

Does Microfinance Provide Only an Illusion for Poverty Reduction?

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Abstract

In this research microfinance background is established to justify the selection of the subject. Aim of this research is to identify the underlying factors of microfinance in removing poverty from society. In this research explanatory research design is elected to answer the research question. Thai research is considered as a qualitative study which integrates different secondary sources to collect relevant information. Interpretivism research philosophy is chosen for this study to execute qualitative study. In this study data is collected from secondary sources where certain criteria are maintained. Specific themes are identified within the dataset to include relevant information in this study. Thorough discussion is made on the secondary findings which increases the strength of the study. Microfinance themes are identified which impacts the economic development of underdeveloped areas. A brief overview of the role of microfinance institutions has been illustrated in the process of entrepreneurial development. An overall explanation of the research findings has also been provided which can be beneficial in understanding the overall concept. The entire study has also been explained in a brief manner at the end for establishing its importance in the current era.

Keywords

Economic activities, Financial inclusion, Microfinance, Poverty, SDGs, Sustainable growth.

INTRODUCTION

Research background

Poverty exists in different regions of the world where accessibility of people to diverse resources are limited due to financial insecurity. Economic development of a country is possible through empowering the people by furnishing the society with adequate and necessary resources [1]. Increase in economic activities boost the financial infrastructure of a country where people are independent and economically stable. In this context Microfinance is a significant element that provides opportunities to the underprivileged people to stimulate economic activities. financial services are limited to poor people as they are considered to be less potential to return the loan amount. Hence, economic stability is critical for those people and governments of different countries provide credit facilities to people through microfinance.

Commercial banks majorly serve loan facilities to people who hold strong credit scores and wealth to assure the payback of loan amount. Europe observed higher microfinancing in small businesses during 2020 which indicates the empowerment of society [2]. Poverty in underdeveloped and developing countries restricts the development of people as the economic activities do not flourish due to financial distress. Microfinance facilities provide financial support to people living in rural and underdeveloped regions through short term loans. However, some reports suggest specific negative sides of microfinance that affect human progress. Hence, this study can explore the underlying factors of Microfinance to interpret its significance in society.

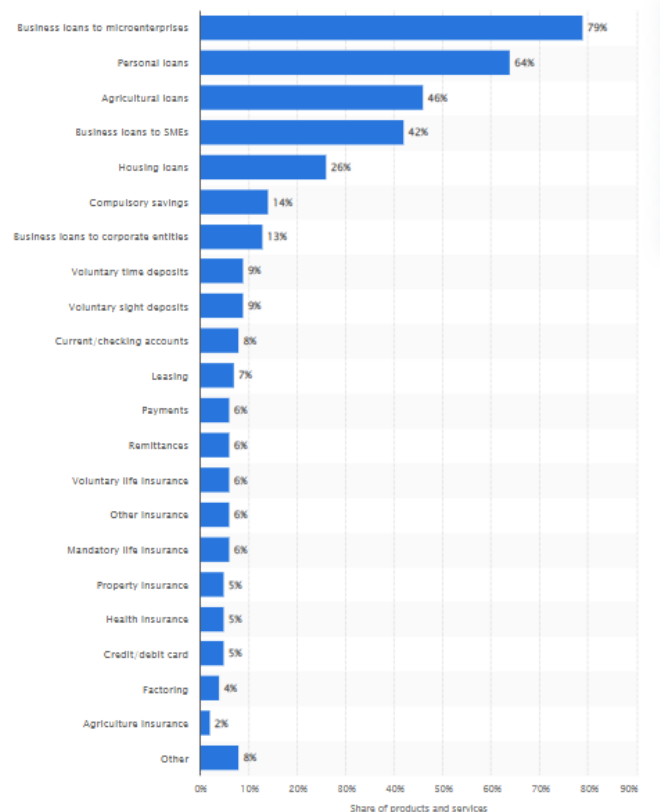


Figure 1: Financial services of microcredit institutions in Europe in 2020
(Source: [2])

Aim and Objectives

Microfinance facilities, features, purpose and impact on poverty are aimed to be identified in the research through

specific objectives which are:

- To identify the need of microfinance in society
- To evaluate the role of microfinance in sustainable growth of society
- To investigate the limitations of microfinance
- To determine the significance of microfinance in empowerment of people

Scope of the research

This research explores the core features of microfinance to establish critical evaluation of the relevant factors. Hence, the purpose of this study is to establish a clear understanding on the relevance of poverty and microfinance from a mixed perspective. microfinance services are significantly expanded throughout the world [3], hence the understanding of features, impact, benefits and limitations of the service should be clear to people. Therefore, this study can execute in-depth analysis on the findings to highlight the key aspects of microfinance to improve the knowledge of future researchers and readers.

METHODS AND MATERIALS

Research design

Research design for this study is selected considering the objectives of the subject, hence the selection is factual and supports further discussion of the findings. Following a design for research is essential for the researcher as it determines the utilization of methods in the study. Explanatory research design is appropriate for this just as it can explore the answer of the question by exploring the underlying factors of the sunbelt. In order to focus on the microfinance significance in poverty reduction it can make accurate predictions with strict observation and ascertain the causes of the phenomenon. Experimental research design makes predictions through real-time monitoring of the occurrence [4]. Unlike experimental research design, explanatory research design can explore existing knowledge to capture only relevant information which elevates the quality of this study.

Research type

Research studies are conducted in different ways that justify the objectives and subject matter; hence a suitable strategy must be taken to achieve the aim of the research. Research studies are mainly segregated in two different parts which are: Quantitative and Qualitative. Based on the study requirement researchers select their preferred type but for the study Qualitative strategy is selected to execute a descriptive analysis on the findings. Qualitative research tries to explore the perspectives of the research subject [5]. Quantitative is suitable for performing statistical analysis, hence it is not required for this study as explanatory research design requires Qualitative analysis to answer the research question.

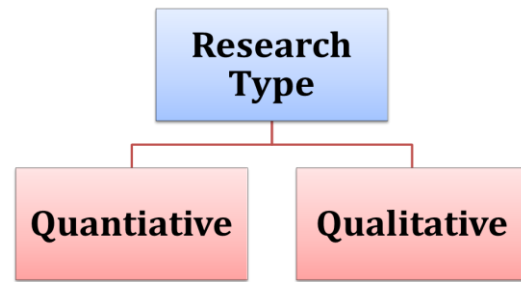


Figure 2: Research type
(Source: Self-developed)

Research philosophy

A researcher has specific perceptives to view certain phenomena which is known as research philosophy. Inclusion of different perspectives to interpret the findings makes each research study distinctive and add values in different ways. Positivism philosophy relies on single reality and interpretivism philosophy identifies more than one reality. In order to execute this research study interpretivism philosophy is suitable as it can explore different sources of information to support research design. Reference [6] says, interpretivist paradigm along with qualitative method assure in-depth analysis of particular social context. Hence, interpretivism can help the researcher to get strong insights on the subject. Additionally, there is no requirement of positivism as statistical data is not required in this study.

Research duration

This research is structured to be completed by the end of January, 2023 and the research timeline highlights the different stages of the research. This research study is supposed to be completed within five weeks and the timeline is established prior to the study.

	Week 1	Week 2	Week 3	Week 4	Week 5
Topic selection					
Method selection					
Data collection					
Data analysis					
Conclusion					
Submission					

Figure 3: Research timeline
(Source: Self-developed)

Inclusion/exclusion criteria

In this research inclusion and exclusion of the data sources are controlled with specific criteria to establish a genuine ground of argument. Literatures from the existing sources are included after confirming proper author name, publication time and page number to ensure reliability of the study. Old literature documents are excluded from this study as the accuracy of the information might not be irrelevant with the current period. Hence, to find relevant information in the last five years data is collected from literature. Research quality relies on the selection of information and supporting statements [7]. Blog posts are avoided for data collection

along with websites which do not include authentic information. Language barrier in the data collection is removed by eliminating the documents which have other languages except English.

Data collection

Data collection process is extremely vital in research studies as it determines information quality to establish strong statements. It is common in research studies to integrate primary sources in data collection but in this study secondary sources are more useful to collect qualitative data. Primary data sources facilitate quantitative analysis by including real-time information through surveys. Whereas, secondary sources obtain qualitative information from existing journals, articles, case studies, government websites and publications. Hence, in this study secondary qualitative data can support further analysis to answer the research question. Reference [8] says, the practice of secondary data analysis is becoming common and being encouraged across research sectors. Google scholar and reliable websites are used in this study to collect secondary qualitative data. A diverse range of existing information that can be collected from secondary sources which are reliable and cost-effective.

Data analysis

Research studies rely on data collection and its analysis, thus choosing a suitable analysis process is important to developing a sense about critical factors regarding the subject. Considering the aforementioned method of the research it is evident that qualitative data is the foundation of this study, hence the findings from secondary sources can be analyzed by extracting specific themes from the common patterns within the data set. Data analysis requires a detailed understanding of the research process [9]. Obtained information in this study can be interpreted with different themes and an overall discussion is made on the key factors.

RESULTS

Entrepreneurship is facilitated by Microfinance through financial support

The rise of the pandemic in the modern era has caused financial difficulties to occur, which can be perceived in several sectors of society. Lack of employment opportunities in the offline markets, and economic downfall in several areas have made it necessary for society to adopt effective measures for gaining a secure place in the market. Implementing innovation and modification in the existing business procedure has become a key factor for survival. Several entrepreneurship approaches and initiatives have been observed in the post-pandemic era that requires proper monetary support for prospering in the volatile market. A tendency regarding learning the process of entrepreneurship can be identified in society and business owners which can promote innovation [19]. These kinds of activities can be considered effective methods for supporting the emergence of innovation and novel ideas that can ensure long-term

sustainability a result.

Entrepreneurship approaches are considered a sustainable practice which can lead towards development in several forms such as monetary, brand image and others. Innovation and entrepreneurship can be counted as important ingredients for achieving sustainability that can provide desired results at the end of a business period [20]. Reasons such as this make it essential for entrepreneurs to gather proper financial support or capital for undertaking essential decisions. Microfinance organizations play a vital role in these types of situations where they can provide the required amount of capital support that can promote sustainability and ensure productivity. Getting access to the required amount of financial support can be difficult for entrepreneurs as several factors such as lack of credit history, and higher costs for monitoring purposes can act as negative aspects which can cause financial barriers to occur [21]. Lack of adequate funding is often perceived as a bottleneck which can be mitigated through the supporting system of microfinance firms.

The current growth rate and nature of the market have made the role of microfinance companies an important addition that cannot be ignored in the modern era. Generating proper monetary support through loans, microfinance firms have gathered an important place in society [21]. Lack of proper financial support can hinder the growth of entrepreneurs and mitigate the scope of innovation to take place.

Microfinance supports the financial need of developing and underdeveloped countries

Developing and underdeveloped countries have less access to financial resources compared to developed countries such as Europe and America. Hence, it is obvious to see comparatively less trade activities in these sections of the society which indicate poor financial condition of people. Financial support is required in different regions to support the empowerment of people to generate more income as it strengthens the economy. Human progression in the underdeveloped countries is limited as the governments of these countries cannot provide adequate financial resources to support their communities. Poverty reduction was institutionalized by the World Bank in 1944 which was aimed for eliminating poverty by granting loans to developing country's governments through structural adjustment programs [10]. However, the initiatives initially failed to provide results but gradually with several reforms in the system Microfinance became a solution for eliminating poverty in different countries which are dealing with financial distress.

Microfinance helps in diversifying the economy of the country by boosting the Gross domestic product ((GDP) per capita which elevates the Gross Domestic Product (GDP). empowerment of people in developing and underdeveloped countries give them long-term financial support for the trade initiatives of people. Empowerment in the core function of human progress and Microfinance is helping the world to

reach development goals through limiting poverty and hunger [11]. Empowerment of people in the developing and underdeveloped regions has shown great results with less defaults on payments and faster payments. It indicates that Microfinance increases financial stability in low-income households by providing them the opportunity to start economic activities. Accessibility to credit is elevated by Microfinance and the poor section of the society can get advantage of credit facilities. Hence, there is a high chance of being affected from financial distress in the developing countries which can be reduced with Microfinance. In developing countries financial distress is extremely evident which affects the livelihood of people in the underprivileged regions.

Financial inclusion and sustainable growth is supported through microfinance

Sustainable development goals (SDGs) of different countries are supported by Microfinance as the empowerment of individuals in the societies can facilitate financial inclusion. Inclusive society development in different countries is encouraged through employment opportunities and Microfinance contributes towards employment in different countries which is directly impactful on the economy. In order to establish a strong economy, each country requires an inclusive society where citizens get equal opportunity to execute economic practices to support the overall growth of society [12]. Poor financial infrastructure can reduce the ability of buying, hence financial inclusion is extremely vital for developing a positive society. Sustainable development goals include poverty reduction in the world which targets underprivileged sections to improve their living standard through economic wellness. In order to achieve the sustainable development goals more efficiently a government must initiate financial inclusion to provide satisfactory access to financial resources.

Discrimination against the poor section of the society is removed to a large extent through Microfinance as the empowerment of people eliminated the causes of poverty from the society. Reference [13] says, sustainable development goals are vital for overall improvement of the society and boosting the trade activities. Hence, it can be said that Microfinance is an element to boost the economic condition of a country. Poverty in developing countries cannot provide financial inclusion which reduces their ability to engage actively in economic development. Prosperity of the people in society is facilitated through microfinance as during difficult periods coping mechanisms of people can only be supported through financial help.

Microfinance in increasing productivity by empowering society and its people

Extending the accessibility of poor people in the banking system to receive credit facilities was possible with Microfinance. Financial instability does not give the urge to execute economic activities and it also impacts the psychology of people. An economy is embedded within a

specific society where development is subjected to human growth. Hence, empowerment of people within a society is the only way to empower an economy. Microfinance is known to be effective for underdeveloped regions where people have no financial support to perform economic activities. Microfinance boosts motivation among people by giving them financial security for a short period and using the credit facilities a society can be transformed with better productivity among its people [14]. In order to execute different trade practices, it is important for the government to provide enough opportunities for its citizens to contribute towards the economy.

However, not every government is capable of doing so, hence different Microfinance models exist in the countries to support the individuals for executing economic activities. Self Help groups, Cooperatives, non-profit organizations and ROSCAs perform credit lending services to strengthen the poor section of the society. Financial support encourages people to be involved in economic activities by developing a business or being engaged in business activities to generate income [15]. Confidence of people increases to pay off the loan amount once they start to generate income. Therefore, it can be said that Microfinance not only empowers people but it also delivers psychological wellbeing.

Productivity among the poor section of the society increases with Microfinance facilities as people get more involved in trade practices which provide employment to additional populations. Microfinance does not consider the background of a person to provide them credit lending facilities in different regions in the world [18]. Income-generating activity increases with empowerment of people in different countries.

Microfinance reduce the accessibility gap for poor people to traditional banking system

Accessibility to the financial system of people living under the poverty level is not sufficient in different regions of the world. It disbalances the sense of equality in the society as low-income communities, households, and businesses starve from financial support to meet basic life needs and execute economic activities. Financial institutions do not rely on the people from low-income backgrounds as there is a risk of payment failure [16]. Hence, there is a barrier of accessibility to the traditional banking system for the underprivileged section of the society. Microfinance reduces the gap of banking system availability to the lower income group of the society by giving them some opportunity to perform economic activities to sustain. Microfinance provides a scope to stabilize the financial condition of people by rebuilding their income structure.

Microfinance supports the initiatives of SMEs to encourage their ideas and business establishment and it leads to long-term development of the economy by empowering the associated people with the SMEs. Economic development is dependent on the trade practices within a region; hence it is important for the government to provide sufficient infrastructure and resources for the businesses to flourish.

Microfinance provides this opportunity for people by motivating them to start new businesses which generate economic activities within a country [17]. Unlike previous period Women in different regions are being empowered from Microfinancing as it does not discriminate for giving credit facilities. Hence, the banking system is being delivered to rural and remote areas through Microfinance while eliminating the gap of accessibility.

DISCUSSION

The role of capital resources can be identified as an important aspect of every organization regardless of its size and business area. Due to the presence of a higher rate of competition in the market, it has become necessary for companies to implement proper measurements that can ensure stable capital sources along with other forms of resources. As mentioned earlier the importance of capital can be perceived in the growth of entrepreneurs which requires proper monetary support. Support from microfinance firms can enable entrepreneurs to indulge in the chain of events that is necessary for achieving the intended result [22]. It allows entrepreneurs to adopt effective mechanisms that can lead towards success. Sustainable growth is another aspect which can be achieved through the proper allocation of monetary resources as it can cater for the financial needs of the organizations at every step.

As per the friends it can also be stated that microfinance can help a developing country to achieve the beneficial factors that can occur due to the presence of proper structure of "information and communication technology" (ICT). The proper implementation of ICT in a developing country can generate a significant amount of scope for enhancing financial capability as a result [23]. Several microfinance organizations such as self-help groups, credit unions, and banks are known for their financial support to people with low-income backgrounds which can act as the catalyst for their business activity. Apart from that proper use of ICT which can be considered a beneficial aspect of microfinancing, can ensure integration, reduction of the transaction cost, enhance the efficiency of company resources and others.

Poverty is an important aspect of society which can initiate adverse effects on several individuals, nations, and other institutions that can strengthen the base of the economic foundation. The role of microfinance companies can also be denoted as a bridge which encloses the gaps between poor individuals or groups of people and financial institutions. Apart from that microfinance institutions are also identified as the strategy makers for alleviating the issues regarding poverty by providing access to significant amounts of monetary support to poor entrepreneurs [24]. These institutions are often acknowledged as an economic approach towards development which promotes the practice of sustainable policies that can facilitate financial support to small enterprises and low capital earners.

The majority of the findings denote the beneficial factors of microfinance institutions that can be considered the backbone of the modern economy. Marginal entrepreneurs, small business owners, individuals with a need for capital resources and other candidates for economic development can benefit from the business approach of microfinance firms [25]. It also supports the daily workers by supplying capital resources to organizations that can provide adequate amounts of wages to labourers. The rise of microfinancing practices in society can foster a scope for general equilibrium in the economic structure by implementing proper distribution processes of capital resources. Microfinance-based interventions are known for enhancing business practices along with providing relevant stakeholders with a significant number of scopes that can be identified as appropriate for maintaining living standards.

CONCLUSION

The overall concept of this paper is to portray several aspects of microfinance interventions in society. The overall objective of this article is to highlight several sectors and the roles of microfinance firms in the process of developing society. Certain objectives have been formulated which are focused on illustrating important factors such as identifying the limitations, and role in empowering small business owners or individuals along with the current need for microfinance in society. An overview of effective methods which have been selected for the data collection and analysis process has also been portrayed. Important methods such as *explanatory* research design, *interpretivism* research philosophy, and *secondary* data along with their justification for selection have been provided. Apart from these, the justification for selecting *qualitative* and *thematic* analysis methods, has also been explained which can help readers to understand the perspective of the researcher.

A brief overview regarding the exclusion and inclusion criteria which have been utilized during the data collection process has also been portrayed for increasing the reliability of this article. Proper explanations of the research findings have been included which can cater for the requirements or fulfil the overall goals of this paper. Several important aspects of microfinance instructions have been illustrated that can be beneficial while enlisting the usefulness of these firms in the economic development process of the modern era. Proper selection of research methods and the importance of the chosen topic can be considered as an effective addition that can be used as guidelines by future researchers. The use of proper justification and construction style can be followed by an individual who is looking forward to indulging in similar practices. This study can also be useful for modern entrepreneurs who are facing difficulties in gathering monetary resources, by highlighting the beneficial results of microfinance interventions.

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