Chapter 67
Impact of Microfinance on Poverty in the Context of Global Financial Crisis:
A Cross Country Analysis in South Asia

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ABSTRACT

The microfinance programme in the South Asia region has proven to be resilient to the shocks of global financial crisis. In fact, cross country experiences in South Asia reveal little impact of the global financial crisis on the penetration of the microfinance programmes to poor households. To explore the impact of microfinance on poverty in the backdrop of global financial crisis, an attempt has been made in this present study to examine the relationship between MFI's gross portfolio per active borrower and the measures of poverty. Empirical evidences based on Pooled Regression Analysis suggest that gross portfolio per active borrower is negatively and significantly associated with the poverty head count ratio or poverty gap measure, which is consistent with the author's hypothesis that micro loans reduce poverty. The poverty alleviation role of microfinance in South Asian countries is not changing its dynamics even in post-crisis scenario.

INTRODUCTION

Microfinance, as an instrument of doorstep financial services, is considered as a well-designed institutional innovation to ensure a substantial flow of credit to collateral poor households. However, it is widely believed that microfinance programme is not a panacea to alleviate poverty from grass root level; rather it is considered only as a means to address the problem. Microfinance intervention expand the access to resources, increase self-employment opportunities and thereby, reduce poverty, provided a proper government initiatives are taken in the direction of social mobilization, capital formation, capacity building and pro-poor programme design (Burra, Murthy & Ranadive, 2005). Without an effective intervention in a

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pro-poor macro policy environment, no such micro policy intervention can be successful in alleviating poverty (Islam, 2009). Microfinance programmes in Asia and Pacific countries are found to be successful in extending the services to the poorest sections of the population. Nearly 62 percent of the members covered under such programmes are poor women in this continent (Maes & Reed, 2012). Historically, Bangladesh dominates among the countries of South Asia in terms of microfinance outreach and share of total borrowers. The Grameen Bank of Bangladesh is a well known people's institution for the poor women promoting small scale production by extending microcredit. Taking the lessons from Bangladesh, micro finance programme has been emerging in a big way in other countries of South Asia. In particular, Sri Lanka and Nepal has achieved a considerable success recently in expanding the outreach of micro finance institutions to promote socio-economic development of the poor households.

The institution of microfinance in South Asia is proven much more resilient to absorb the stock of global financial crisis in the late 2007 than are often presumed. Micro finance institutions (MFIs) linked into the formal financial system, in fact, suffered more. Available empirical evidences in the literature suggest more robust correlations between microfinance's performance and economic conditions in domestic and international sectors after the emergence of crisis. In particular, MFIs in Central America and the Caribbean, Eastern Europe and the Middle East and Central Asia appear most sensitive to changes in the domestic and international economic environment (De Bella, 2011). Interestingly, the overall impact of crisis in South Asia has been limited due to the implications of proactive measurements of governments in those countries (Dohulilova, 2009). Under this backdrop, an attempt has been made in the study to explore the cross-country evidence of microfinance penetration among the poor across major South Asian countries over a period of time 2000-12. The plausible implications of global financial crisis on the relationship between MFI's gross loan portfolio per borrower and poverty indices is a particular interest in this paper. For convenience, the paper is divided into five sections. The next section survey the existing literature with an emphasis on the macro economic perspectives of the problem. A section is devoted to develop a conceptual framework to consider an association between microfinance outreach and poverty reduction in the perspective of global financial crisis. The section on data and methodology consider the selection of dependent and independent variables in the empirical specification of Pooled Regression Analysis. The section on results and discussion examines the outreach of microfinance programme to poor households in South Asian countries. In addition, an attempt has been made in this section to examine the implications of global financial crisis on the outreach of microfinance on poor. The concluding remarks and future direction of research appear in the last section.

SURVEY OF LITERATURE

In the existing literature, the impact of microfinance on poverty has relied on micro-level evidences on country specific household level data (Morduch, 1999; Mosley, 2001; Khandker, 2005; Imai, Arun & Annim, 2010). It has been argued that financial development disproportionately boosts the income growth of the poorest quintile, reduces income inequality and thus strongly associated with poverty alleviation (Beck, Demirguc-Kunt & Peria, 2006). This argument is further substantiated by the fact that the access to banking network is negatively associated with the level of poverty. Over the period 1961-2000, the expansion of rural branches significantly lowered the level of rural poverty in India (Burgess, Pande & Wong, 2004; Pande, 2004). However, the empirical findings of the studies remains mixed due to different outcome measure of microfinance and different methodologies adopted by these studies. While some of