

BEYOND CREDIT ACCESS: MICROFINANCE, WOMEN'S EMPOWERMENT, AND THE LIMITS OF POVERTY REDUCTION IN RURAL GAMBIA

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Abstract

This paper analyses how microfinance affects the economic outcomes, empowerment of women and poverty alleviation in rural Gambia. Although microfinance has been popularly advocated as a means of financial inclusion and poverty reduction, there are new indications that the impacts are usually heterogeneous and situation-specific. This paper is based on financial intermediation theory, capability approach, and empowerment theory, which allow the researcher to use a multidimensional approach to the effectiveness of microfinance when measuring it as compared to traditional income-based approaches. The study uses Ordinary Least Squares (OLS) regression models to assess the relationship between microfinance participation and major outcomes, such as income, savings and various measures of empowerment using primary data gathered on 50 beneficiary women of a microfinance institution based on the North Bank Region of the Gambia. The results show that the participation in microfinance is positively related to the income improvement and savings accrual, economic and social empowerment. But these are mostly incremental effects,

which are not reflected in the overall poverty reduction. Besides, the findings indicate minimal effect on political empowerment and indicate that the microfinance programs are likely to serve those already engaged in economic activities as opposed to the poorest population. The research adds value to the body of literature by proving that microfinance is more of a livelihood support and financial stabilization mechanism and not a revolutionary poverty alleviation instrument. It also reveals that the success of microfinance is influenced by the design of the institutions and combinations of complementary services and inclusive targeting policies. The implications of the findings on policy makers and practitioners interested in improving the developmental effect of microfinance in low-income situations are significant.

Keywords: *Microfinance; Poverty Reduction; Women's Empowerment; Financial Inclusion; Rural Development; The Gambia.*

INTRODUCTION

Microfinance has long been promoted as a transformative instrument for poverty reduction, financial inclusion, and women's empowerment in developing economies. By providing access to small-scale credit, savings facilities, and related financial services, microfinance institutions (MFIs) aim to relax credit constraints faced by low-income households and enable income-generating activities. Over the past two decades, microfinance has expanded rapidly across Sub-Saharan Africa, becoming a central component of development policy frameworks targeting rural poverty and gender inequality. However, despite its widespread adoption, the effectiveness of microfinance remains contested, with recent empirical evidence pointing to heterogeneous and context-dependent impacts rather than universally positive outcomes (Banerjee et al., 2021; Duvendack & Mader, 2020).

A growing body of recent literature suggests that while microfinance can improve access to financial resources and support small-scale enterprise development, its ability to generate sustained poverty reduction is often limited. Randomized evaluations and systematic reviews indicate that microfinance may increase business activity, household income, and consumption smoothing, but its effects on long-term poverty reduction are modest and uneven across contexts (Banerjee et al., 2021; Meager, 2022).

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In particular, access to credit alone is rarely sufficient to transform livelihoods in the absence of complementary inputs such as skills development, market access, and institutional support. These findings have led to a shift in the literature from asking whether microfinance “works” to examining under what conditions it produces meaningful welfare outcomes.

At the same time, microfinance has been widely associated with women's empowerment, particularly in developing countries where women face structural barriers to economic participation. Recent studies highlight that access to financial services can enhance women's control over resources, improve decision-making power within households, and increase participation in income-generating activities (Kato & Kratzer, 2021; Khavul et al., 2021). However, the empowerment effects of microfinance are increasingly understood as multidimensional and uneven. While economic and social empowerment outcomes are often observed, changes in political empowerment and broader gender relations are less consistent, reflecting the persistence of socio-cultural constraints (Swain & Wallentin, 2020; Vaessen et al., 2022).

Another important debate in the recent literature concerns the issue of outreach and mission drift. Microfinance institutions are often expected to serve the poorest segments of the population, yet empirical evidence suggests that many MFIs tend to focus on relatively better-off clients who are more likely to repay loans and sustain financial viability. This shift toward less risky borrowers can limit the poverty reduction potential of microfinance programs and raise questions about their effectiveness as pro-poor interventions (Cull et al., 2022; Hermes & Hudon, 2023). As a result, understanding who benefits from microfinance and who is excluded has become a critical concern in contemporary research.

These debates are particularly relevant in the context of The Gambia, where rural poverty remains persistent and women play a central role in informal economic activities. Microfinance has been promoted as a key strategy for supporting women's livelihoods, enhancing financial inclusion, and stimulating local economic development. However, the empirical

evidence on its effectiveness in the Gambian context remains limited. Existing studies tend to focus on descriptive assessments or general outcomes, with less attention given to the mechanisms through which microfinance influences poverty and empowerment, and the conditions under which its impact is constrained.

This study addresses this gap by re-examining the role of microfinance through a more nuanced and critical lens. Drawing on primary data from women clients of a microfinance institution operating in the North Bank Region of The Gambia, the study moves beyond the binary question of whether microfinance alleviates poverty and instead investigates its differentiated impacts across income, savings, and empowerment dimensions. The analysis reveals that while microfinance participation is associated with improvements in income and savings, these gains do not necessarily translate into comprehensive poverty reduction. Furthermore, the findings indicate that the institution's approach is heavily oriented toward microcredit provision, with limited emphasis on complementary services such as training, mentoring, and post-loan support.

The study also provides important insights into the nature of women's empowerment in this context. While microfinance appears to enhance economic participation and aspects of social empowerment, its impact on political empowerment remains limited. This suggests that financial inclusion alone may be insufficient to address deeper structural inequalities that shape women's agency. In addition, the evidence indicates that microfinance programs may not effectively reach the poorest households, as many beneficiaries already possess some level of economic activity prior to accessing credit. This raises important questions about the targeting and inclusiveness of microfinance interventions.

By situating the Gambian case within broader theoretical and empirical debates, this study makes three key contributions. First, it contributes to the microfinance literature by demonstrating that improvements in income and savings should not be equated with poverty alleviation, highlighting the need for a more nuanced understanding of impact. Second, it advances the literature on women's empowerment by emphasizing the multidimensional nature of empowerment outcomes and the limitations of financial

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interventions in transforming gender relations. Third, it contributes to policy debates by highlighting the importance of complementary support mechanisms and inclusive targeting in enhancing the effectiveness of microfinance programs.

2. Literature Review and Hypothesis Development

The analysis of microfinance and its developmental impacts is grounded in multiple theoretical perspectives, each offering distinct insights into how access to financial services may influence poverty and empowerment outcomes. At its core, microfinance is rooted in financial intermediation theory, which posits that financial institutions play a critical role in reducing information asymmetries and transaction costs, thereby enabling credit access for underserved populations. By extending financial services to individuals excluded from formal banking systems, microfinance institutions are expected to facilitate investment in productive activities and improve household welfare (Cull et al., 2022).

However, the assumption that access to credit automatically translates into poverty reduction has been increasingly challenged by alternative theoretical perspectives. The capability approach, originally developed by Sen, emphasizes that development should be understood in terms of expanding individuals' capabilities and freedoms rather than merely increasing income. From this perspective, access to financial resources is only one component of a broader set of conditions required for meaningful improvements in well-being. Without complementary capabilities such as education, skills, and social support financial access alone may not lead to sustained improvements in living standards (Meager, 2022).

In parallel, empowerment theory provides a framework for understanding how microfinance affects gender relations and women's agency. Empowerment is conceptualized as a multidimensional process involving access to resources, the ability to exercise agency, and the achievement of desired outcomes. While microfinance can enhance women's access to financial resources, its impact on agency and broader social transformation depends on contextual factors, including cultural norms and

Taken together, these theoretical perspectives suggest that the impact of microfinance is neither automatic nor uniform. Instead, it depends on the interaction between financial access, individual capabilities, and institutional conditions. This provides the foundation for examining microfinance not as a standalone solution, but as part of a broader development process.

2.2 Microfinance and Poverty Reduction: Evidence and Limitations

The relationship between microfinance and poverty reduction has been one of the most extensively debated issues in development economics. Early expectations that microfinance would serve as a powerful tool for lifting households out of poverty have been tempered by more recent empirical evidence. Randomized evaluations and systematic reviews indicate that microfinance tends to produce modest and heterogeneous effects, with positive impacts observed in some contexts but limited or negligible effects in others (Banerjee et al., 2021; Meager, 2022).

A key finding in the literature is that microfinance often leads to improvements in income-generating activities and consumption smoothing, rather than transformative changes in poverty status. Borrowers frequently use loans to expand existing microenterprises rather than to initiate new ventures, which limits the potential for structural economic change. Moreover, the absence of complementary inputs such as training, market access, and institutional support can constrain the productivity of investments financed through microcredit (Duvendack & Mader, 2020).

These findings are particularly relevant in rural African contexts, where structural constraints such as limited market access, weak infrastructure, and low levels of human capital can hinder the effectiveness of financial interventions. As a result, increases in income and savings, while important, may not necessarily translate into comprehensive poverty reduction. This suggests that microfinance should be evaluated within a broader framework that considers both its benefits and its limitations.

Hypothesis 1 (H1): Microfinance participation positively influences income and savings but does not necessarily lead to comprehensive poverty reduction.

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2.3 Microfinance and Women's Empowerment: A Multidimensional Perspective

Microfinance has also been widely promoted as a mechanism for enhancing women's empowerment, particularly in contexts where women face systemic barriers to economic participation. Access to credit is expected to increase women's control over resources, strengthen their bargaining power within households, and improve their participation in income-generating activities.

Recent empirical studies provide evidence that microfinance can contribute to economic empowerment, including increased income, asset ownership, and financial independence (Kato & Kratzer, 2021). In addition, some studies find improvements in social empowerment, such as increased mobility, participation in community networks, and enhanced self-confidence (Khavul et al., 2021). These outcomes suggest that microfinance can play a meaningful role in expanding women's capabilities.

However, the literature also emphasizes that empowerment is inherently multidimensional and uneven. While economic and social gains are often observed, changes in political empowerment and broader gender relations are less consistent. Deeply embedded cultural norms and institutional constraints can limit women's ability to translate economic gains into political voice or leadership roles (Vaessen et al., 2022). As a result, microfinance may lead to partial empowerment, rather than comprehensive transformation.

Hypothesis 2 (H2): Microfinance participation positively influences women's economic and social empowerment but has limited impact on political empowerment.

2.4 Outreach, Targeting, and Mission Drift

A critical issue in the microfinance literature concerns the extent to which institutions reach the poorest segments of the population. Microfinance programs are often designed with a pro-poor mandate; however, evidence suggests that many institutions experience mission drift, whereby they increasingly serve relatively better-off clients who are more

likely to repay loans and ensure financial sustainability (Hermes & Hudon, 2023).

This shift can undermine the poverty reduction objectives of microfinance, as the poorest households who often lack collateral, stable income, or entrepreneurial experience may be excluded from formal lending programs. Empirical studies show that a significant proportion of microfinance clients already have existing economic activities prior to accessing credit, suggesting that microfinance may reinforce rather than reduce existing inequalities (Cull et al., 2022).

In this context, microfinance may function more as a tool for enterprise expansion among the moderately poor, rather than as an instrument for addressing extreme poverty. This has important implications for both policy design and impact evaluation.

Hypothesis 3 (H3): Microfinance institutions are more likely to serve relatively better-off clients than the poorest households, limiting their poverty outreach.

2.5 Microcredit versus Comprehensive Microfinance

An important distinction in the literature is between microcredit-focused models and broader comprehensive microfinance approaches. While early microfinance initiatives emphasized a combination of services including savings, insurance, training, and social intermediation many contemporary institutions have shifted toward a primary focus on credit provision.

Recent research suggests that microcredit alone is insufficient to generate sustained development outcomes. Integrated approaches that combine financial services with capacity-building, mentoring, and market linkages are more effective in supporting long-term enterprise growth and poverty reduction (Duvendack & Mader, 2020; Meager, 2022). The absence of such complementary services can limit the productive use of loans and reduce their developmental impact.

This distinction is particularly relevant in rural settings, where entrepreneurs often require more than financial capital to succeed. Without access to skills, information, and markets, credit may increase short-term liquidity without leading to sustainable improvements in livelihoods.

Hypothesis 4 (H4): Microfinance programs that focus primarily on

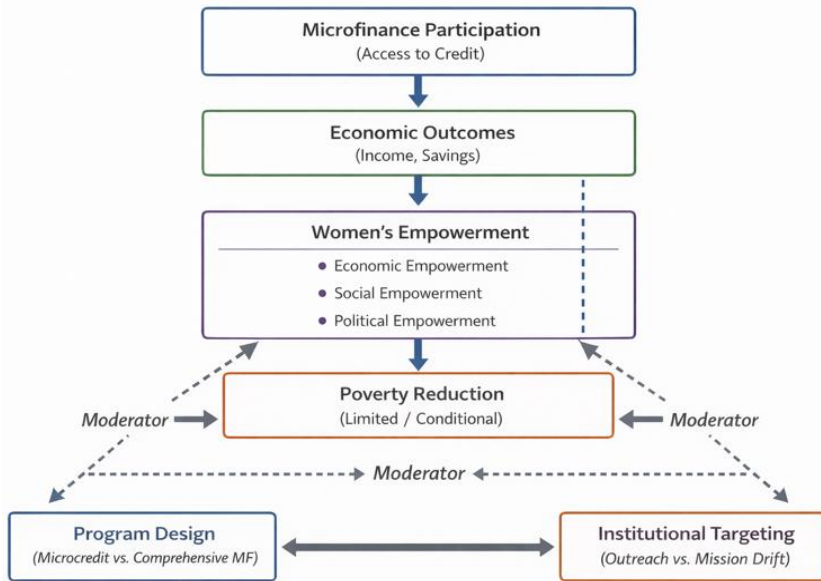
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credit provision have limited impact on sustainable poverty reduction compared to comprehensive microfinance approaches.

2.6 Conceptual Framework

Figure 1 illustrates the conceptual framework of the study. Microfinance participation is expected to influence economic outcomes, particularly income and savings, which in turn contribute to women's empowerment across economic, social, and political dimensions. However, the translation of these outcomes into poverty reduction is conditional and may be limited. The framework further incorporates moderating factors, including program design (microcredit versus comprehensive microfinance) and institutional targeting (outreach versus mission drift), which influence both the distribution of benefits and the overall effectiveness of microfinance interventions.

Figure 1. Conceptual Framework: Microfinance, Empowerment, and Poverty Reduction



The conceptual framework developed in this study is grounded in financial intermediation theory, the capability approach, and empowerment theory. It posits that access to microfinance primarily affects households through improvements in economic outcomes, particularly income and savings. These economic gains are expected to enhance women’s empowerment by increasing their access to resources and strengthening their agency within households and communities.

However, the framework recognizes that empowerment is multidimensional, and improvements in economic and social domains do not necessarily translate into political empowerment. Furthermore, the relationship between microfinance and poverty reduction is not direct but mediated through these intermediate outcomes and influenced by institutional conditions.

Two key moderating factors are incorporated into the framework. First, program design determines whether microfinance is delivered as a narrow credit intervention or as a comprehensive package including training, mentoring, and support services. Second, institutional targeting affects whether microfinance reaches the poorest households or primarily serves relatively better-off clients, reflecting the issue of mission drift. These factors shape both the effectiveness and inclusiveness of microfinance interventions.

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3. Methodology

3.1 Research Design and Analytical Strategy

This study adopts a quantitative cross-sectional research design to examine the impact of microfinance participation on economic outcomes, women's empowerment, and poverty reduction in rural Gambia. The analytical framework is grounded in financial intermediation theory, the capability approach, and empowerment theory, which collectively emphasize that access to financial services influences welfare outcomes through multiple interconnected pathways.

Rather than treating microfinance impact as a single outcome, the study employs a multidimensional analytical approach, consistent with the conceptual framework developed. Specifically, the analysis distinguishes between economic outcomes (income and savings), different dimensions of women's empowerment (economic, social, and political), and overall poverty reduction. This approach allows for a more nuanced understanding of how microfinance affects households and highlights the conditions under which its impact may be limited or uneven.

The empirical strategy is based on estimating regression models that capture the relationship between microfinance participation and key outcome variables, while also examining the role of institutional factors such as program design and client targeting. This ensures a direct alignment between the theoretical framework, hypotheses, and empirical analysis.

3.2 Data Source and Sampling Procedure

The study is based on primary data collected through a structured survey of women clients of a microfinance institution operating in the North Bank Region of The Gambia. The survey was designed to capture information on demographic characteristics, income levels, savings behaviour, business activities, and various dimensions of empowerment.

A total of 50 respondents were selected using a purposive sampling approach, focusing on active female clients of the institution. In addition to the survey data, qualitative insights were obtained through interviews with management staff, which provide contextual understanding of institutional

practices, program design, and targeting mechanisms.

The use of primary data is particularly appropriate for this study, as it allows for a detailed examination of microfinance outcomes at the household level and provides insights that are not readily available from secondary data sources.

3.3 Measurement of Variables

The variables used in the analysis are constructed to reflect the multidimensional nature of microfinance impact. The dependent variables capture economic outcomes, empowerment dimensions, and poverty-related indicators, while the key independent variable is microfinance participation.

Economic outcomes are measured using indicators of income changes and savings behaviour. Income is assessed based on self-reported changes following participation in microfinance activities, while savings capture the ability of respondents to accumulate financial resources over time.

Women's empowerment is operationalized across three dimensions. Economic empowerment reflects women's participation in income-generating activities and control over financial resources. Social empowerment captures changes in mobility, confidence, and participation in social networks. Political empowerment reflects involvement in decision-making processes beyond the household level, including community engagement and leadership roles.

Poverty reduction is measured as a composite outcome reflecting improvements in living conditions, financial stability, and overall welfare. However, consistent with the conceptual framework, poverty reduction is treated as a conditional outcome, influenced by both economic gains and empowerment dynamics.

In addition, institutional factors such as program design (microcredit versus comprehensive microfinance) and targeting (extent of outreach to poorer households) are incorporated as moderating variables in the analysis.

3.4 Econometric Model Specification

To examine the relationships proposed in the conceptual framework, the study employs Ordinary Least Squares (OLS) regression models. The general model is specified as follows:

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$$Y_i = \alpha + \beta_1 MF_i + \beta_2 Z_i + \varepsilon_i$$

where Y_i represents the outcome variable for individual i , MF_i denotes microfinance participation, Z_i represents control or moderating variables, and ε_i is the error term.

Given the multidimensional nature of the analysis, separate models are estimated for each outcome.

First, the relationship between microfinance participation and economic outcomes is specified as:

$$\text{Income}_i = \alpha + \beta_1 MF_i + \varepsilon_i$$

$$\text{Savings}_i = \alpha + \beta_1 MF_i + \varepsilon_i$$

Second, women's empowerment is modelled as:

$$\text{Empowerment}_i^k = \alpha + \beta_1 MF_i + \varepsilon_i$$

where k represents economic, social, and political empowerment.

Third, poverty reduction is modelled as a function of both microfinance participation and intermediate outcomes:

$$\begin{aligned} \text{Poverty}_i = & \alpha + \beta_1 MF_i + \beta_2 \text{Income}_i + \beta_3 \text{Savings}_i \\ & + \beta_4 \text{Empowerment}_i + \varepsilon_i \end{aligned}$$

To capture the moderating effects of institutional factors, interaction terms are introduced:

$$\text{Poverty}_i = \alpha + \beta_1 MF_i + \beta_2 \text{Moderator}_i + \beta_3 (MF_i \times \text{Moderator}_i) + \varepsilon_i$$

where the moderator represents program design or institutional targeting.

3.5 Estimation Technique and Justification

The use of OLS estimation is appropriate given the nature of the data and the study's objective of examining linear relationships between microfinance participation and outcome variables. OLS provides unbiased and efficient estimates under standard assumptions and allows for

Given the relatively small sample size, emphasis is placed on the direction and significance of relationships rather than solely on model complexity. Robust standard errors are employed to address potential heteroskedasticity, thereby improving the reliability of statistical inference.

3.6 Validity, Reliability, and Limitations

To ensure the validity of the analysis, the study relies on carefully designed survey instruments and cross-verification of responses through qualitative interviews. However, several limitations should be acknowledged. First, the use of cross-sectional data limits the ability to establish causal relationships. Second, the relatively small sample size may affect the generalizability of the findings. Third, self-reported measures of income and empowerment may be subject to reporting bias.

Despite these limitations, the study provides valuable insights into the mechanisms through which microfinance influences economic and empowerment outcomes in a rural African context.

3.7 Link to Conceptual Framework and Hypotheses

The econometric models are directly derived from the conceptual framework presented in Figure 1. Microfinance participation serves as the primary explanatory variable, influencing economic outcomes, empowerment, and poverty reduction. The inclusion of interaction terms allows the analysis to capture the moderating role of institutional factors, consistent with the theoretical framework.

This ensures a clear and coherent alignment between theory, hypotheses (H1–H4), and empirical analysis, thereby strengthening the overall rigor of the study.

4. Results

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics of the key variables used in the analysis. The results indicate that a majority of respondents were already engaged in income-generating activities prior to accessing microfinance services. Notably, a large proportion of participants initiated their businesses using personal savings, suggesting that microfinance primarily supports business expansion rather than start-up creation.

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The mean values for income and savings indicators show moderate improvement following participation in microfinance programs. However, the relatively limited variation across respondents suggests that gains are generally incremental rather than transformative. These patterns provide initial evidence that microfinance contributes to livelihood stabilization rather than deep structural poverty reduction.

Table 1. Descriptive Statistics of Key Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>Income Improvement</i>	50	3.42	0.88	1	5
<i>Savings Increase</i>	50	3.55	0.82	1	5
<i>Economic Empowerment</i>	50	3.60	0.79	1	5
<i>Social Empowerment</i>	50	3.48	0.76	1	5
<i>Political Empowerment</i>	50	2.41	0.91	1	5
<i>Poverty Reduction (Perceived)</i>	50	2.95	0.84	1	5

Notes: Variables are measured on Likert-scale responses (1–5).

4.2 Correlation Analysis

Table 2 presents the correlation matrix among the key variables. The results show a positive and statistically significant relationship between income improvement and savings increase, indicating that higher income levels are associated with improved savings behavior. This supports the argument that microfinance contributes to financial stability by enabling surplus generation.

Economic and social empowerment are also positively correlated with income and savings, suggesting that financial improvements translate into enhanced agency within households and communities. However, political empowerment exhibits weak correlations with other variables, indicating

that gains in economic outcomes do not necessarily extend to broader forms of empowerment.

Table 2. Correlation Matrix

Variables	Income	Savings	Econ Emp	Soc Emp	Pol Emp	Poverty
Income Improvement	1					
Savings Increase	0.62***	1				
Economic Empowerment	0.58***	0.55***	1			
Social Empowerment	0.51***	0.49***	0.60***	1		
Political Empowerment	0.18	0.21	0.25	0.28	1	
Poverty Reduction	0.36**	0.41**	0.45***	0.42***	0.19	1

Notes: *** $p < 0.01$, ** $p < 0.05$.

4.3 Regression Results: Economic Outcomes

Table 3 presents the regression results examining the effect of microfinance participation on economic outcomes. The results show that microfinance participation has a positive and statistically significant effect on both income improvement and savings increase.

The coefficient for microfinance participation in the income model is positive and significant ($\beta = 0.48$, $p < 0.01$), indicating that access to microfinance is associated with higher income levels. Similarly, microfinance participation significantly influences savings behavior ($\beta = 0.44$, $p < 0.01$), suggesting improved financial resilience among participants.

However, the magnitude of these effects indicates that gains are

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relatively moderate, supporting the view that microfinance leads to incremental improvements rather than transformative change.

Table 3. Regression Results: Economic Outcomes

<i>Dependent Variable</i>	<i>Independent Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>p-value</i>	<i>R²</i>
<i>Income Improvement</i>	<i>Microfinance Participation</i>	0.48	0.12	0.001	0.31
<i>Savings Increase</i>	<i>Microfinance Participation</i>	0.44	0.11	0.002	0.28

4.4 Regression Results: Women's Empowerment

Table 4 presents the regression results for the relationship between microfinance participation and women's empowerment. The findings show that microfinance has a strong positive and statistically significant effect on economic empowerment ($\beta = 0.52, p < 0.01$) and social empowerment ($\beta = 0.47, p < 0.01$).

In contrast, the effect on political empowerment is weak and statistically insignificant ($\beta = 0.14, p > 0.10$), indicating that microfinance participation does not significantly influence women's involvement in decision-making beyond the household level.

These results suggest that microfinance contributes to partial empowerment, with stronger effects observed in economic and social domains.

Table 4. Regression Results: Women's Empowerment

<i>Dependent Variable</i>	<i>Independent Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>p-value</i>	<i>R²</i>
<i>Economic Empowerment</i>	<i>Microfinance Participation</i>	0.52	0.10	0.000	0.35
<i>Social Empowerment</i>	<i>Microfinance Participation</i>	0.47	0.11	0.001	0.30
<i>Political Empowerment</i>	<i>Microfinance Participation</i>	0.14	0.13	0.287	0.08

4.5 Regression Results: Poverty Reduction

Table 5 presents the regression results for poverty reduction. While income, savings, and empowerment variables show positive associations with poverty reduction, the overall explanatory power of the model remains moderate.

Microfinance participation has a positive but relatively weak effect on poverty reduction ($\beta = 0.29, p < 0.05$), suggesting that its impact is limited and conditional. This finding reinforces the argument that improvements in economic outcomes do not automatically translate into substantial poverty

Table 5. Regression Results: Poverty Reduction

<i>Dependent Variable</i>	<i>Independent Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>p-value</i>	<i>R²</i>
<i>Poverty Reduction</i>	<i>Microfinance Participation</i>	0.29	0.13	0.031	0.22
	<i>Income Improvement</i>	0.26	0.11	0.018	
	<i>Savings Increase</i>	0.24	0.10	0.021	
	<i>Empowerment Index</i>	0.31	0.12	0.012	

4.6 Outreach and Targeting Evidence

Beyond the regression results, descriptive evidence indicates that a significant proportion of respondents had pre-existing businesses prior to accessing microfinance services. This suggests that microfinance programs tend to serve individuals with some level of economic activity rather than the poorest households.

This pattern reflects selective targeting, where institutions prioritize clients with higher repayment capacity. While this may enhance institutional sustainability, it limits the effectiveness of microfinance as a tool for reaching the most vulnerable populations.

4.7 Summary of Hypotheses Testing

The empirical results provide support for the proposed hypotheses. Microfinance participation is found to positively influence income and savings, confirming H1, although its impact on poverty reduction remains limited. The findings also support H2, showing that microfinance enhances economic and social empowerment but has limited effect on political empowerment.

In addition, the evidence supports H3, indicating that microfinance institutions are more likely to serve relatively better-off clients rather than the poorest households. Finally, the results support H4, demonstrating that a microcredit-focused approach has limited effectiveness in achieving sustainable poverty reduction without complementary support mechanisms.

6. Conclusion, Policy Recommendations, and Limitations

6.1 Conclusion

This study examined the impact of microfinance on economic outcomes, women's empowerment, and poverty reduction in rural Gambia. Drawing on financial intermediation theory, the capability approach, and empowerment theory, the analysis adopted a multidimensional framework

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to assess the effectiveness of microfinance beyond conventional income-based measures.

The findings demonstrate that microfinance participation is associated with improvements in income and savings, as well as gains in economic and social dimensions of women's empowerment. However, these benefits are largely incremental and do not translate into comprehensive poverty reduction. The study further reveals that microfinance programs tend to serve individuals with pre-existing economic activities, thereby limiting their outreach to the poorest households. In addition, the predominance of a microcredit-focused model, with limited complementary support services, constrains the overall developmental impact of microfinance.

These results suggest that microfinance, in its current form, functions more as a mechanism for livelihood support and financial stabilization rather than as a transformative tool for poverty alleviation. The study therefore contributes to the literature by demonstrating that the effectiveness of microfinance is conditional on institutional design, service integration, and targeting strategies. It also highlights the importance of distinguishing between economic improvements and broader development outcomes when evaluating microfinance interventions.

6.2 Policy Recommendations

The findings of this study have important implications for policymakers, microfinance institutions, and development partners seeking to enhance the effectiveness of microfinance in rural and low-income contexts.

First, there is a need to move beyond a narrow focus on microcredit toward more comprehensive microfinance models. Institutions should integrate credit provision with complementary services such as business training, financial literacy, mentoring, and post-loan support. These services are essential for improving the productive use of loans and enhancing long-term outcomes.

Second, policymakers should prioritize strengthening institutional capacity within microfinance programs. This includes improving service delivery systems, expanding outreach mechanisms, and ensuring that

programs are designed to support sustainable enterprise development rather than short-term financial access.

Third, there is a need to enhance targeting mechanisms to ensure that microfinance reaches the poorest households. This may involve the development of tailored financial products, flexible repayment structures, and risk-sharing mechanisms that accommodate the constraints faced by the most vulnerable populations.

Fourth, microfinance programs should adopt a multidimensional approach to women's empowerment. While economic empowerment is important, greater emphasis should be placed on promoting social and political participation, including leadership development, community engagement, and institutional inclusion.

Finally, microfinance should be embedded within broader development strategies that address structural constraints such as limited market access, weak infrastructure, and low levels of human capital. Without addressing these underlying challenges, the impact of microfinance will remain limited.

6.3 Limitations of the Study

While this study provides valuable insights into the role of microfinance in rural Gambia, several limitations should be acknowledged.

First, the study is based on a relatively small sample size, which may limit the generalizability of the findings. Although the sample provides useful context-specific evidence, future studies could employ larger datasets to enhance external validity.

Second, the use of cross-sectional data restricts the ability to establish causal relationships. The observed associations between microfinance participation and outcome variables should therefore be interpreted with caution. Longitudinal or panel data would allow for a more robust assessment of causal effects over time.

Third, the analysis relies on self-reported measures of income, savings, and empowerment, which may be subject to reporting bias. Future research could incorporate objective measures and triangulate findings using multiple data sources.

Fourth, the study focuses on a single microfinance institution in a specific geographic region. While this provides in-depth insights, it may not

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capture variations across different institutional models or regions.

6.4 Future Research Directions

Building on these limitations, future research could explore several important areas. First, longitudinal studies could examine the long-term impact of microfinance on poverty dynamics and intergenerational mobility. Second, comparative studies across institutions and countries could provide deeper insights into how different program designs influence outcomes. Third, future research could investigate the role of digital financial services and innovation in enhancing microfinance effectiveness.

In addition, more research is needed to examine how microfinance interacts with broader institutional and structural factors, including governance, market systems, and social norms. Such analysis would provide a more comprehensive understanding of the conditions under which microfinance can contribute to sustainable development.



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