

RE-EVALUATING THE EFFECTS OF MICROFINANCE IN THE PHILIPPINES

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SUMMARY

The first analytical chapter of this dissertation examines whether the substitutability (complementary) role of microfinance is correlated with decreased (increased) likelihood and amount of credit that households demand from informal lenders. Multivariate probit and seemingly unrelated regression models are applied using nationally representative data collected in the Philippines. Results indicate that microfinancing is a substitute of informal lending by both moneylenders, and relatives and friends. Moreover, households with microfinance loans are found to less likely borrow from other formal financial institutions. However, results on the likelihood of poor or female-headed household borrowing suggest that microfinance providers neither substitutes nor complements informal lenders.

While I draw robust findings on microfinancing as substitute of informal lending, little is known if it is welfare improving. The second analytical chapter investigates if access to microfinance improves household income and consumption as well as raises engagement in self-employment activities using a household-level panel data and the unique event of microfinance-oriented banks (MOBs) opening in 2004. We find an average positive effect on education and negative effect on wage work for households with short-term exposure to MOBs, but these effects materialize only after the closure of the respective MOBs. When MOBs offer households longer access to microfinance, the effects diminish or even regress. Heterogeneity analysis further reveals that women and non-poor households gain more from MOB presence. Overall, MOB presence is

not sufficiently transformative to lift the poor out of poverty. Nevertheless, it reduces vulnerability as it affords households means to be entrepreneurs and invest more in human capital.