

Research Briefing N° 6

Microfinance – silver bullet or poisoned chalice?

This research reviews evidence on microfinance interventions in low-and middle-income countries, and in sub-Saharan Africa in particular, to consider the impact on the individuals and communities they claim to serve.

Key words: micro-credit; microfinance; evidence; international development

Key findings



- Whilst the varied evidence about the impacts of microfinance on the lives of the poor makes it difficult to draw conclusions, it is clear that both micro-credit and micro-savings can reduce poverty but not in all circumstances nor for all clients. They can and do make some poor people poorer.
- Clients of microfinance programmes save more, but also spend more.
- We found no evidence that micro-savings enables engagement in economic opportunities, although in some cases, but not all, it increases income, savings, expenditure and the accumulation of non-financial assets.
- Micro-credit sometimes increases engagement in economic opportunities, but not always; it also increases income in some circumstances, but reduces it in others; it has similarly mixed impacts on levels of savings and accumulation of assets and in most cases reduces expenditure.
- The provision of combined micro-savings and micro-credit has little impact on clients' engagement in economic opportunities.
- Impacts on education are varied with limited evidence for positive effects and considerable evidence that micro-credit may be doing harm, reducing the education of clients' children.
- Micro-credit may empower some women, whilst both micro-credit and micro-savings improve clients' housing.
- There is little available evidence about the impact on job creation or social cohesion.

- There was no rigorous relevant evidence about micro-leasing available so we are unable to say whether micro-leasing actually increases or decreases poor people's engagement in economic opportunities or influences subsequent financial outcomes.

What we did

Micro-leasing, micro-credit and micro-savings are three financial inclusion interventions which have the potential to transform the lives of those with limited access to financial services. In theory they have the potential to enable investment in income generating activities, consumption smoothing and financial planning. In practice however, for a long time, we lacked convincing objective evidence of the impacts of these interventions, either negative or positive.

This summary of the evidence draws on two systematic reviews, one published in 2010 looking at evidence from sub-Saharan Africa, and one completed in 2012 considering the evidence worldwide. Both focus on the impacts of microfinance on the poor people whom microfinance providers purport to serve. Our sub-Saharan review focused on the evidence for and against micro-credit and micro-savings and their impacts on financial and social outcomes. Our worldwide review also examined the impacts of micro-leasing on financial outcomes.

Further information

[Stewart R., van Rooyen C., Korth M., Chereni A., Da Silva N., and de Wet T. \(2012\). 'Do micro-credit, micro-savings and micro-leasing serve as effective financial inclusion interventions enabling poor people, and especially women, to engage in meaningful economic opportunities in Lower and Middle Income Countries?' \(Technical Report\). London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.](#)

[Stewart R., van Rooyen C., Dickson K., Majoro M., and de Wet T. \(2010\). What is the impact of microfinance on poor people? A systematic review of evidence from sub-Saharan Africa. \(Technical report\). London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.](#)

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Stewart R., van Rooyen C. and de Wet T. (2012). Purity or pragmatism? Reflecting on the use of systematic review methodology in development *Journal of Development Effectiveness* 4(3): 430-444. DOI:10.1080/19439342.2012.711341

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Both reviews were funded by the UK Department for International Development (DfID) and conducted in partnership with colleagues at the University of Johannesburg between 2010 and 2012.

How we did it

Systematic review methodology is a transparent and structured means of assessing and synthesising the evidence-base on any given topic. Both of these reviews employ **EPPI-Centre (Evidence for Policy and Practice Information and Coordinating Centre)** methods. The first focused only on evidence from sub-Saharan Africa (Stewart et al 2010) whilst the second considered the worldwide evidence (Stewart et al 2012). We searched thoroughly for all available relevant evidence, screening all search hits against pre-determined criteria. All relevant literature was then assessed for risk of bias and findings of the most reliable evidence synthesised using narrative synthesis.