Microfinance: Its Impact, Outreach, and Sustainability

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Summary. — This symposium brings together recent empirical contributions with respect to a number of related and highly relevant issues on the economics of microfinance. In particular, the contributions provide answers to the following two main questions: (1) does microfinance have an impact on the social and economic situation of the poor in developing nations; and (2) are microfinance institutions sustainable in the long term and is there a trade-off between sustainability and outreach?

Key words — microfinance, impact, outreach, sustainability

1. INTRODUCTION

The role of microfinance has attracted significant interest in recent years, both from policy makers as well as in academic circles. However, as has been pointed out in a recent special issue on microfinance in The Economic Journal (Hermes & Lensink, 2007), many questions regarding microfinance remain unanswered. In particular, the following two pressing issues should receive more attention: (1) does microfinance have an impact on the social and economic situation of the poor in developing nations? This question is very relevant since a lot of effort and resources have been put into developing microfinance, especially since the beginning of the new millennium, as an instrument to combat poverty. (2) Are microfinance institutions sustainable in the long term; is there a trade-off between sustainability and outreach? Again, this is a very relevant question, since putting emphasis on poverty reduction comes at a price, which may reduce the scope for financial sustainability and vice versa.

This symposium contains eight original contributions that provide new empirical evidence on these two issues. First of all, four of the eight contributions address the question of the impact of microfinance on the well-being of the poor in developing nations. Does microfinance have a measurable impact on the social and economic situation of the poor in developing nations? The other four contributions focus on the trade-off between reducing poverty and being financially sustainable at the same time, that is, can MFIs finance their own operations without compromising their mission to reach out to the poor?

The current symposium for World Development elaborates on the special issue in The Economic Journal (Hermes & Lensink, 2007) in a number of ways. In the 2007 special issue we primarily dealt with joint liability group lending, providing new insights with respect to why and how this type of lending works in enhancing repayment rates. We also touched upon the issue of the trade-off between the financial sustainability and outreach of microfinance programs. In this symposium, we provide much more evidence on the trade-off between sustainability and outreach. Moreover, the analyses in this symposium do not explicitly focus on group lending; instead they include different types of lending.

The remainder of this introduction consists of brief reviews of the existing literature on the two issues the papers in this symposium deal with. Section 2 deals with the impact of microfinance on the well-being of the poor; Section 3 discusses the tradeoff between sustainability and outreach.

2. THE IMPACT OF MICROFINANCE

The advocates of microfinance argue that access to finance can help to substantially reduce poverty (Dunford, 2006; Littlefield, Morduch, & Hashemi, 2003). Access to finance may contribute to a long-lasting increase in income by means of a rise in investments in income generating activities and to a possible diversification of sources of income; it may contribute to an accumulation of assets; it may smooth consumption; it may reduce the vulnerability due to illness, drought and crop failures, and it may contribute to better education, health and housing of the borrower. In addition, access to finance may contribute to an improvement of the social and economic situation of women. Finally, microfinance may have positive spillover effects such that its impact surpasses the economic and social improvement of the borrower. The positive assessment of the contribution microfinance can make to reducing poverty has convinced many governments, NGOs, and individuals to put efforts in supporting MFIs and their activities.

Yet, microfinance has also received criticism. In particular, the critics of microfinance doubt whether access to finance may contribute to a substantial reduction in poverty. They claim that microfinance does not reach the poorest of the poor (Scully, 2004), or that the poorest are deliberately excluded from microfinance programs (Simanowitz, 2002). First, the extreme poor often decide not to participate in microfinance

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programs since they lack confidence or they value the loans to be too risky (Ciravegna, 2005). The poorest of the poor, the so-called core poor, are generally too risk averse to borrow for investment in the future. They will, therefore, benefit only to a very limited extent from microfinance schemes. Second, the core poor are often not accepted in group lending programs by other group members because they are seen as a bad credit risk (Hulme & Mosley, 1996; Marr, 2004). Third, staff members of microfinance institutions may prefer excluding the core poor since lending to them is seen as extremely risky (Hulme & Mosley, 1996). Fourth, the way microfinance programs are organized and set up may lead to the exclusion of the core poor. Examples for this exclusion are the requirement to save before a loan can be granted, the minimum amount of the loan that needs to be accepted and the requirement that a firm is registered before the loan can be granted (Kirkpatrick & Maimbo, 2002; Mosley, 2001).

Finally, critics of microfinance doubt whether it has a positive impact on women. Many microfinance schemes have a clear focus on women. Research shows that women are more reliable and have higher pay-back ratios. Moreover, women use a more substantial part of their income for health and education of their children (Pitt & Khandker, 1998). Thus, women play a very important role in reducing poverty within households. However, the critics argue that often women are forced to hand over the loan to men, who subsequently use the loan for their own purposes. This may lead to an additional burden for women if they are held responsible for the repayment (Goetz & Gupta, 1996).

The disagreement about the contribution microfinance can make to reduce poverty impact of microfinance has triggered a large number of empirical assessments. In this respect, research has tried to address one or more of the three following questions: (1) does microfinance reach the core of the poor or does it predominantly improve well-being of the better-off poor; (2); which contribution is seen as the most important (improvement of income, accumulation of assets, empowerment of women, etc.); and (3) do the benefits outweigh the costs of microfinance schemes (Chemin, 2008; Dunford, 2006). The latter issue deals with the question to what extent subsidies to microfinance organizations are justified. Most studies aiming at evaluating the impact of microfinance address the first of the above three issues.

Even though several assessments of the impact of microfinance on poverty reduction have been made, there is surprisingly little solid empirical evidence on this issue. One major problem with respect to investigating the impact of microfinance is how to measure its contribution to poverty reduction. Several studies measure the impact of microfinance by comparing recipients of microfinance with a control group that has no access to microfinance. In most cases, these studies apply non-randomized approaches. These approaches may be problematic, however. First, changes of the social and/or economic situation of the recipients of microfinance may not be the result of microfinance. For instance, it is well-known that relatively rich agents are less risk averse than relatively poor agents. This may induce rich agents to apply for microfinance whereas poor agents do not apply, that is, there may be a self-selection bias. In this situation, an ex post comparison of income of the two groups may lead to the incorrect conclusion that microfinance has stimulated income. Second, in order to improve the probability of microfinance being successful, MFIs may decide to develop their activities in relatively more wealthy regions (i.e., non-random program placement). Obviously, this biases any comparison between recipients of microfinance and the control group (Armendáriz de Aghion & Morduch, 2005; Karlan, 2001).

The evidence from available published non-randomized microfinance impact evaluations is mixed. One of the most influential studies in this field is by Pitt and Khandker (1998) on the impact of microfinance in Bangladesh, using household survey data for 1991–92. They find that access to microfinance increases consumption expenditure, especially if loans are taken by women. Khandker (2005), in a follow-up study using panel data for 1991–92 and 1999, concludes that the extremely poor benefit more from microfinance than the moderately poor. The results of both these studies have been contested recently in a study by Roodman and Morduch (2009), however, showing that the instrumentation strategy may have failed and that results may be driven by omitted variables and/or reverse causation problems. Chemin (2008), using the same Bangladesh surveys, applies the propensity score matching technique and finds that access to microfinance has a positive impact on expenditures, supply of labor, and school enrollment. In contrast, Copestake, Dawson, Fanning, McKay, and Wright-Revelledo (2005) are less optimistic about the impact of microfinance. Based on data from a survey carried out in collaboration with a village banking program, Promuc, in Peru in 2002, and using a mix of evaluation methods (among which are the difference-in-differences approach and qualitative in-depth interviews) they find that it is the “better off” poor rather than the core poor who benefit most from access to microfinance.

As a response to the methodological flaws of non-randomized evaluations, studies of microfinance impact have recently shifted to randomized approaches. These studies use randomized controlled trials (or experiments), in which two groups—the treatment group and the control group—are exactly the same along all relevant dimensions, except that the treatment group has access to microfinance and the control group has not. The allocation of individuals in treatment or control groups is random. The randomization of the treatment may be deliberately carried out, for example, by a microfinance program, which randomly opens new branches in a previously untapped slum of a big city. It may also occur due to an external (natural) event, such as, for example, a volcanic interruption selectively hurting some microfinance clients, while leaving others unaffected. Differences in outcome variables, such as consumption, investment and health can then be causally linked to the treatment. 2

Also the evidence from studies using randomized experiments appears to be mixed; some of the results seem to suggest that effects are stronger for groups that are not typically targeted by MFIs. Coleman (1999, 2006) is one of the first to use a randomized approach when evaluating the impact of microfinance. In his study he is able to make use of an external event, that is, a microcredit program introducing microfinance in the Northeastern part of Thailand with random and unannounced delays. Based upon this quasi-experimental setting, his analysis shows that microfinance has a positive impact on the more wealthy villagers only. Karlan and Zinman (2009) study the effect of microcredit on small business investment in Manila, the Philippines. The picture emerging from their results is rather diffuse. One important result is that profits from business increase especially for male and higher-income entrepreneurs. Moreover, they find rather striking results showing that businesses substitute away from labor into education and formal insurance into informal insurance. Banejee, Dufo, Glennerster, and Kinnan (2009) evaluate the impact of the opening of MFI branches in the slums of Hyderabad. Half of the 104 slums were randomly selected
for opening a new branch. They find mixed results, but on the whole the effect of introducing microfinance appears to be very moderate. Apart from these studies, several others are still in process (Roodman & Morduch, 2009).

Yet, also the use of randomized controlled trials has received criticism (Deaton, 2009; Rodrik, 2008). Perhaps the most important comment raised is the fact that results from one experiment can hardly be generalized. So, if the evidence shows that a specific microfinance program works in the context of the slums of a city in Sub-Saharan Africa in a particular year, this does not necessarily mean that the same program works elsewhere. In other words, context matters. The solution to this problem, as argued by the proponents of randomized approaches, is to repeat experiments in different contexts to see whether something works. Yet, it remains unclear how many times a specific experiment should be repeated before it can be safely concluded that something works. Moreover, running repeated experiments is very costly and time consuming. Also, incentives for academic researchers to invest in rerunning experiments are absent, since leading journals are generally not inclined to publish this type of research (Easterly, 2009; Rodrik, 2008; Roodman & Morduch, 2009). As Roodman and Morduch (2009) conclude, both randomized and non-randomized approaches have weaknesses and strengths, and, therefore, both could be useful when analyzing the impact of microfinance.

The above brief discussion of the evidence on the impact of microfinance on poverty and the difficulties related to its measurement shows that the debate is far from settled and that there is, therefore, much room for expanding our knowledge on this issue. Four contributions in this symposium on microfinance aim to provide in-depth and innovative analyses of microfinance and their impact on poverty reduction. Below, we will shortly review the contents of these contributions. The first contribution is similar to previous non-randomized approaches; the second and third contributions come close to randomized approaches to analyze the impact of microfinance; and the final contribution proposes an alternative methodology for impact assessment.

The paper by Dalla Pellegrina (2011) contains two main innovations with respect to the analysis of the impact of microfinance. First, the paper aims at analyzing the impact of microfinance as compared to the impact of two other sources of credit, that is, bank loans and informal credit. As Dalla Pellegrina rightly points out, most impact studies only focus on microfinance loans, without making the comparison to other financial sources. Such a comparison is, however, important as it helps our understanding about the real contribution microfinance can make. Secondly, her study focuses on the impact of credit on investment, whereas most other impact studies tend to focus on income, consumption, education, etc. Dalla Pellegrina stresses that for improving living standards in the long term, investments are needed so that borrowers can develop productive activities. Using information from a large survey on almost 1,800 households in rural Bangladesh carried out by the World Bank in 1991–92, she finds that microfinance loans (in her study group loans) mainly help to increase working capital expenditure (which are generally associated with non-agricultural activities), whereas bank loans play an important role in accumulating fixed assets (generally associated with agricultural activities). The latter are most important to generate long-term productive activities. These results indicate that with respect to the impact on long-term investments, microfinance may be less effective than bank loans. Dalla Pellegrina suggests that microfinance may be less conducive to building up fixed assets due to lending characteristics such as short and regular repayment schedules and the group lending method. These lending characteristics may push borrowers more toward investments in projects with short-term revenues.

The contribution by Becchetti and Castriota (2011) analyzes the impact of microfinance by focusing on its effectiveness as a recovery tool after a natural disaster. In their paper they evaluate the contribution of microfinance loans in helping people who were hit by the tsunami in Sri Lanka in 2004. They have data for 305 randomly selected microfinance borrowers. The tsunami disaster provides a unique quasi-natural experiment to test the impact of microfinance on people’s well-being, because it creates two randomly selected groups. One group of borrowers consists of those who are hit by the tsunami; the other group consists of borrowers who are not affected by the disaster. Based on a rich dataset containing information for both before and after the tsunami, Becchetti and Castriota show that before the tsunami access to microfinance was an important reason for income convergence among borrowers. Due to the tsunami, the convergence process was severely disrupted, but again microfinance loans provided after the disaster were instrumental in reducing the income gap between those who were hit and those who were not. According to Becchetti and Castriota this process of recovery was remarkably fast. Moreover, they show that the positive contribution of microfinance loans to improving and converging real incomes was not observed for governmental subsidies, donations, and grants. Their study thus finds strong evidence for the effectiveness of microfinance as a recovery tool. As far as we know this is one of the very few comprehensive analyses of microfinance and its role in post-disaster situations. These results may have important policy implications for governments, NGOs, etc. that are active in such situations.

Rai and Ravi (2011) in their paper focus on the impact of microfinance on women empowerment. They study this issue by making use of a unique dataset consisting of almost 280,000 microfinance borrowers in India; these borrowers are required to purchase health insurance once they get a loan. In recent years, partnerships between microfinance and health insurance have been used in India to extend health insurance to the poor. Usually it is difficult to reach the poor, but by creating these partnerships health insurance delivery can make use of the existing rural networks of microfinance branches. Moreover, in many cases one of the aims of many MFIs is to empower women and these partnerships may contribute to this aim, since usually women are less likely to seek and obtain health insurance. The main finding of their analysis is that borrowers make more use of health insurance (in terms of filling claims) than their partners do. Moreover, and more important with respect to women empowerment, women who are borrowers make significantly more use of health insurance than non-borrowing women who have obtained the insurance through their husbands. This latter result provides evidence for the claim that access to microfinance may empower women.

The final paper contributing to the literature on the impact of microfinance presents a new methodology to measure the impact of microfinance on the well-being of borrowers. In their paper McIntosh, Villaran, and Wydick (2011) develop the so-called Retrospective Analysis of Fundamental Events Contiguous to Treatment. According to the authors this methodology allows to measure welfare changes—due to a treatment such as, for example, access to microfinance—based upon a single cross-sectional survey in which questions are included on fundamental events in the history of respondents. These fundamental events are defined as events in a household’s history that are discrete, unforgettable, and important.
to household welfare. By using questions that relate to such events researchers can create a retrospective panel dataset in order to measure the impact of a certain treatment. In particular, analyzing the timing of these events within a window around the timing of treatment allows for statistical tests based on changes in household welfare variables occurring after the treatment. The methodology proposed by McIntosh *et al.* has similarities with the event study, which is used extensively in the finance literature. They apply their methodology to a survey among 218 Guatemalan households that have obtained access to microfinance in different years and examine the effects of access to credit on dwelling improvements. The results of their analysis show that access to microfinance increases the probability of dwelling improvements, although the effects are relatively modest. The most important contribution of this paper, however, is a methodological one. The new methodology may be very helpful for researchers when analyzing the impact of microfinance, since it does not demand expensive and time-consuming multiple cross-sectional surveys, which are normally used in impact studies.

### 3. MICROFINANCE: SUSTAINABILITY VERSUS OUTREACH?

As was mentioned before, providing microfinance is a costly business due to high transaction and information costs. At present, a large number of microfinance programs are still depending on donor subsidies to meet the high costs, which means they are not financially sustainable. In the 1990s, the issue of financial sustainability of microfinance institutions gave rise to an important debate between the financial systems approach and the poverty lending approach (Robinson, 2001). The financial systems approach emphasizes the importance of financially sustainable microfinance programs. This approach stresses the importance of being able to cover the costs of lending money out of the income generated from the outstanding loan portfolio and to reduce operational costs as much as possible. The poverty lending approach, however, concentrates on using credit to help overcome poverty, primarily by providing credit with subsidized interest rates. The advocates of this approach argue that the poor cannot afford higher interest rates. Therefore, aiming at financial sustainability ultimately goes against the goal of serving large groups of poor borrowers. In other words, there is a trade-off between sustainability and outreach. The proponents of the financial services approach, however, claim that empirical evidence neither shows that the poor cannot afford higher interest rates, nor that there is a negative correlation between the financial sustainability of the institution and the poverty level of the clients. The main argument to support their view is that large-scale outreach to the poor on a long-term basis cannot be guaranteed if MFIs are not financially sustainable. During recent years, the debate appears to have been settled in favor of the proponents of the financial systems approach. In fact, the importance of striving for financial sustainability has been embraced by most parties involved in the microfinance debate. In parallel with this development, donors, policy makers, and other financiers of microfinance have recently made a shift from subsidizing MFIs institutions toward a focus on financial sustainability and efficiency of these institutions. Among other things, this increased focus on financial sustainability and efficiency is due to a number of developments the microfinance business has been recently confronted with, such as the increasing competition among MFIs, the commercialization of microfinance (i.e., the interest of commercial banks and investors to finance MFIs), technological change that also has become available for, and implemented in microfinance, and financial liberalization and regulation policies of the government (Rhyne & Otero, 2006).

At the same time, however, there remains a huge variety in MFIs in terms of their financial sustainability (Deutsche Bank, 2007). According to rough estimations, only 1–2% of all MFIs in the world (i.e., some 150 organizations) are financially sustainable. In most cases, these are larger, mature, regulated, and relatively well-known MFIs. Some 8% of all MFIs are close to being profitable. Both these groups of MFIs are considered to be commercial organizations, focusing on profitability and/or sustainability. A third group of organizations (20% of all MFIs) consist of mostly NGOs, which are not yet financially sustainable, but may become sustainable in the near future. The remaining group of MFIs (70% of all organizations) consist of smaller, start-up organizations, which are still far from being financially sustainable and are, therefore, (heavily) dependent on subsidies.

Shifting the emphasis toward financial sustainability has raised concerns with respect to the consequences of this shift for the outreach of microfinance, that is, the number (breadth) and socioeconomic level (depth) of the clients that are served by MFIs. As was discussed above proponents of the poverty lending approach claim focusing on financial sustainability goes at the cost of lending to the poor. Lending to poor borrowers can be very costly, which means that outreach and sustainability goals are conflicting.

The literature on this issue is not extensive and is largely anecdotal. One of the few academically solid studies is provided by Cull, Demirgüç-Kunt, and Morduch (2007). This study attempts to systematically examine financial performance and outreach in a large comparative study based on a dataset of 124 microfinance institutions in 49 countries. Cull *et al.* empirically investigate whether there is a trade-off between the depth of outreach and profitability of MFIs. The results show that MFIs that mainly provide individual loans perform better in terms of profitability, but the fraction of poor borrowers and female borrowers in the loan portfolio is lower than for institutions that mainly provide group loans. The study also suggests that individual-based MFIs increasingly focus on wealthier clients—a process termed as mission drift—whereas this is less so for the group-based MFIs. Thus, the study by Cull *et al.* provides evidence for a trade-off between sustainability and outreach and stresses the importance of institutional design in determining the existence and size of such a trade-off.

From a policy making perspective it is very important to know whether there is a trade-off between sustainability and outreach. Given that there is hardly any solid evidence on the existence of a trade-off, there is much room for expanding our knowledge on this issue. Two contributions in this symposium explicitly deal with the trade-off discussion. Two other contributions focus on determinants of outreach and efficiency separately.

Hermes, Lensink, and Meesters (2011) provide new evidence on the existence of the trade-off between sustainability and outreach, using data for 435 MFI for the period 1997–2007. In particular, the study focuses on the relationship between cost efficiency of MFIs (as a measure of sustainability) and the depth of outreach measured by the average loan balance and percentage of women borrowers. Cost efficiency of an MFI is measured by using a stochastic frontier analysis. This approach measures cost efficiency in terms of how close the actual costs of the lending activities of an MFI are to what the costs of a best-practice MFI would have been in case it...
produces identical output under the same conditions. Hermes et al. find strong evidence that outreach is negatively related to efficiency of MFIs. More specifically, MFIs that have lower average loan balances are also clearly less efficient. Moreover, MFIs that have more women borrowers as clients are also less efficient. The results remain robustly significant even after taking into account a long list of control variables. To the best of our knowledge, this paper is the most comprehensive study of the sustainability-outreach trade-off.

The contribution by Cull, Demirgüç-Kunt, and Morduch (2011) also adds to our understanding of the existence of the trade-off. In their study they investigate whether prudential regulation and supervision affect the performance and outreach of MFIs. The issue of prudential regulation and supervision has become increasingly important since several of the largest MFIs have started to raise increasing amounts of deposits from the public, in most cases relatively poor people (Hartarska & Nadolnyak, 2007). Protection of these deposits has, therefore, become a policy relevant issue. Yet, prudential regulation and supervision raise the costs of lending for MFIs and the question is whether this affects their profitability and/or whether it has an effect on their outreach. Cull et al., using data from the largest 245 MFIs, show that supervision has a negative effect on outreach, since supervision is positively associated with the average loan balance, whereas it is negatively associated with the percentage women borrowers. The outcome of this study is especially interesting in light of recent calls suggesting that MFIs should broaden their services toward offering (more) deposits. This, as is claimed, is important as it would also broaden the lending capacity of these institutions. The paper by Cull et al. clearly shows that such an approach may not only be welfare enhancing.

Hudson and Traca (2011) in their paper focus on the relationship between subsidies and the efficiency of MFIs. Extending knowledge on this relationship is highly policy relevant, since as was mentioned earlier, many MFIs still receive subsidies from governments, donors, NGOs, etc. Actually, as Hudson and Traca report, only 5% of all MFIs are currently operationally sustainable. The providers of subsidies increasingly demand transparency related to the effects of their subsidies on the performance of MFIs. In particular, questions have been raised whether subsidization may compromise the efficiency of institutions. One main issue is that subsidies may keep inefficient institutions alive. Yet, even though the demand for thorough analyses of the effects of subsidies seems large, very few studies have looked into this issue. Hudson and Traca use microfinance ratings data from two leading rating agencies, providing them with financial statement data for 100 MFIs. Using this unique dataset they find evidence for a positive relationship between the subsidy intensity and the efficiency of MFIs. Yet, they also show that there is a threshold effect, meaning that if the subsidy intensity goes beyond a certain level, efficiency is compromised. The paper thus has a clear and policy relevant message: subsidizing MFIs may contribute positively to efficiency, but only up to a certain maximum level.

The final paper in this symposium, by Wydick, Karp, and Hilliker (2011), investigates determinants of outreach. In particular, the paper uses an innovative approach by looking into the role played by social networks in determining access to microfinance loans. Recently, there has been a new wave of research emphasizing the role of social networks on individual decision making. This research shows that individuals may imitate the choices made by other members of the same social network or group for a number of different reasons. First, they may make these choices because they face similar environments as other members of the network. Second, they may share the same background characteristics as other members. Third, they may simply copy behavior of other members of the network to show conformity to the network. Fourth, they may copy behavior because this is instrumental in obtaining a specified goal. Finally, individuals may imitate choices of others because these choices hold information about what kind of behavior is welfare enhancing. Wydick et al. apply the insights of this research to microfinance, in particular on how the use of microfinance may diffuse to new users in rural and urban areas. They use information for 465 households based on a survey among households in Guatemala. Questions were asked related to the adoption of new consumer goods, such as bicycles, televisions, and cell phones, as well on the access to credit. Answers to these questions, which are proxies for individuals’ choices made with respect to buying consumer goods and obtaining credit, are then related to three different socio-economic variables, reflecting social networks. These variables are: the village in which the household is located, their immediate geographical neighborhood, and the church to which the household belongs. The empirical analysis convincingly shows that a household’s access to credit is closely related to membership of a church network. In particular, the analysis suggests that households that belong to a church network in which there are other households that have access to credit have a higher probability to also have access to credit. The practical implication of this result is that MFIs should consider using existing social networks such as churches in their attempts to broaden and/or deepen the outreach of their microfinance services.

4. LESSONS TO BE LEARNT?

After having reviewed the contents of the contributions to this symposium on microfinance, the question remains what new insights these contributions have provided regarding the impact of microfinance on the one hand and the trade-off between outreach and sustainability on the other hand.

(a) Impact

Starting with the contributions on impact, one lesson is that of all MFIs should be aware of the fact that the lending technology and the type of contract they use may have important consequences for the way borrowers use the loans. The work of Dalla Pellegrina (2011) supports the view that, for example, using loan contracts with regular repayments may discourage borrowers to investment in projects requiring longer gestation. Group lending systems in which social pressure and punishment are prominent may lead to using loans leading to short-term returns. For MFIs, it is important to understand the potential impact of the lending technology and contract on the behavior and choices made by the borrower when deciding on what the ultimate aim should be of providing loans to the poor. One potential response that accommodates this insight may be to reconsider lending technologies/contracts used and turn to approaches in which the lending technology and contract allows for more flexibility than is usually the case.

A second lesson we draw from the contributions in the symposium is that there is convincing evidence for a positive impact of microfinance, at least in the two cases discussed in the work of Becchetti and Castriota (2011) and Rai and Ravi (2011). So, microfinance does seem to make a difference in recovery after a natural disaster and it does seem to help empowering women. These results are reassuring as both areas are high on the agenda of many NGOs and policy makers.
Given the discussion on the difficulty of generalizing results from small case studies, however, it is necessary to extend the work on microfinance in both areas and do replication studies to see whether the results found in both these studies do hold on a wider scale. The results of both studies may, therefore, hopefully set at least part of the future research agenda on microfinance.

The third lesson from the symposium is related to the use of research methodologies for analyzing microfinance impact. In many cases, these methodologies are very costly and time consuming. It generally takes several rounds of surveys over a relatively long period of time before adequate data have been collected. The contribution by McIntosh et al. (2011) in this symposium proposes a smart solution to come around this problem. The methodology they suggest allows for creating a retrospective panel database based upon a single survey, using the client base of the MFI(s) involved in the analysis. The simple idea is to ask respondents to think about major changes in the household in the past and link these changes to the timing of a treatment such as having access to a microfinance loan. This methodology allows for explicitly analyzing the dynamics of the impact of a treatment. This methodological innovation may, therefore, be very useful for both researchers and policy makers when evaluating the impact of microfinance.

(b) Outreach versus sustainability

The lessons from the contributions on the outreach versus sustainability discussion are threefold. First of all, there is strong evidence that the trade-off between the two is existent. Aiming for sustainability does compromise the social goals of MFIs (Hermes et al., 2011). Similarly, transforming MFIs into formalized banking institutions does not only have positive consequences for the poor (Cull et al., 2011). This is a clear, yet provocative, message. It is relevant for policy makers when deciding on whether or not to subsidize microfinance; it is relevant for microfinance practitioners for their decisions to further improve the efficiency of their operations; and it is relevant for commercial investors, especially those who aim for socially responsible investments. The next question then is: what is the size of the trade-off? How much does a marginal improvement of the financial sustainability of an MFI mean in terms of reducing outreach to poor clients? There is hardly any evidence on the size of the trade-off. One first attempt of analyzing this issue is made by Galema and Lensink (2009). Based upon a small sample of 25 MFIs, they calculate to what extent social investors are willing to accept a decrease on returns (or an increase in the riskiness of returns) to achieve higher outreach. Interestingly, they show that whereas the trade-off is not large for average loans of 180 US dollars or more, it is for average loans below this level. This outcome suggests that the trade-off is particularly severe for the lower end of the poverty distribution, that is, the group that is typically targeted by MFIs. Obviously, more research into the size of the trade-off is needed in future to be able to come to convincing conclusions on this issue.

Another, related lesson from the symposium contribution by Hudon and Traca (2011) is that subsidies do not have to compromise efficiency of MFIs, as long as subsidy levels remain moderate. In particular, providing smart subsidies (i.e., subsidies for starting up new branches in untapped areas, subsidies for staff training, etc.) may actually improve the performance of MFIs. This contribution supports the view that aiming for financial sustainability only may not be a fruitful venue when discussing the long-term viability of microfinance work.

A final contribution focuses on how MFIs could improve their operations in terms of increasing their outreach while at the same time reducing the costs of reaching out. The innovation provided by Wydick et al. (2011) focuses on the use of existing social networks between existing and potentially new microfinance clients. According to Wydick et al. MFIs could make more use of these networks when reaching out to the poor as it turns out that households may be willing to apply for microfinance because other households in the same network do so as well. Using these networks is a low-cost strategy for MFIs when reaching out to new clients. With respect to the discussion on the trade-off between outreach and sustainability this is an important conclusion, because this would better enable MFIs to reach higher levels of outreach without having to compromise its financial sustainability.

NOTES

1. Westover (2008) reviews the empirical literature on the impact of microfinance and finds over 100 studies using the EBSCO Host database. He concludes that of these studies only six can be classified as academically rigorous, the remainder being qualitative and/or case studies of MFI program impact.

2. See Banerjee and Duflo (2008) for a comprehensive discussion of the use of randomized experiments in development economics.

3. Especially the Abdul Latif Jameel Poverty Action Lab at MIT is active in carrying out impact analyses using randomized experiments; see their website: http://www.povertyactionlab.org. See also the website of the Financial Access Initiative for research on this issue; http://financialaccess.org/research/publications.

4. The case for more flexibility in lending technologies and contracts used has recently been also made by Collins, Morduch, Rutherford, and Ruthven (2009).

5. To date, only a few studies have investigated the impact of microfinance on recovery after natural disasters; see Khandker (2007), Hoque (2008), and Berg and Schrader (2009).

6. Actually, Becchetti and Castriota (2011) have used this approach in their contribution to this symposium.

REFERENCES


Houque, S. (2008). Does micro-credit program in Bangladesh increase household’s ability to deal with economic hardships? MPRA Paper No. 6678, Department of Economics, Monash University, Australia.


