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**Factors Impeding the Poverty Reduction  
Capacity of Micro-credit:  
Some Field Observations from  
Malawi and Ethiopia**

by

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The views and interpretations in this paper are those of the author  
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## Abstract

In most African countries women tend to account for an average 51% of the population, and make up about 65% of the rural labour force. Thus, many rural based micro-finance programmes have attempted to address the women specific need for micro-credit. This paper analyses the effectiveness of micro-credit as a means to reducing poverty, with particular focus on women, and demonstrates, through the critical analysis of some country-specific examples, that the use and supply of micro-credit does not always lead to a sustainable impact on household or female poverty reduction. Analysis of findings are done based on field data, interviews, and observations from Malawi and Ethiopia.

The paper has concluded that while MFIs aim to reduce poverty and empower women there is usually no clear implementation mechanism to achieve these aims. Some of the conclusions of the paper are: the inadequate and insufficient participation of the female clients themselves in the design of the programmes affects the levels of poverty reduction; the inability of certain commonly used indicators of success/failure of micro-credit in measuring the non-quantifiable impact of the programmes on the clients; there are certain undesired effects of micro-credit delivery, which may hinder the process of poverty reduction; MFIs target women mainly due to the fact that the lending characteristics of the rural micro-credit are best suited to female clients, rather than male clients. Moreover, the empowerment process which is assumed to occur as a result of these loans, is impeded by the micro size of the loan, the small returns from the use of the loan, and the fact that the returns themselves are still not always the major contributor to the family income as compared to the male income. Furthermore, the paper argues that it is a misconception that an MFI always targets the ultimate poorest of the poor, the landless, the assetless, and the destitute, because, as the paper has demonstrated that for an MFI such a client profile will not ensure returns and increase profits, and it is precisely such a beneficiary profile that is unattractive and unlikely to become a potential client. The changing policy environment, thus, puts more pressure and competition for the scarce resources between the poorest of the poor and the "not-so-poor". This paper has highlighted the fact that since development interventions put greater focus on promotion of, for example, export markets and international trade, and medium scale farmers and entrepreneurs, the actual micro-credit clients are not the typical 'hand-to-mouth' poor.

Finally the paper gives broad recommendations for further research and analysis in order to strengthen the capabilities of micro-credit for poverty reduction. Furthermore, the analysis in this paper also provides the way-forward in the design of future micro-credit interventions for poverty reduction as well as gender and empowerment.