

## Chapter 3

# Impact of Microfinance on Female Empowerment: A Review of the Empirical Literature

**Sefa Kwami Awaworyi Churchill**  
*Monash University, Australia*

### ABSTRACT

*Microfinance is considered a major development tool in most developing countries. Specifically, its interventions have been targeted towards women as an empowerment tool. However, recent systematic reviews report on an inconclusive impact of microfinance on female empowerment. This chapter presents a meta-analysis of the impact of microfinance on five measures of female empowerment used in the empirical literature, namely mobility, decision-making power, control over finance, awareness and women's assets. No evidence of a meaningfully positive impact of microfinance on female empowerment is found. This is evident from all three meta-analysis tools used - fixed effects weighted averages, precision effect and funnel asymmetry tests (PET/FAT), and also the multivariate meta-regression analysis (MRA).*

### INTRODUCTION

Microfinance is the provision of small-scale financial services and products to poor individuals and households. The central idea is to serve low-income households with the aim of improving their quality of life. The microfinance industry has grown very rapidly in recent years as it has become part of the economic growth orthodoxy mainly in developing countries. Like other pertinent issues that have caught the attention of several academics, stakeholders and policy makers, microfinance has become the centre of various intense debates and public discourse.

The emergence of microfinance came with the promise of poverty alleviation and the primary aim of providing financial services to the poor. In general, the industry professes to hold the keys to reducing poverty, increasing productivity and income amongst the low-income households as well as a long-term benefit of welfare improvement amongst other things (Armendariz & Morduch, 2010; Torre & Vento, 2006). According to Heen (2004), the client-base of microfinance institutions (MFIs) includes mostly females, retrenched workers, peasant farmers and micro-entrepreneurs all of whom fall into various poverty levels and benefit from the various services of microfinance.

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As a major development tool, the initial emphasis of the industry on poverty alleviation has changed and expectations for the industry have heightened. It has been acknowledged that, in poor economies, women are more likely to be constrained credit wise and also have limited access to the wage labour market (Pitt et al., 2006). Thus, most MFIs attempt to pay more attention to female clients with the hope of empowering them (Mayoux, 2001). It is expected that targeting microfinance programs towards women would empower them in various aspects of their lives. More so, women are considered to be good credit risks (Garikipati, 2008) and thus are less likely to misuse any credit they receive.

These promises and expectations have inspired various studies with the primary focus of examining the impact of microfinance interventions on female empowerment. However, this evidence base is accompanied by a high level of heterogeneity, especially due to the different proxies for female empowerment that exist. This makes it difficult to draw a general conclusion on the effects of microfinance on female empowerment.

Recent systematic reviews such as Duvendack et al. (2011), Stewart et al. (2010) and van Rooyen et al. (2012) conduct non-empirical synthesis of the existing literature on the impact of microfinance. Conclusions from these studies largely suggest that there is no visible impact of microfinance. For instance, with regards to female empowerment, of the four studies reviewed by van Rooyen et al. (2012), the authors indicate that three studies are inconclusive. Duvendack et al. (2011) suggest that most qualitative studies that examine microfinance's effects on empowerment mostly present anecdotal evidence. Furthermore, it has been argued that although results from qualitative studies suggest positive effects on female empowerment, these results are often not corroborated by quantitative evidence (Armendariz & Morduch, 2010).

Given the findings from these non-empirical syntheses, it is worthwhile to examine if any new conclusions can be drawn from an empirical synthesis. However, given the scant nature of empirical studies that examine the relationships of interest, there is a challenge of dealing with a small information base. This possibly brings to question policy recommendations that may arise from this study given that they rest on a somewhat weak information base. But, introducing an econometric perspective, which provides a statistical link to the existing empirical literature through the use of meta-analysis, reveals various shortcomings in the existing literature, and is of particular relevance to academics and researchers, since it brings to light gaps in the existing literature, to enable exploration of future research avenues.

Specifically, this chapter makes the following contributions; first, issues of heterogeneity are addressed and a general conclusion on the empirical evidence available on the impact of microfinance interventions on female empowerment is provided. Second, with the results from the meta-analysis, the chapter lays a foundation for, and guide future studies in examining areas of particular importance. For instance, the need to conduct further empirical studies on the impact of microfinance interventions on female empowerment is identified. Based on the findings from this study, it is recognized that although the evidence base of microfinance's effect on female empowerment is quite weak, most studies focus on microcredit as a measure of microfinance, while less attention has been paid to the other dimensions of microfinance, such as micro-savings, micro-insurance and training. Third, the chapter provides evidence of the genuine effects of microfinance beyond publication bias. In the presence of publication bias and given the disparity in the existing literature regarding the effects of microfinance, policy design is impeded. Publication selection bias occurs when researchers, editors and reviewers are predisposed to selecting studies with specific results (for example statistically significant results consistent with the predictions of theory). This has been considered a threat to empirical economics (Stanley, 2008). In fact, without some correction for publication bias, a literature that appears to present a large and significant

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