

Microfinance and Poverty Alleviation: An Empirical Reflection

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Abstract

The purpose of this paper is to carry out an empirical analysis of the link that exists between microfinance and poverty alleviation. The analysis is driven by literature searches on empirical works done by different researchers in different contexts. Qualitative research methodology was adopted, following a desk-top approach. An empirical literature review took a centre stage in this investigation. An analysis of empirical works shows that microfinance enhances poverty alleviation despite the challenges such as the Indian Andhra Pradesh crisis. The paper is limited to a review of empirical sources of literature. A field survey, supported by an econometric analysis would have helped to generate robust results. This paper attempts to bring together the empirical works that were done in different contexts to shed light on the important relationship between microfinance and poverty. Many research works on microfinance depend upon personal anecdotes, thus this present paper attempts to compile the scattered empirical findings on microfinance and poverty alleviation.

Keywords: Microfinance, Poverty, Poverty Alleviation, Empirical Review, Zimbabwe

JEL Classifications: E21, G21, P132

1. Introduction

Microfinance is increasingly gaining currency as a poverty alleviation intervention. This article looks at the existing empirical evidence that relates microfinance to poverty alleviation. The notion of microfinance evolved from microcredit. Microcredit refers to the provision of small loans to the poor for consumption and to start small-scale business activities. It follows an approach of giving 'credit only' to the poor, what Ledgerwood (1999) terms the 'minimalist approach' to the provision of finance to the poor. On the other hand, microfinance is a broad-

er concept—an expanded version of microcredit. It involves giving small loans and other follow-up services such as social intermediation, enterprise development services, insurance (micro-insurance), savings facilities, housing microfinance, green microfinance, money transfers and social services (Ledgerwood, 1999; Asian Development Bank, 2000).

Microfinance programs have received acceptance as poverty alleviation strategies in many countries (Barnes et al., 2001; Ahmed, 2010; Zhan & Wong, 2014). For example in Bangladesh (Amendariz de Aghion & Morduch, 2005; Zeller & Meyer, 2002; Pitt & Khanker, 1996; Yunus, 1998, 2003, 2004), Bolivia, Philippines (Kondo et al, 2008), India (Mayoux, 2000), Kenya (Kenya Rural Enterprise Program Development Agency, 2013), Malawi (Diagne & Zeller, 200) and Mozambique (Chidzero et al., 1998). However, the vital question regarding the impact of microfinance on the general household welfare remains. This gave an impetus for empirical studies carried out in different countries to investigate the impact of microfinance as a poverty alleviation tool. This paper therefore aims to consolidate the selected empirical studies thus establishing the impact of microfinance on poverty.

2. Microfinance and Poverty Alleviation

Microfinance intervention has been received with enthusiasm by governments, foundations, community development groups, non-governmental organizations and even for-profit private firms (Carr & Zhong, 2002). Thus, it has been replicated (from the Grameen Bank model) in countries such as the United States hence disproving the notion that developed countries cannot learn from the developing ones, where the movement was started. Developed countries such as the US realized the potential embedded in the provision of microfinance to the poor (Carr & Zhong, 2002). According to Carr and Zhong (2002), the developed country (i.e., USA) also learnt from a developing country (i.e., Bangladesh) about microfinance. Magner (2007) observes that from previous studies and research, it is clear that microfinance is importantly a catalyst for the alleviation of poverty.

This section discusses the impact of microfinance on variables such as income, consumption, savings, assets, employment, diversification of economic activities and local trade. The

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impact analysis from literature shall be based on the summarized microfinance poverty reduction nexus (see Table 1 below) that was developed by the Asian Development Bank (2000). Studies which were devoted to microfinance impact include Pitt and Khandker (1996, 1998), McKernan (1996), Zeller, Diagne and Mataya (1998), Mcnelly and Dunford (1998), Diagne and Zeller (2001), Zeller et al. (2001) and Kondo et al. (2008). These impact studies have contributed immensely towards empirically explaining the impact of microfinance on poverty.

<Table 1> Microfinance and Poverty Reduction

Financial service	Results	Impact on poverty
Savings facilities of microfinance institutions (MFIs)	<ul style="list-style-type: none"> • More financial savings • Income from savings • Greater capacity for self-investments • Capacity to invest in better technology • Enable consumption smoothening • Enhance ability to face external shocks • Reduce need to borrow from money lenders at high interest rates • Enable purchase of productive assets • Reduce distress selling of assets • Improve allocation of resources • Increase economic growth 	<ul style="list-style-type: none"> • Reduce household vulnerability to risks/external shocks • Less volatility in household consumption • Greater income • Severity of poverty is reduced • Empowerment • Reduce social exclusion
Credit facilities	<ul style="list-style-type: none"> • Enable taking advantage of profitable investment opportunities • Lead to adoption of better technology • Enable expansion of microenterprises • Diversification of economic activities • Enable consumption smoothening • Promote risk taking • Reduce reliance on expensive informal sources • Enhance ability to face external shocks • Improve profitability of investments • Reduce distress selling of assets • Increase economic growth 	<ul style="list-style-type: none"> • Higher income • More diversified income sources • Less volatile income • Less volatility in household consumption • Increase household consumption • Better education for children • Severity of poverty is reduced • Empowerment • Reduce social exclusion
Insurance services	<ul style="list-style-type: none"> • More savings in financial assets • Reduce risks and potential losses • Reduce distress selling of assets • Reduce impact of external shocks 	<ul style="list-style-type: none"> • Greater income • Less volatility in consumption • Greater security

	<ul style="list-style-type: none"> • Increase investments 	
Payments/money transfer services	<ul style="list-style-type: none"> • Facilitate trade and investments 	<ul style="list-style-type: none"> • Greater income • Higher consumption

Source: Asian Development Bank (2000, p. 3)

2.1. Impact of Microfinance on Income and Consumption

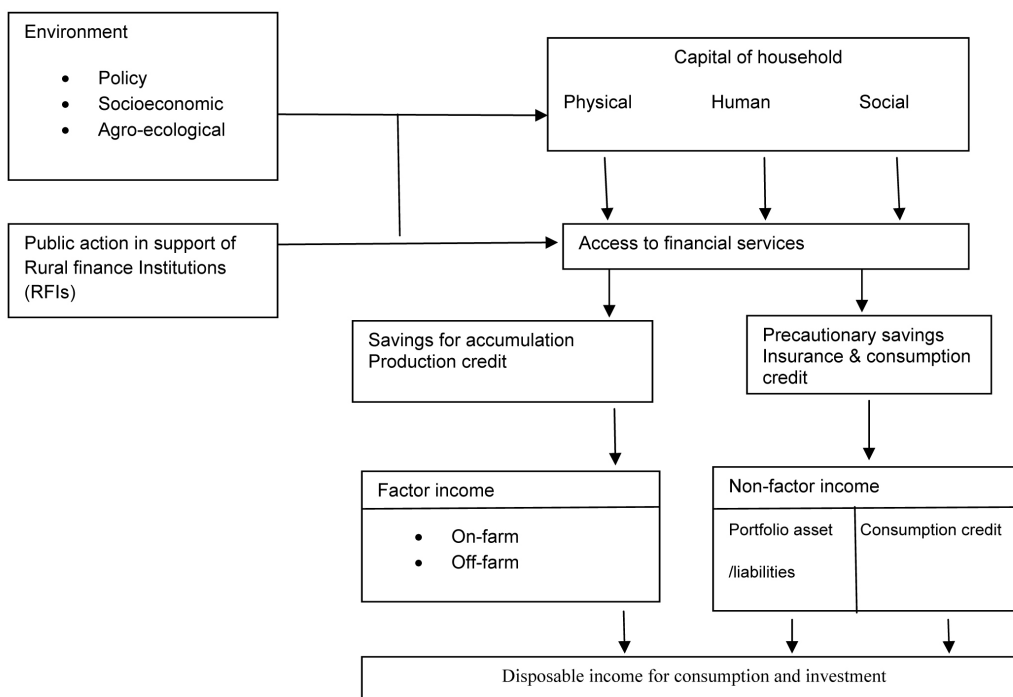
Income and consumption (expenditure) are economic and quantitative impact evaluation indicators. A positive impact is expected to bring an increase in income and expenditure among the poor. Microfinance programs help the poor to establish reliable and regular sources of income (Daley-Harris, 2002; Ahmed, 2010; Zhan & Wong, 2014). Thus impact is realized in terms of ability to access food, healthcare, education, consumption smoothing, assets accumulation and so on. Figure 1 below summarizes how access to finance has a positive influence on food security.

Access to finance by rural farmers enables them to acquire credit and accumulate savings. Savings accumulation increases the production income of farmers in their on-farm and off-farm activities¹). Such operations are central to the sustainability of income generating activities. This has an impact on improving the disposable income for consumption and investment hence encouraging local economic development.

In Ghana, Mcnelly and Dunford (1998) carried out a study and established that the increase in net non-farm income for participating women was twice as high as that of nonparticipants. This displays the importance of microfinance in non-farm business activities. Non-farm activities are also very important in poverty alleviation because of their consumption smoothening mechanism. Rural agriculture is highly vulnerable to the bad environmental conditions such as floods, droughts, storms, cyclones, diseases and hail stone (Ellis, 2000; Zeller & Sharma, 2002). These cause serious gaps in agricultural production hence the need for non-farm activities that help to close the gaps. Seasonal gaps also cause poverty in areas where people depend solely on agriculture. These people need financial support in form of microfinance so as to establish enterprises and close seasonal gaps. Overreliance on agriculture causes stresses as people fail to cope with the shocks that are created by seasonal production gaps or those gaps created by environmental factors.

Another study by Zeller and Meyer (2002) in Bangladesh indicated a positive impact of loans on household expenditure. Monthly total expenditure by participating households increased. The expenditures of program clients were found to be increas

1) Off-farm or non-farm activities refer to other income generating activities that are not farm oriented such as small businesses and small production activities (welding, carpentry, sewing, handicraft etc). These have an effect of smoothing the consumption pattern that is vulnerable to seasonal variations that affect agricultural output.



Source: Zeller and Sharma (2002, p.23)

<Figure 1> How does Access to Finance Influence Household Food Security?

ing as compared to those of non-clients. This gives a picture that participation in microfinance programs benefits poor people and improves their expenditure patterns.

In the Philippines, Kondo et al. (2008) carried out a micro-finance impact study. The study employed a quasi-experimental pipeline design. This was meant to control non-random program participation and fixed-effects estimation. Non-random attrition/dropout problems were corrected by including former clients in the survey. The study discovered positive but marginally significant impact on income per capita. They established the same to be true with regards to total expenditure per capita. Contrariwise, they established regressive (negative) impacts for poorer households (those in the absolute poverty category) but for richer households, they established positive influences. This scenario was explained by the targeting approaches of micro-finance programs in the Philippines, in which there are richer households. Microfinance impacts were also realized on savings and investments.

2.2. Impact of Microfinance on Savings and Investments

Access to financial services by the poor people capacitates them to mobilise savings. Their savings consequently improve their capacity to invest. An increase in their investment capacity is followed by enabled consumption smoothening and ability (by the poor) to face external shocks hence improving their coping strategies. Microfinance also sets the poor free from the 'chains'

of usurious private moneylenders hence reducing the severity of social exclusion and poverty. Poor people also benefit from insurance, housing and health facilities that are brought about by microfinance programs that promote savings and investments. A case in point is Grameen Bank of Bangladesh that provides a range of services to the poor.

In Bangladesh, access to financial services led to the innovative use of technology by poor women. These women supported by the Grameen Bank were known as the "telephone ladies". The program called the Grameen Telecom, promoted linkages to the markets by these poor women. Illiterate women (who are Grameen Bank members) were given small loans for purchasing and operating cellular phones. They would charge a small fee to villagers for communicating with relatives, friends and buyers. Narayan (2002) states that, empirical studies established that 50% of the calls were made for social and economic reasons. The villagers found it easy to check out current market prices, consulting doctors and contacting relatives and friends. A further analysis by Narayan (2002) estimated that the program generated real pecuniary savings of between \$2.70 and \$10.00 due to reduced travelling expenses. Before the program, villagers used to travel between villages and Dhaka (the capital of Bangladesh). According to Yunus (1998), Grameen telephone operators were also earning net profits of approximately \$2 a day. This translated to about \$700 per annum which was considerably more than Bangladesh's average annual per capita income of \$250.

In Africa, rural areas are traditionally associated with agriculture which is mainly subsistence. The rural economy therefore fails to explore other avenues that are vital for the alleviation of poverty. The operations are also seasonal, leading to severe peaks and troughs in the economic activities of rural areas. Off-seasons lack economic activity and people tend to be idle hence production falls and this increases their vulnerability to poverty. This situation could be smoothened by injecting capital into the rural economy. When people receive working capital they will use it in non-farm activities (such as carpentry, weaving, welding, and small businesses) that will help them to close the seasonal production gaps. Rural microfinance, in this case will encourage people to be engaged in other business ventures during the off-season period so as to close the gaps, thus alleviating poverty.

Microfinance helps the economically active poor people to expand and diversify their enterprises. It also makes them to be innovative and create employment for their households and other members of the community (Robinson, 2001, 2002). Access to finance makes poor people to venture into sustainable businesses meant to supplement agricultural production. The provision of micro-financial resources to the poor cannot be done without some challenges.

Microfinance plays a twin role of enhancing agricultural production and promoting the establishment of non-farm or off-farm activities. Non-farm activities help consumption smoothening in agriculturally dominated rural areas. Zimbabwe's mainstay of the economy used to be agriculture when she enjoyed the 'bread basket of Africa' status. The status was lost as a result of socio-political and economic challenges. Small holder farmers and peasants face very wide agricultural gaps due to lack of inputs, droughts, cyclones and other negative conditions. These farmers need to take-up non-farm activities so that the gaps are closed. Assets position can also be influenced through participation in microfinance programmes.

Empirical studies further uncover the relationship between microfinance and investment. Zeller, Diagne and Mataya (1998) carried out impact studies in Malawi. The results were that greater access to credit increased the share of land allocated to high-yielding crops. In agriculture, land owners depend on credit to acquire inputs. The credit comes in cash or physical inputs. Once farmers get capital, it becomes easy for them to prepare their farming so as to boost their yields. There is a positive relationship between availability of farm inputs (seeds, fertilizers, implements and herbicides) and high yields.

A study by Kondo et al. (2008) in the Philippines also discovered an increase in savings by program clients. The increase in savings implies better consumption-smoothing and investments by program members. The study also identified that program members were kept busy in a host of business enterprises. This implies an increase in employment as people are not idle but productive so as to fend for their families. The study results, surprisingly, did not establish a significant impact on health, education and household assets. However, other

studies have for example discovered a positive relationship between microfinance and assets (Mosley & Hulme, 1998; Mcnelly & Dunford, 1998; Zeller et al., 1998, 2001).

2.3. Impact of Microfinance on Assets

The purchasing power of the poor and low income groups improves when they can access finance. This permits them to accelerate assets accumulation (Gulli, 1998). Microfinance clients accumulate assets through direct loan use or use of profits generated from investing loans. Daley-Harris (2002) notes that the poor's household assets can be categorized into three. These are those contributing to the quality of life, savings-in-kind assets and productive assets. The first two categories are used to provide security in the event of future emergencies or shocks. Productive assets are used to promote the poor's small business activities. Assets that are normally bought are in the small economic activities category that include animals, household utensils, farm equipment and in some cases building houses. Daley-Harris cites a study of SHARE Microfin Limited of India where it was established that the strongest impact on poverty status was the increase in asset ownership. The study found that 59% of the clients were classified as non-poor because of increased assets ownership.

Mosley and Hulme (1998) studied 13 MFIs in seven developing countries²⁾. In all cases the impact of lending tended to increase the debtor's income and improve asset position. An increase in income and asset position is a widely acceptable measure of poverty alleviation. People that are in a position to increase income and assets get empowered to move out of the poverty trap. Other studies have also established increases in education due to microfinance involvement.

2.4. Impact on Education

Attainment of education represents human capital investment that improves the productive capacity of individuals. An increase in productive capacity will in turn improve production hence reducing poverty through increased output, income and employment. They found a positive net impact of credit programs on both human and physical assets. But they found mixed results on education where education for girls increased only when women borrow. According to Brau and Woller (2004), the findings established a significant impact on well-being of poor households and that this impact is greater when targeted at women. They also discovered that women tend to use money towards meeting household needs than men. This suggests that when the program's target is education improvement then women should get credit allocation. Pitt and Khandker (1996)'s study discovered that girl children are sent to school when their mothers are in a position to get earnings. These were made

2) The countries were Indonesia, Bolivia, Sri Lanka, Bangladesh, India, Kenya and Malawi. One or two MFIs were picked from these countries (Sharma & Buchenrieder in Zeller & Meyer, 2002).

possible through microfinance programs. Thus microfinance programs targeting women may correct the gender imbalance in terms of education for boy and girl children.

Outside the education afforded to children, microfinance programs have been combined with education through what are termed 'Credit With Education Programs'. The 'Credit with Education program' is a strategy that was first developed by Freedom from Hunger in 1989-90 aimed at improving food security and child nutrition through adult education (Daley-Harris, 2002). The programme was proved successful in Benin, Bolivia, Burkina Faso, Ghana, Guatemala, Guinea, Haiti, Honduras, Indonesia, Madagascar, Malawi, Mali, Philippines, Togo and Uganda. Daley-Harris (2002) notes that the program generates positive outcomes on participants' knowledge of health matters, self-reported practices and awareness of diseases. In Ghana, Daley-Harris (2002) reports that participating women were knowledgeable about the advantages of breastfeeding as compared to child feeding alternatives. They breastfed their children for about six months yet the non-participants were giving their children other foods and liquids, thereby exposing them to contaminants found in liquids other than breast milk.

Daley-Harris (2002) further reports that in Bolivia, participants received education on diarrhea treatment. Participants were better informed in dealing with diarrhea cases than non-participants. In the same country, microfinance participants were also better informed about immunization of children than non-participants. Health workers provided education to participants during borrower's group meetings. HIV/AIDS awareness is also done during the meetings. In Zimbabwe, Credit Against Poverty's program combined microfinance and HIV/AIDS awareness programs in the Chipinge area (Credit Against Poverty, 1999). A specialized portfolio was introduced to cater for people infected and affected with HIV/AIDS so as to reduce their vulnerability through access to finance. Furthermore, positive impacts of microfinance have also been realized on employment.

2.5. Impact on Employment

Unemployment is a macro-economic problem that cascades down to grassroots levels. For example, the rate of unemployment increased tremendously in Zimbabwe due to the economic crises (2000 to 2009) that led to the collapse of industries. In 2008, the rate of unemployment reached 80% (CSO, 2008). During the Zimbabwean crisis, microfinance managed to be resilient hence people survived on small business ventures for a living. ZAMFI (2005) confirms the resilience of microfinance. Other authors have argued that microfinance tends to be resilient during crises periods. For example during the global financial crisis it managed to withstand the financial turmoil (Attali, 2010; CGAP, 2008).

McKernan (1996) in Brau and Woller (2004) built on the research by Pitt and Khandker (1996) to evaluate microfinance's non-credit impacts in Bangladesh. The study aimed at capturing the other potentially important program aspects. McKernan

(1996)'s investigation estimated the determinants of profits resulting from self-employment while controlling for capital, other inputs. The research established that microfinance program participation exerted large positive impact on self-employment profits.

Further, McKernan (1996) discovered that Grameen Bank participation was associated with a highly significant increase (126%) in self-employment profits. Microfinance helps poor people to create their own employment. Consequently, spill-over effects are that they can also employ other family and/or community members. This has an overall effect of reducing unemployment hence reducing poverty levels and improving the standards of living of the people in the rural communities. Social impacts are also realized.

2.6. Social Impacts of Microfinance

Microfinance activities involve, in the majority of cases, working in groups. This arrangement enables poor people to work in cohesive teams hence improving social integration. Grameen Bank's group methodology helped people to take advantage of 'social capital', which involves networking and cementation of social relations in local communities. Social capital is the glue that brings the society together hence the poor people co-operate for a focused group goal. Most rural areas in developing countries have a higher percentage of women population composition than men. This is because men migrate to urban areas for employment seeking. Women are left for a long time with children, hence the need for them to be empowered to make economic decisions within the household. Henry et al. (2003) argue that a woman with a husband who stays for a long time at work is regarded the household head, hence the need to improve their participation in community decision making through microfinance program.

A study by HSRC (2002) indicates that the increase in HIV/AIDS incidences increases the demand for access to microfinance. This will help care giving households to have access to finance hence smoothening household consumption. The pressure on assets will in turn be reduced. Although giving microfinance resources to the poor who are infected or affected by HIV/AIDS is risky, it has a benefit of ameliorating its impact through awareness, access to nutritious food, access to medical facilities, among other things.

The US Agency for International Development's Assessing the Impacts of Microenterprise Services (USAID's AIMS) studies were done in India, Peru and Zimbabwe. This section highlights the study that was carried out in Zimbabwe. The study carried out a longitudinal assessment of the Zambuko Trust, a microfinance institution in Zimbabwe. The main objective was to determine the nature, extent and distribution of impacts from participating in the Zambuko program. Understanding the role of credit within a household, and the extent to which Zambuko reaches the poor were secondary objectives.

The study used a combination of a survey, case studies,

pre-survey qualitative interviews and data from Zambuko's information systems and secondary sources. The sample of the survey constituted clients and non-clients that were randomly selected.

The data were analyzed using several statistical techniques such as chi square, t-tests and analysis of variance. The analysis of covariance was also used. The impacts realized were not significant (Armendariz de Aghion & Morduch, 2005). Only one organization (Zambuko Trust) was considered in the study hence the results may not be suitable for generalization. Studies such as this one contributed to the need for this paper.

2.7. Impact on Basic Needs and Capabilities

Microfinance clients' increase income and economic security which enable them to access basic needs. They also have the ability to improve their capabilities for achieving life-giving 'functionings'. The capabilities approach, expounded by Amartya Sen can be enhanced by the availability of financial resources to the poor and low-income groups. Their coping strategies are improved by their access to finance. There is widely convincing literature for impacts in this area (Daley-Harris, 2002). The case of 'telephone ladies' of Bangladesh is one such an example.

2.8. Other Impacts

According to Carr and Zhong (2002), microfinance is regarded as an innovative policy instrument that promotes social justice. Often, it is posited that microfinance improves the well-being of participants through job creation, increasing income and building assets (wealth). It makes poor people to be homeowners through schemes such as "housing microfinance", which is a hybrid of microfinance and mortgage finance.

Microfinance program provide access to the financial sector by the poor who suffer from exclusion. They also manage to enjoy the numerous benefits that are associated with the sector such as access to loans, ability to accumulate savings and in other cases managing to get insurance and health facilities. In developing countries, access to traditional banking services is highly limited. The International Poverty Centre reported that even in relatively successful countries such as Ghana and Tanzania, only about 6 percent of the population had access to banking services (Hailu, 2008). This scenario is a result of a number of factors that include, among others, the demand for physical collateral security by traditional banks or lack of minimum cash amounts needed to open a bank account. Banks fail to realize 'social collateral' (social capital) that exists among the rural poor (see Vermaak, 2009 for a detailed discussion of social capital). The rural poor may be far away from the banks and unfamiliar with the complex procedures involved in banking. Microfinance Institutions (MFIs) serve the rural and urban poor by reaching them so as to cut on transport and other transaction related costs.

3. Challenges of Microfinance

No poverty alleviation intervention has been found to be insulated from challenges. Thus the microfinance strategy is neither a panacea nor a 'magic bullet' in poverty alleviation (Armendariz de Aghion & Morduch, 2005; Ahmed, 2010; Zhan & Wong, 2014). It is one of the strategies that can be employed to assist the poor to manage their precarious lives. The most conspicuous challenge facing microfinance is its 'micro' nature. People do not want to be associated with small things. Usually, they look down upon them. Traditional banks want to deal with large amounts of money and not the 'small' amounts associated with microfinance. The other challenge is the 'customers' that are served by this sector. Rich people do not want to work with poor people.

The provision of microfinance still faces a number of problems. These include; inadequate financial infrastructure, unfavourable policy environment, limited institutional capacity, inadequate investments in microfinance and rural development, inadequate investments in social intermediation and microfinance misconceptions. The Asian Development Bank (2000) states that the microfinance policy environment remains unfavorable in many countries. It does not support sustainable growth and development of the microfinance industry. This scenario applies to almost all developing countries including Zimbabwe. Government interventions in microfinance, to address perceived market failure through giving subsidized credit to the poor, undermine sustainable development. Poorly performing government supported microfinance programs have had an effect of distorting the market thus discouraging new entrants into the industry (Adams et al., 1984; Asian Development Bank, 2000).

Financial infrastructures incorporate legal, information, regulatory and supervisory systems for micro-finance institutions. The financial infrastructures are, in most cases, weak and non-supportive. Most MFIs have limited institutional capacity. They lack financial leverage and cannot provide a wide range of products to clients. This is because they are not well resourced making them perpetual 'infants' (due to over-dependency) lacking sustainability.

To propel rural development, it is necessary to be cognizant of the sector that underpins growth in the rural areas. Agriculture plays a crucial role hence its growth has a positive impact on the growth and development of rural finance markets. Rural agricultural activities are cut from the markets because of insufficient investments in physical infrastructural development such as roads, irrigation, electricity and other support services such as marketing (Asian Development Bank, 2000). All these have negative impacts on rural microfinance. Social intermediation³⁾ supports a sustainable expansion of microfinance

3) Social intermediation is defined broadly as a process in which investments are made in the development of human resources and institutional capital to enable the poor to access effectively and productively the financial services of the formal sector. Such investments, among other things, involve awareness building among

services. This calls for an 'integrated' approach to microfinance where the whole package is given to the poor.

Another problem with microfinance loans emanates from the 'fungibility' of financial resources. Sharma and Buchenrieder (2002) note that even if lending institutions impose strict conditions, credit may be used for other purposes such as leisure, repaying loans from other expensive sources, financing wedding expenses, purchasing durable goods, paying for funeral expenses and other related expenses. This could be reduced by putting in place effective monitoring and evaluation mechanisms.

Microfinance also suffers from misconceptions. Many people associate microfinance with usurious loans offered by private moneylenders. The oldest misconception is that the poor people cannot repay loans, but the Grameen Bank (Bangladesh), the BancoSol (Bolivia), the BRAC (Bangladesh); the Rakyat (Indonesia) experiences have managed to address this perception. Microfinance's penetration into the rural areas requires a correction of the aforesaid misconceptions.

At its centre, microfinance is not very different from finance provided by banks. Its challenge is the client segment it serves—the world's poor. Magner (2007) notes that different sets of challenges faced in the provision of microfinance should be recognized. Customers of formal banks tend to be from the middle and higher income groups and live in stable environments. However, microfinance clients live under difficult circumstances. They face a number of negative conditions such as lack of access to education and other basic needs, poor health, and threats from natural disasters and other environmental woes. These become inhibitors to the success of microfinance in poverty alleviation, especially in the rural areas.

The poor lack access to financial resources hence reducing their capability to meet their health requirements. Microfinance could be an alternative for them to be in a position to meet their demand for health services. Could microfinance benefit the poor's access to health? Sickness leads to income losses, and incapacitation of borrowers. A 2005 study carried out by the Harvard Medical School and Harvard Law School established that 50 percent of all people interviewed cited illness and unaffordable medical bills as the primary causes of bankruptcy (Magner, 2007).

One of the challenges of microfinance is that the poor people are not protected by insurance hence their activities tend to be risky. Todd (1996) as cited in Magner (2007) carried out a study of Grameen Bank clients and discovered that serious illness in the family always forces households to liquidate assets in order to pay for medical treatment and/or keep the family afloat. The disaster of illness struck ten of the 17 Grameen Bank families who are still in the poverty group (Magner, 2007, p.11). Poor people are very vulnerable because they lack safety nets. Unfortunately, developing countries do not have estab-

lished legal and social infrastructures such as bankruptcy laws meant to assist the poor. With the prevalence of the HIV/AIDS pandemic in developing countries such as Zimbabwe, the poor people are highly exposed and this is a serious inhibitor to the success of microfinance. An introduction of micro-insurance would go a long way.

Lack of education prevents borrowers from sustaining successful businesses (Magner, 2007). Illiteracy contributes to poor business management hence borrowers backslide into poverty and/or default on loans. To mitigate these challenges microfinance needs to take an integrated approach so as to provide a full microfinance package. The three inhibiting factors are intertwined. Magner (2007) suggests that microfinance should incorporate some prevention and mitigation measures so as to reduce vulnerability among the poor clients. Microfinance, as a strategy needs to pay attention to policy objectives that address the commonplace challenges. Adoption of the triangle of microfinance is one such example.

4. Conclusion and Implications

This paper carried out an empirical literature review, finding out more from other authors, an understanding of microfinance and poverty alleviation. The paper presented an empirical reflection of microfinance and poverty alleviation. Theoretical and empirical literature suggest that microfinance can be used to support savings and investments, consumption smoothing and food security, agricultural activities, non-farm activities, enterprise development and social cohesion. However, microfinance has its own challenges that include inadequate physical and financial infrastructure, unsupportive policy environment, limited institutional capacity, inadequate investment in the rural areas, inadequate support in social capital development, microfinance misconceptions and so on.

However, the overarching question is about the viability of microfinance as a strategy for alleviating rural poverty and its efficacy as a strategy in the different contexts. Therefore, there is need to contextualize macroeconomic policy, microfinance and poverty for policy development. Our findings show that microfinance enhances poverty alleviation. This therefore suggests that the government, especially in developing countries, should put in place policies that support the development and expansion of the microfinance sector. A conducive microfinance operational environment will promote the growth of the sector thus strengthening its poverty alleviation potential.

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