfinance – not only because credit may be diverted into consumption expenditure but even when credit is used for productive purposes. For instance, in a randomised evaluation Crépon et al. (2014) find that although business profits of microfinance clients increase, their incomes do not because of the off-setting effect of lost wages from casual work. So what about the effect on incomes of the borrowers? The suggestion emerging from the studies discussed above is that the poor women are less likely to have access to productive opportunities and necessary skills so the impact of microfinance on their incomes is likely to be less positive. In fact the conclusion that we can draw from the literature is that the impact on income is uncertain. A great many studies find no significant impact on income like Abou-Ali et

al. (2009), Bali Swain and Varghese (2009),Cotler and Woodruff (2008), Takahashi et al. (2010), Imai and Azam (2012), Kaboski and Townsend (2012) Nghiem et al. (2012) and Crépon et al. (2014) some even find a negative association (Attanasio, et al. 2011), whereas some do find a significant positive impact – like, Copestake et al. (2005), Cuong (2008) and Kouassi (2008). However, even these studies tend to find associated conditions with the positive results – for instance, Copestake et al. (2001) find that clients who leave the programme after their first loan tend to be worse off and it is only those who persevere benefit in terms of higher household incomes. From the perspective of a 'social provisioning' framework the lesson that emerges is that impact on income alone would give us at best a partial picture on the social efficacy of credit and a more robust assessment would necessitate the study of other associated impacts.

The final question that we attempt a literature synthesis for is on gender equality. Has microcredit helped promote gender equality? Overall the result on gender inequality suggests that microfinance has helped some women enhance their agency – especially those who use loans on self-employment initiatives. But these gains are largely limited to women's improved role in household decision making. Microfinance has, by and large, failed in helping women shift existing gender inequitable norms embedded in the patriarchal context within which clients operate. These norms are much more structural in nature and credit directed at women alone seems to be inadequate to make a dent. Given that impact studies use households as a unit of assessment, the idea of gender equality is examined via the lens of women's agency and empowerment. Varied definition of these concepts exist but the most widely accepted notion is one where empowerment is recognized as a process by which those who have been denied the ability to make strategic life choices acquire such ability (Kabeer, 1999).[4] This closely follows the feminist methodological described by 'social provisioning'.

A very large number of studies that examine the impact of microfinance on gender report some gains to women's agency but none claim shifts in gender norms (among others, see Pitt & Khandker, 1996; Hashemi, Schuler, & Riley, 1996; Townsend 1999; Kabeer, 2001; Kabeer, N. 2005; Holvoet, 2005; Tesoriero 2005; Kalpana, 2008; Garikipati, 2008a; 2012 Bali Swain and Wallentin, 2009, 2012; Banerjee, et al. 2009; Guérin, et al. 2012). The potential for positive change on gender relations via microfinance seem to be dependent upon 'context, commitment and capacity' (Kabeer, 2005). Studies find that rather than financial elements of the scheme, it is the credit plus aspects of microfinance programmes that may help women enhance their agency (see Townsend, 1999; Bali Swain, 2007; Bali Swain and Wallentin, 2009; Holvoet, 2005; Tesoriero, 2005). For instance, regular group meetings, which is a feature of several microfinance programs, provide female members an opportunity to break out of their daily routine and discuss problems and issues of common interest (Townsend, 1999; Bali Swain & Wallentin, 2009). This interaction with a network of women in the microfinance program and officials, leads to an increase in the exposure and confidence of women, to articulate and pursue their interests (Purushottaman, 1998; Summers-Effler, 2002). Women's capacity to use loans on self-employment represent an atypical experience among microfinance clients (D'Espallier et al., 2011; Guérin et al. 2012; Kalpana, 2008) and seems to have positive impact on the value of women's time and (Garikipati, 2012).

Table 1.
Using the Social Provisioning Framework to Assess the Social Impact of Microcredit

[4] This ability to exercise choice includes three interrelated dimensions. First, resources which include access to and future claims to both material and social resources; second, agency which includes the process of decision making, negotiation, deception and manipulation; and finally, achievements that are well-being outcomes.

Outcome	Range of supporting evidence
Benefits the 'non-poor' women more than the 'ultra-poor'	Hulme and Mosley (1996); Stewart et al., (2012) ; Li et al., (2011); Bali Swain and Wallentin (2009); Garikipati (2012); Zeller et al. (2001)
Positive impact on household consumption and expenditure	Khandker (2005), Garikipati (2008); Cuong (2008), Bali Swain and Wallentin (2009) Gertler et al. (2009), Attanasio et al. (2011); Berhane and Gardebroek (2011), Imai and Azam (2012) and Kaboski and Townsend (2012)
Positive impact on women's business profits	Tedeschi (2008), Copestake et al. (2001) and McKernan (2002), Crépon et al. (2014)
Positive impact on women's asset accumulation	Pitt and Khandker (1998), Cotler and Woodruff (2008), Garikipati (2008), Gertler et al. (2009), Bali Swain and Varghese (2009) and Islam (2011)
Negative or no impact on women's incomes	Abou-Ali et al. (2009), Cotler and Woodruff (2008), (Attanasio, et al. 2011), Takahashi et al. (2010), Imai and Azam (2012), Kaboski and Townsend (2012) Nghiem et al. (2012) and Crépon et al. (2014)
Positive impact on individual agency largely within the household level but not on structural gender inequalities	Pitt & Khandker, (1996); Hashemi, Schuler, & Riley, (1996); Townsend (1999); Kabeer, (2001); Kabeer, N. (2005); Holvoet, 2005; Tesoriero (2005); Kalpana, (2008); Garikipati, (2008a; 2012) Bali Swain & Wallentin, (2009, 2012); Banerjee, et al. (2009); Guérin, Roesch, Venkatasubramanian, & D'Espallier, (2012).

Some concluding comments

The Microfinance Institutions (MFIs) operate on a principle of double bottom-lines (Kar 2013). These include the social objective of lending to the most vulnerable and ensuring financial sustainability. Increased competition leads to increased moral hazard and the information asymmetry problems in the microfinance industry (Berger, Klapper, and Turk-Ariss 2009; Broecker 1990; Marquez 2002; McIntosh and Wydick 2005; Kar and Bali Swain, 2014a, 2014b). It further has a negative impact on MFIs' outreach, performance and portfolio quality (Hartarska and Mersland 2012; Hermes, Lensink, and Meesters 2011; Assefa, Hermes, and Meesters 2013). With the intensification of competition, the socially motivated MFIs fail to lend to the poorest and the least profitable (predominantly women), who are most in need for the financial services. Any decline in the interest rates charged by the MFIs, therefore results in a decrease of profitability of the MFIs and worsens their ability to cross-subsidize (Navajas, Conning, and Gonzalez-Vega 2003; Vogelgesang 2003; McIntosh and Wydick 2005). The wealthier clients are usually targeted by the for-profit MFIs that also offer larger loans. This in turn attracts the relatively more profitable and productive borrowers of the socially motivated MFIs, resulting in a further worsening of their portfolio quality. Increase in competition thus results in 'mission drift' and consequently a drift away from the poorer clients, especially women (Woller, 2002; Hermes et al , 2011). Mission drift is the movement away from the poorer outreach, in terms of the number of clients served and their relative socio-economic level (Hulme and Mosley, 1996; Schreiner, 2002; Cull et al , 2007; Mersland and Strøm, 2010).

There is certainly no strong evidence to support the claim that microfinance has a positive effect on the economic wellbeing of the poor. Some of the emerging literature in fact suggest that microfinance creates a debt burden for the poor which because of its institutional backing could have even more of a real and perceived negative impact on the borrowers (see Guérin, 2013). Of

course the lack of any really long term data impedes us from making conclusions on the long term impact of microfinance. Credit may increase income eventually, however given that borrowers incur debts that must be repaid, sometimes starting immediately, the expected positive impacts of microcredit on some economic outcomes may not be immediate or significant (Stewart et al., 2012). Relying on the market to fight poverty is unlikely to work unless significant and long term adjustments are made to microfinance products.

Using a 'social provisioning' framework to assess the impact of microfinance on poverty means we can draw some useful indicative conclusion, both for research and policy. Overall we see that while the better-off amongst the poor are in a good position to benefit from microfinance initiatives, the benefits for poor clients are not assured nor is their direction of change clear. While microfinance is likely to have a positive impact on consumption and expenditure, especially in the short run – the long run benefits on income growth and asset creation are uncertain. Moreover, even when these benefits are experienced, they are likely to be modest which really brings into question the poverty alleviation capacity of microfinance. Where clients use their loans for productive purposes loans do seem to help with improving profitability, but clients require staying capacity and leaving the programme prematurely can leave clients worse-off. Recent systematic reviews such as Duvendack et al. (2011), Awaworyi (2014) among others report along similar lines – very modest effect of microfinance and certainly of little significance in terms of their economic importance. Certainly it seems that with respect to poverty alleviation the gains from microfinance are measurably small. Furthermore, relying on credit at market interest rate to alleviate poverty it seems is somewhat ambitious.

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