The Ph.D. dissertation presents an in-depth analysis of economic effects, determinants and characteristics of microfinance, one of the main tools used nowadays to improve well-being, promote growth and reduce poverty in developing and transition economies.

The dissertation makes several important contributions. Motivated, in part, by limited analysis of the impact microfinance has on macro level in the literature, it provides, in its first chapter, a rigorous, detailed and very well-executed analysis of the effects of microfinance on several key macroeconomic indicators in about 100 countries in different stages of their development around the World. In particular, the first chapter of the thesis focuses on the study of the impact of microfinance on such important macroeconomic indicators as growth, characteristics of financial sector development and inequality. The estimation results for dynamic panel data models obtained in the chapter point out, among other conclusions, to statistically significant positive association between microfinance and economic growth and financial sector development proxied by broad money circulation in an economy. The empirical analysis further points out to positive effects of microfinance on reduction in inequality measured by Gini coefficients. Importantly, the study focuses on different groups of countries in different stages of their development and further provides detailed comparisons of differences in macroeconomic effects of microfinance across the groups. The above comparisons provide further important support for the market failure hypothesis in the literature that indicates that positive effects of microfinance on financial sector development are expected to be stronger in environments with less developed formal financial institutions. Furthermore, the first chapter of the thesis also provides the analysis of comparisons of impulse response functions that characterize the effects of shocks to microfinance on key macroeconomic indicators in the different groups of countries considered. These econometric results and comparisons point out to important differences in the macroeconomic impact of microfinance across time in relatively stable vs. unstable economic environment. While the effect of microfinance on growth and financial sector development cumulates with time in stable environments, the stocks to microfinance die out with time in unstable economic settings.

The analysis and empirical results in chapters 2 and 3 of the thesis are remarkable, in particular, because they are based on a unique survey data on microfinance environment in post-Soviet Uzbekistan collected by the author. The second chapter of the dissertation focuses on the analysis of determinants of supply and demand for microfinance in post-Soviet, transition and developing economies using the Uzbekistan data. The chapter provides a detailed review and study of microfinance environment in the economy. Among other results, the author provides a rigorous econometric analysis of determinants and characteristics of initial placements of
microfinance institutions in different regions of the country considered. The second chapter of the thesis further presents important empirical results on key factors affecting the likelihood of microcredit approval for applicants in the economy.

The third chapter of the thesis presents a detailed and very well-executed analysis of causal effects of improved access to microcredits. Importantly, the author provides a novel approach to measurement of access to microfinance based on geographical distances to the nearest microfinance institutions. The empirical analysis in the chapter point out to statistically significant positive effects of improved access to microcredits on borrowing households’ business performance and consumption behaviour. In particular, importantly, the estimation results obtained in the chapter indicate that better access to microcredits tends to increase the households’ investment into education and health and is further associated with higher business income and profits in enterprises run by the borrowers.

In addition to important economic findings and conclusions on the effects of microcredits on the macro level, one of novel contributions of the dissertation to the research area is the use of rigorous and advanced econometric and statistical methods, with applications to extensive and, in case of Uzbekistan, unique databases on microfinance environments. The econometric analysis in the thesis is detailed and very well-executed. The author provides empirical applications of a wide range of advanced econometric approaches, including dynamic panel models, inference in discrete choice models and propensity score matching methods in the analysis of treatment effects. Furthermore, she creatively applies retrospective methodology on household surveys on memorable events, provides solutions to the problem of measuring access to microcredits using geographical distance to nearest microfinance institutions and presents novel applications of a number of advanced econometric and time series concepts and inference procedures in the analysis of the research problems considered. Importantly, the thesis further provides a number of robustness checks for the empirical results obtained, with a particular focus on controlling for outliers and different econometric model specifications.

It is important that the study in the thesis points out to a number of further important research problems, a number of which are discussed in the dissertation. In particular, the time span of the data sets considered in the thesis include the 2008, the year of the beginning of the on-going financial and economic crisis and, similarly, the periods corresponding to other crises and structural breaks. It would be interesting to consider, in future research and further developments in the area of the thesis, the analysis of structural breaks in the models for macroeconomic effects of microfinance. The analysis may focus on applications of tests of structural breaks with known dates corresponding to different crises and also on structural break tests with unknown dates. Similarly, the analysis of the data for Uzbekistan may further focus on the study of the effects of the on-going crisis, if any, and also, importantly, on the effects of such events as the
official announcement of the national currency convertibility for current transactions by the Uzbek Government in October 2003. The latter event tends to be associated with changes in the dynamics of several key macroeconomic indicators in Uzbekistan. It would be interesting to consider, in future research, the effects of such changes in the institutional environments for foreign exchange and the dynamics of related variables such as foreign trade on econometric models on the effects and determinants of microfinance in the country. Future research may also focus on further analysis of time series properties and models for time series dynamics of key macroeconomic variables and indicators in different countries considered in the study, including the analysis of their stationarity vs. non-stationarity properties using, among others, KPSS-type tests and related methods. Further important problems and directions for future research may include the analysis of effects of microfinance on different poverty measures and proxies for financial sector development; the effects of microcredits on inflation through the monetary aggregates such as broad money circulation; applications of recently developed approaches to robust inference under heterogeneity and dependence using conservativeness of test statistics and estimates of model parameters computed for groups of data; applications of spatial econometric methods in models involving geographical distances; and, importantly, extensions of the unique database on Uzbekistan and its detailed empirical analysis presented in the dissertation to the case of other transition and developing economies.

In summary, the dissertation provides a rigorous and very well-executed analysis of research problems of key interest in Macro-, Development and Transition Economics. It presents novel and skillful applications of advanced econometric methods and approaches, including those in the empirical analysis of wide-scale and unique databases on post-Soviet, transition and developing economies. The dissertation further provides important conclusions for economic and development policies and points out to several directions for future research, including applications of the proposed methodologies in extensions of the analysis for other countries. The work deserves the highest marks, and the author should be congratulated on this significant contribution to the research area.

Rustam Ibragimov
Professor of Finance and Econometrics
Imperial College Business School