

The Role of the Microfinance Institution in Poverty Reduction

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Abstract

This paper presents research related microfinance institution in economy. This research examines the ideas underlying the effectiveness of microfinance organizations and their contribution to the modern economy. In addition, a number of issues related to the research problem are also reviewed. All scientific research has documented the importance of Microfinance Institutions for increasing the welfare of poor people, despite the fact that their offers are much more expensive than other financial institutions, these institutions have been very successful in reducing poverty and promoting economic development, especially in rural areas. A rather long history of innovative financial inclusion seems to have inherited microfinance. The term microfinance still seems to be a relatively new term, as the most widely used or practical term has been microcredit, which emphasizes the main focus of various financial institutions, included, although small savings have always been part of microcredit operations.

Keywords: Microfinance, Financial Institutions, Poverty reduction, Unemployment.

Introduction

Poverty is defined as conditions in which an individual in a community is deprived of the necessary essentials and necessities for appropriate living standards (Boateng *et al.*, 2015). These essentials may involve resources such as food, safe drinking water, and shelter, or may refer to social resources including access to information, education, political power, or the opportunities for developing the need connection with other individuals in the community around them (Samer *et al.*, 2015). There are a variety of factors that cause poverty, including economic, social, and political aspects. While the growth of the economy is an essential element for reducing poverty, the quality of growth is also essential. Sustained growth calls for stability and proper economic components at every level. Minimizing poverty can be done when the political structures have the ability to support stable economic policies in a national environment (Bent, 2019). A competitive economic environment and innovation have also been identified as crucial to alleviating poverty.

Imtiaz *et al.*, (2014) state that the reduction of poverty calls for broad-based growth by activity from private sector institutions such as microfinance institutions. Microfinance institutions have resulted in elevated financial management among beneficiaries.

The financial framework presented by these institutions also acts as a channel for heightened financial management. Enhanced managing of money by beneficiaries can support the generation of income in these individuals, decrease the level of vulnerability, and empower the lower-income sections of society. Most beneficiaries of the services presented by MFIs have experienced elevated income levels. The shift in the income of clients is the primary effect of micro-finance institutions (Boateng *et al.* 2015). Financial services assist households at the poverty level to elevate their income while building assets needed for mitigating risk, planning for the future, increasing the consumption of food, and investing in education and health.

So, from this we can say that with the increase of living standard, specifically with the increase of income, the planning for the future changes, directly affecting the increase of consumption of food and things of a higher standard as well as the change of the demand for investment in education and other investments. Boateng *et al.* (2015) state that as many low-income households experience increased savings as a result of microfinance services, they have the needed support for establishing capital for investment, along with consuming and accumulating assets. MFIs result in empowering the beneficiaries within the household and society levels (Samer *et al.*, 2015). These clients experience a heightened position in making decisions for their families. They also have an increased capacity to make decisions on societal issues such as politics. The capability of

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making decisions decreases the vulnerability of the respondents, which, in turn, empowers them. Participants are also able to accumulate more assets as a result of MFIs which reduces the level of poverty.

Imtiaz *et al.*, (2014) state that as the accessibility of services from MFIs is easier than gaining access to mainstream banks, the services provided have increased their access to the needed essentials. Services such as educational loans have assisted the beneficiaries in taking their children to school, which acts as one of the channels through which the level of poverty is decreased. In their study on the influence of reducing poverty from the Malaysian context, Sayed *et al.* (2015) found that access to microfinance services resulted in a decreased level of poverty. The findings of this study demonstrated that microfinance assists women in their participation in the economic market through the formation and extension of their micro and small institutions while generating their income enables them to contribute to their household income. Heightened access to financial services through MFIs allows borrowers from poor and low-income backgrounds, particularly women, to engage in the diversification of their livelihood and the alleviation of their vulnerabilities. For instance, Sayed *et al.* (2015) found that microfinance holds a positive influence on increasing the income of households which then facilitates the reduction of poverty. Microfinance was also identified as positively influencing the household expenditure, food, and non-food expenditure, or the diversifying of income and accumulating assets.

Bakare (2018) found that microfinance services not only elevated the access to financial services to farmers but also decreased the level of poverty. Microfinance interventions were found to assist farmer service users in improving their livelihood along with that of the family (Boateng *et al.* 2015). Miled *et al.* (2015) found that there is a positive influence of microfinance on the wellbeing of the beneficiaries and their families. Access to microfinance has a positive influence on the confidence and esteem of the clients that utilize their services. When respondents benefitted from microfinance loans, they had a greater ability to cater to the needs of their families, which increased their level of confidence. Bakare (2018) also found that there was an increase in the expenditure on food, health, and nutrition, the children's education, and enrolment, and the accumulation of assets on the households after participants benefitted from microfinance loans. The farmers in this study also established that after they had accessed microfinance loans, they were now in a position to save from the sale of the crops for emergencies such as paying marriage dowries. Individuals that receive microfinance loans are able to focus on their ventures as they have the ability to meet the basic needs of their families from the earnings that they receive.

On the other hand, Ganlea *et al.* (2014) argue that microfinance shifts and changes from one context to another, from rural to urban contexts and populations,

perspectives of debt, group-cohesiveness, the structuring of enterprises, and financial service providers. Sayed *et al.* (2015) identified that Malaysian microfinance has a positive influence on reducing the level of poverty, particularly in rural locations.

Impact of microfinance on the rural development

Ussif (2020) states that financial services have an essential contribution to developing any economy. The proper assessment of very small assets can be essential to supporting further development for those that live in poor conditions, affected by an absence of income and shelter. To be included in the development, they need the ability to engage in borrowing, saving, investing, and protecting their families from further risks. Direct access to financial services can enable individuals to progress from survival to making future plans, the acquisition of needed assets, and the investment in a better quality of life (Swapna, 2017).

Boateng *et al.* (2015) state that microfinance services have a more substantial influence on the consumption of households and the quality of life of those involved. Unlike cities, where there is a concentration of populations in small areas, there is a dispersal of rural populations over extensive areas with poor infrastructure. MFIs often present cost-effective services that are customized to the needs of their beneficiaries in rural areas.

With the advancement of the MFIs, greater attention has been directed towards the presentation of additional financial services for the enhancement of rural development. Akingunola *et al.* (2018) establish that the MFI sector across the globe has undergone consistent growth and is now viewed as a tool for development and addressing issues of poverty and under-development. The idea of the creation of MFIs was to support those in the rural region that do not have access to other financial firms through the provision of access to microloans and microcredits (Akingunola *et al.*, 2018). This increased access is conducted to further develop small institutions. Therefore, El Hadidi (2018) states that MFIs play an important role and is viewed as an essential aspect in the achievement of development and fighting poverty in developing and poor nations.

Swapna (2017) states that the influence of microfinance on individual low-income households can be extrapolated to show the overall impact it has on rural development. The provision of refinancing services supports an elevated capability of dealing with risks by withdrawing savings or through the acquisition of credit facilities in cases of emergencies. This elevated capacity may mean that productive assets such as inventory and physical assets do not need to be sold during emergencies and, therefore, there is no interruption on the flow of income (Bent 2019). Another way that microfinance has influenced individual households is through the enhanced management of consumption requirements across the

year as a way of maintaining a sufficient level of intake. This is significant, as labor is typically the primary resource of low-income households. The third way is through increasing the support provided for investment in contributive enterprises. The heightened capabilities of rural households to engage in production, consumption, and investment may be seen in the link between credit and savings with microfinance organizations (Ussif, 2020). This is because increased reliability and accessibility of microfinance establishes a potential that will be utilized when needed. This potential may translate to the full utilization of the household resources for production with the accessibility of existing services being utilized in the case of emergencies.

The effects that microfinance has on individual rural households can be applied to showcase the overall impact that these services have on rural development. The rise in the capability of individuals to deal with shock minimizes the impact of a co-variant shock for the entire population, particularly with the increased access to financial services. Furthermore, an increase in savings in financial assets means a move from the storage of wealth in assets with minimal productivity (Boateng *et al.* 2015). There is an increase in the availability of financial savings for investments in different sectors, in trade, and in a wide range of other industries with the required advantages for technological progression and employment within rural locations. When there is a limitation in the remunerative investment opportunities in rural locations, the quantity of savings is greater than the quantity of credit, and excessive capital may be directed through microfinance firms. By directing excessive capital through MFIs, greater investment opportunities are established, with these investment opportunities being established within rural locations.

Most strategies on rural development include a focus on infrastructure, social development, and rural livelihoods. The enhancement of rural livelihoods is the component of economic initiatives that MFIs focus on. Most poor individuals are engaged in the management of resources for the development of their enterprises and their homes over time. One of the ways that microfinance supports rural development is through the integrated provision of financial services with technical assistance and other businesses (Ussif, 2020). MFIs conduct this delivery through three different segments. The first segment is made up of individuals who do not have physical assets such as land and are involved in the agricultural sector on a seasonal basis and manual laborers in various industries. This segment often calls for consumption credit when they do not have labor work along with the acquisition of small productive assets that they can utilize for the generation of more income (Ussif, 2020). The other segment is small and marginal farmers, rural workers, and those that are self-employed within the informal industry. This segment mainly requires credit for working capital, a small section that also serves consumption needs. This segment also calls for term

credit for the acquisition of productive assets, such as equipment needed. The third segment is made up of small and medium business owners that have commercial interests. These individuals are not always at the low-income level; they live barely above the poverty line and also do not have adequate success to formal credit. By focusing on each of these segments, microfinance caters to their needs through the financial services that are needed for the satisfaction of their needs.

Boateng *et al.* (2015) also highlight that the development initiatives conducted by MFIs in rural areas are also contributive to development initiatives. These development initiatives involve the provision of microcredit to borrowers in ways that have compatibility with the rural context. The systems applied always make the lenders or the MFIs highly active partners with rural businesses. As partners, they not only advance credit but also facilitate training and education on specific topics such as accounting. MFIs also set up programs in remote communities that help clients from rural areas to engage in the organization of self-managed financial associates to assist them in managing their personal resources. These forms of associations and initiatives help rural communities to mobilize their own savings while also facilitating further development in these locations.

Swapna (2017) states microfinance has a major contribution to the development of households and groups living in rural areas. These services are focused on the assistance of communities that experience economic exclusion to attain higher levels of creating assets income security within individual households and communities. As the credit services provided are essential for maintaining the balance between income and expenditure, it is essential for the development of further income-generating services (Swapna, 2017). The increased access to formal banking channels through MFIs has been crucial in enhancing the level of development in rural areas and locations.

Impact of microfinance on women entrepreneurship

Women entrepreneurs have a highly significant position in developing the economy of their families (Tariq, 2019). Women entrepreneurship is a procedure in which women are engaged in organizing different faces of production, undertake risks, and provide employment opportunities. It includes economic activities by women who are engaged in starting, organizing, and combining different facets of production, operating the business, and undertaking risks that are involved in managing a business enterprise (Tariq, 2019). Women entrepreneurship often requires increased access to credit and other financial services which will support their entrepreneurial activities. In some nations, women entrepreneurs, unlike their male counterparts, are unable to easily access finance to allow them to facilitate their entrepreneurial activities. Many microfinance programs focus on females with the aim of increased

empowerment (Bent, 2019). There are a variety of facilitative motivations for the pursuit of empowering women economically. Some arguments are that females are among the most vulnerable and underprivileged groups and should, therefore, be a priority. A more feminist perspective emphasizes that heightened access to financial services represents opportunities for a higher level of empowerment. In these arguments, MFIs are considered to be an important tool for fighting for the rights and independence of women.

Bent (2019) states that while the microfinance sector has experienced substantial changes over the years, its form and functionality still have its focus on vulnerable groups, such as women. MFIs have begun to develop a strategy that is focused on providing a greater volume of loans to a larger scale and has shown that this can be achieved. At the start, the goal of these MFIs was to structure economic frameworks that can support themselves without subsidies, are commercially funded, and are sustainable (Bent, 2019). By increasing the support provided to women and enhancing their income levels, microfinance institutions are able to support greater economic independence. The services provide women with increased access to networks and markets, which broadens the information that they are able to access.

Kulb *et al.*'s (2016) study on microcredit and women's empowerment in Kenya highlights that woman experienced three different phases of empowerment such as 'enlightenment', 'group movement' and 'empowerment' after their involvement in microfinance. Fofana *et al.* (2015) conducted a further study in rural Côte d'Ivoire. The study concentrated on how microcredit affected rural women's livelihood and empowerment. The researchers assert that woman's strategic needs such as women's decision-making power was positively associated with the probability of obtaining microcredit. In other words, receiving microcredit tended to increase their decision-making power.

While evaluating the impact of MFI on efforts focused on economically empowering women entrepreneurship Tariq (2019) found that a majority of the MFI projects help women entrepreneurs in all of the requirements they need to construct their enterprises. Women entrepreneurs play a larger part in the provision of funds for their households, in business decision-making, and in financial frameworks. These women are able to attain a higher level of income and have the willingness to explore new things. Tariq (2019) argues that women entrepreneurs that have access to MFIs are economically empowered, are confident, firm, participate in communal decision making, and are in a position of fighting against gender inequities in those cases where they still persist. When women are a client of MFIs, they gain a higher level of economic self-sufficiency, and their social and economic positions in society are strengthened.

The lower levels of access and the utilization of financial services by women have been associated with

the economic criteria and the presence of gender-based transaction costs (Swapna, 2017). The availability of finance is significantly different between nations, and access to financial resources is a task that is faced by many entrepreneurs. Both in the developed and developing world, women entrepreneurs face a higher level of challenges while trying to access finance. Many micro-credit programs have targeted women who live in households, as they are one of the most vulnerable groups in society. Okafor (2016) states that microfinance products and services have substantially enhanced the economic position of the poor while also increasing the security, autonomy, self-confidence, and status in households.

Another way that MFIs contribute to women's entrepreneurship is through the provision of education and training programs. While women entrepreneurs receive grants, soft loans, and support networks from microfinance, they also receive additional development through the receipt of appropriate knowledge and skills. Education plays an essential role, as is evident from the success of women in developed nations (Anjugam *et al.* 2007). Education makes an individual skillful, which is an essential tool for the growth of a business. It is also identified as that which many women lack, which is an essential determinant to exploiting opportunities within the entrepreneurial world. Female entrepreneurs in a developing nation lack the necessary training to be effective in the work that they carry out (Anjugam *et al.* 2007). This absence of education and training acts as some of the factors that limit these developments and this substantially influences the performance of women. MFIs cater to this critical element through the provision of the needed training and exposure to experiences needed for running a business.

Tariq (2019) states that while MFIs provide their services to women, some of the things that they identify as influencing the use of these services are the lack of specialized expertise and the inability to make good use of the microfinance factors. Most women lack the experience needed to trade in the business as opposed to men that have experience from paid work or employment. This is particularly apparent in third-world nations. Many MFIs provide enterprise development training that presents the needed skills for the promotion of business and the facilitation of economic growth (Ussif, 2020). Female owners and managers are equipped with skills, such as ways of identifying their competitive advantage over other institutions, both local and foreign. The skills and capabilities that women entrepreneurship are given enable them to compete with others around them. It supports them in developing the capabilities that they need to successfully start and develop businesses.

Self-help groups supported through the provision of microcredit services have been identified as having a positive impact on women, with this impact having other effects (Khan *et al.*, 2020). These services have played a valuable role in decreasing the exposure of those at the

poverty level through creating assets, earning incomes, providing emergency assistance, and the empowering of women by providing them with increased asset control and increasing their level of self-esteem and knowledge (Khan *et al.*, 2020). The empowerment of women is identified as occurring over multiple dimensions such as economic, socio-cultural, familial, legal, political, and psychological. A rise in the resources available to women causes the enhanced welfare of their households, particularly children. Anjugam *et al.*, (2007) state that from a feminist perspective, an increase in access to financial services represents an opportunity for a higher level of empowerment. The self-help groups resulting from the microcredit services of MFIs empower women and provide them with a higher propensity to resist existing gender norms and culture that limit their capability to develop and make choices.

Khan *et al.* (2020) state that by increasing the access of financial services to female clients, MFIs have been critical in boosting the level of women entrepreneurship in developing economies. Most of the time, women are unable to access the financial services that they may require to invest in their business ideas. This lack of accessibility is mainly because women, particularly those from low-income backgrounds, are not typically viewed as suitable clients by larger financial institutions (Anjugam *et al.*, 2007). This unsuitability is large because women lack the collateral that is needed for accessing the needed financial services. The presentation of varying services such as saving and microcredit facilities enables women to access the financial resources that they need to develop new businesses. This is further supported through the creation of development initiatives and training programs that educate women on the best business practices. Therefore, microfinance has become a critical element in the growth and support of women entrepreneurs.

Directions in the microfinance in the contemporary economy

The global microfinance industry is expected to reach 313.7 billion dollars by 2025 (Drori *et al.*, 2020). This growth will be supported by increasing inequality in wealth distribution and the resulting increase in unbanked people.

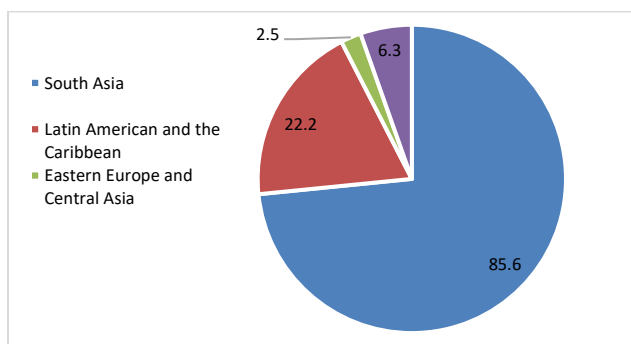


Figure 1 MFIs number of customers in different region in world (in millions) (2020)

As shown in Figure 1, the South Asian region has dominated global microfinance, with the greatest number of followers. The region had 85.6 million followers in 2018, with 89% of these followers being female borrowers (Drori *et al.*, 2020). This region represents two-thirds of the global borrowers. Contrastingly, Latin America and the Caribbean account for 44% of the entire microfinance sector portfolio (Magloire *et al.*, 2020). The number of borrowers in this region is 22.2 million. This region is the second-largest region in the microfinance sector. MFIs in this region have a low penetration rate in rural areas, with rural-oriented clients only accounting for 23% of their market. As opposed to the leading regions, nations in Eastern Europe and Central Asia, along with those in the MENA region, have smaller markets. In 2018, the number of borrowers in this region was 2.5 million (Drori *et al.*, 2020). The number of MFIs in the African region has grown considerably over the years. In 2018, the African MFI sector has 6.3 million clients (Magloire *et al.*, 2020).

Another substantial trend in microfinance is the increased digital transformation. One of the ways digital transformations can be observed is through the channels (Fairooz *et al.* 2019). MFIs have started to identify different ways of reaching and interacting with consumers as a way of providing greater convenience and products that are a reflection of the needs of the clients (Dorf Leitner *et al.* 2021). Many MFIs have started to build additional channels for responding to the demand for consumers, with the inclusion of expansions in the utilization of agent platforms, the remote onboarding of consumers, and the elevated utilization of customer service platforms. This trend has been prevalent through integrating different platforms for the construction of unique delivery channels by the institution (Pal *et al.* 2021). The creation of additional channels has resulted in the additional benefits of decreasing costs while also expanding the reach of the MFIs. MFIs have also increasingly started using data as a central aspect of their financial services business models over time. MFIs have struggled for an extended time with the digitizing and the management of customer data (Pal *et al.* 2021). These institutions have the capability of gathering and using relevant data, which is essential to the changes that they need for a competitive advantage ranging from risk-based pricing to proper management of credit risk.

Product diversification is also a common trend in microfinance institutions in the contemporary economy. MFIs have had to broaden their services to offer them in ways that meet the demand of customers while also enhancing loyalty. Other MFIs have also learned how to increase the availability of services provided by third parties without the loss of their relationship with consumers (Pal *et al.* 2021). This trend is based on the awareness that customer loyalty is increasingly dependent on a range of complementary services. For the achievement of product diversification, MFIs have invested in the acquisition of better data along with

advanced and well-structured back-office capabilities and technological abilities (Dorfleitner *et al.* 2021). MFIs have also increasingly applied flexible core systems. MFIs have largely built more flexible core IT and data management systems. The capability of evolving and adapting business frameworks and their visibility within IT frameworks with

a greater level of agility is a defining component within the digital age of different industries (Fairouz *et al.* 2019). MFIs have started increasingly investing in increasing capabilities and infrastructure as digital solutions have become essential in the microfinance industry.

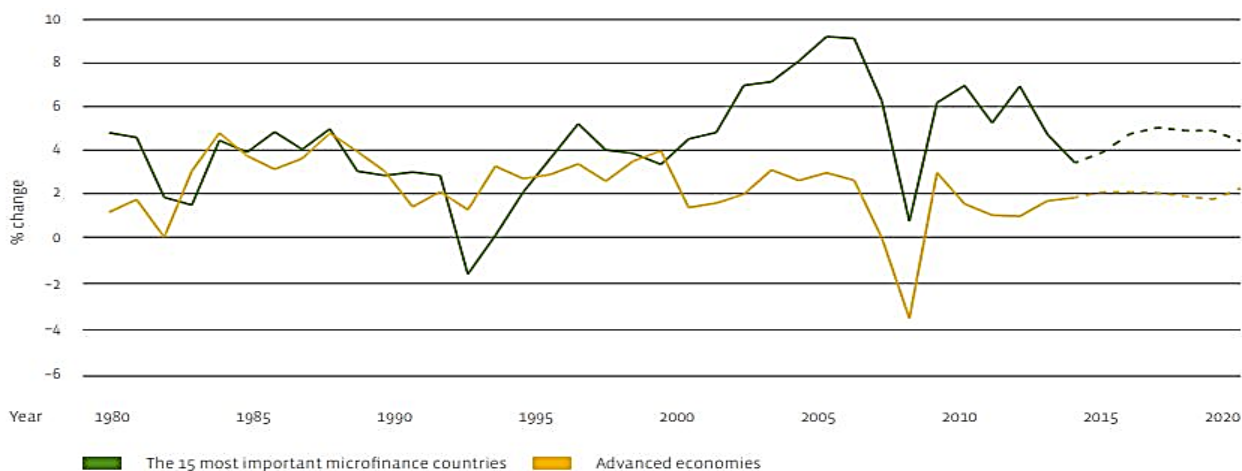


Figure 2 Real GDP growth over time (Source: IMF, Responsibility Research)

Furthermore, the developing nations with the gloomiest economic prospects, such as Venezuela, Brazil, and Russia, lack major microfinance markets. But, even if a country does not have a substantial microfinance industry of its own, its economic slump may bleed over into adjacent economies that do, as Russia has. This section explores the macroeconomic underpinnings of the microfinance markets where responsibility is most active in order to make sense of these diverse developments.

Microfinance performance in poverty alleviation worldwide

The Microfinance industry's renown reflects a huge accomplishment accomplished inside a verified structure. It changed preconceived notions of the poor as purchasers of monetary administrations, broke preconceived notions of the poor as unbankable, presented a variety of loaning strategies demonstrating that it is possible to offer savvy economic types of assistance to poor people, and activated a significant amount of "social speculation" for poor people (Mutua, Nataradol, Otero, & Chung, 1996). The major goal of the microfinance movement was to alleviate poverty. Microfinance organizations might pay for themselves and make a profit while providing the underprivileged with repayable cash. This might emerge from the global spread and institutionalization of microfinance. Microfinance is maybe the most effective method of alleviating poverty in developing countries. While being primarily supported by non-legislative organizations and socially structured financial sponsors, microfinance institutions (MFIs) have gradually demonstrated their usefulness on their own,

supplying numerous items/instruments to help the less "desirable."

According to data from the Indian economy, a huge portion of the impoverished and disadvantaged portions of the Indian economy are financially excluded. They do not have access to the numerous financial services provided by the institutional framework, and access to financial services is not consistent across the economy. This necessitates the creation of an efficient framework for implementing financial inclusion. Prathap, Dr Mahesh, and Karthik (2018) investigated the impact of microfinance efforts on respondents' income levels, the impact of SHG/MFI loans on beneficiaries and their standard of living, and the influence of microfinance initiatives on giving better employment prospects. The population for the research was drawn from Self Help Groups in the Pavagada and Kunigal regions of Karnataka State, India, who had been involved in microfinance operations for at least two years. According to the survey, 82% of borrowers and 61% of entrepreneurs were able to launch their enterprises. The descriptive data revealed a beneficial influence on income levels, greater employment prospects, and an overall improvement in living conditions.

Aggarwal, Klapper, and Singer (2013) investigated the impact of microfinance in creating long-term economic growth for small enterprises in Sub-Saharan Africa. According to the report, having access to capital leads to business growth. Yet, due of the mobilization of household savings and empowerment from financial service access, economic advantages from microfinance are smaller than predicted. The sole beneficial effect of microfinance is the smoothing of consumption

expenditures. As a result, there is a need to promote saving practices that are more effective in reducing poverty than loans. The "graduation rate" is the path to long-term microfinance success. Microfinance "graduates" who may reap long-term rewards are as likely to have saved as they are to have achieved entrepreneurial success. Ahlin and Jiang (2008) focused on the long-term monetary effects of microfinance. Their research revealed that the nature of microfinance advancements might be enhanced by boosting the useful productivity of self-employed borrowers in order to profit sustainability and produce long-term advantages. This is accomplished through data sharing, automated interchange, and the establishment of borrower programs. Incentives for MFI loan officers, as well as performance evaluation and MFI success measurements, should be organized.

Microfinance sustainability may be separated into four interrelated notions in terms of MFI manageability: economic practicality, financial appropriateness, institutional feasibility, and borrower reasonability. Monetary practicality refers to how a lending institution should evaluate the cost per unit of money borrowed to the interest rate it charges its borrowers (i.e., the

financing cost). Financial appropriateness is related to meeting the monetary payment of assets (opportunity cost) used for acknowledgment and other chores for the pay it makes from its lending activities. Meyer (2002) observed that the impoverished anticipated long-term economic support rather than one-time monetary assistance. The little advance would destroy government support to the poor.

Moreover, monetary un-sustainability in the MFI occurs as a result of poor reimbursement rates or the disappearance of assets insured by donors or states. "Measuring financial sustainability necessitates that MFIs keep strong financial records and adhere to established accounting methods that give complete transparency for income, costs, loan recovery, and possible losses" (Meyer, 2002). The microfinance industry has emerged as maybe the most intriguing monetary conveyance development. It is widely seen as a neediness apparatus to aid the economic turn of events and is recognized as crucial monetary support and a good business opportunity; a number of MFIs throughout the world have demonstrated the viability of reaching impoverished people while also being beneficial.

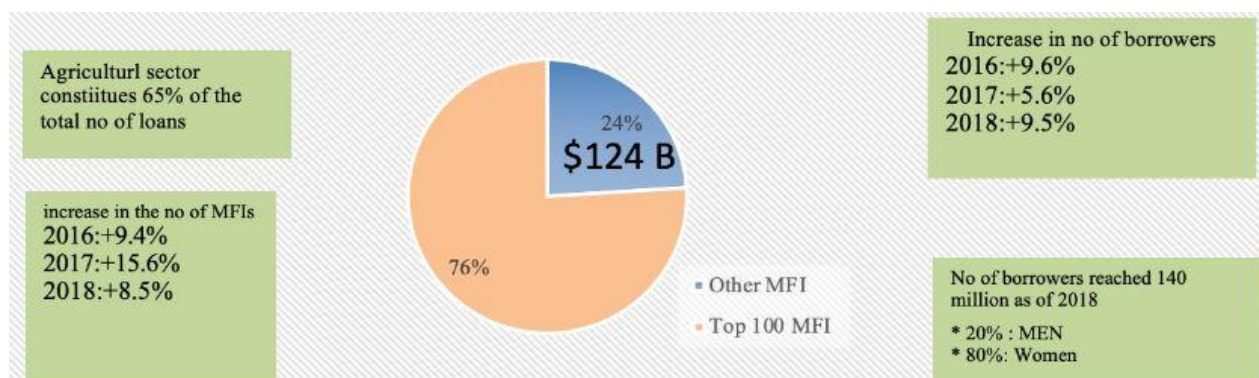


Figure.3 Worldwide MFI performance

Microfinance Institutions (MFIs) have shown to be an important role in poverty alleviation by providing loans to the underprivileged or those who have no or restricted access to credit through commercial banks. In 2017, the company had 139 million customers and a credit agreement of USD 114 billion. Microfinance continues to reduce monetary barriers, with 69% of adults engaging financial administrations in 2017, a 7% increase from 2014. Microfinance institutions (MFIs) have given hundreds of billions of dollars over the previous decade, with an average annual growth rate of 11.5% since 2014.

With over 66% of global borrowers in 2017, South Asia is the global leader in terms of borrowers. India led the way among active microfinance nations, with 50.9 million borrowers and an astounding EUR 17.1 billion, followed by Bangladesh, Vietnam, Mexico, and the Philippines (Barometer, 2019).

Microfinance institutions its potential contribution to positive social outcomes

Historically, an MFI was a large nonprofit organization that relied on grants, subsidies, and contributions to sustain its humanitarian objective of poverty eradication. Yet, it has been suggested that donor assistance and subsidies cannot keep up with the rapid growth of the microfinance business (D'Espallier *et al.*, 2019). To counteract this potential disadvantage, several MFIs have grown financially self-sufficient over time. Grameen Bank is an example of financial sustainability achieved by greater cross-subsidization across programs and increased efficiency (Yunus & Jolis 1999, Yunus 2007). As commercial MFIs joined the sector, Grameen Bank did not stop at becoming self-sustaining. Financial returns to investors became a realistic option, transforming MFIs into a hybrid organization with twin goals of social mission and financial viability. Given this hybrid nature, it

is often difficult to achieve the dual missions consistently, and tensions between social and financial goals have emerged in social entrepreneurship in general and microfinance in particular (Morduch, 2000; Zeller *et al.*, 2003; Austin *et al.*, 2006; Wilson & Post, 2013; Santos, 2012; Stevens *et al.*, 2015; Wry & Zhao, 2018). The most common reason for this trade-off, as indicated by a growing emphasis on commercialization, is that it is more expensive for MFIs to provide financial services to economically deprived individuals, making social outreach come at the expense of a firm's financial success (Hermes *et al.*, 2011; Abate *et al.*, 2014; Postelnicu & Hermes, 2018). This is usually referred to as mission drift, and it denotes the possibility of MFIs shifting away from their basic aim of aiding the poor in order to achieve commercial profitability. Many studies have shown a tradeoff between MFIs' social and financial success, while others have found the reverse (Von Pischke, 1996; Woller, 2007; Hermes & Lensink, 2011). More recent research by Churchill (2020) used a sample of 109 countries and discovered that there is a trade-off between MFIs' financial sustainability and their social outreach depth, but there is complementarity between sustainability and outreach breadth. Notwithstanding sceptical and critical views on microfinance's mission drift, MFIs are often presented positively. Microfinance is still generally promoted as a social enterprise with the potential to benefit society as a whole.

The amount of cross-national research on the socioeconomic consequences of microfinance remains minimal. Researchers all across the world have undertaken several studies on the social implications of microfinance. Microfinance is often regarded as a significant instrument in developing countries for increasing the social and financial inclusion of low-income individuals and households, as it offers these nonbankable people with the benefits of banking services (Yunus, 1999). While poverty reduction is the primary aim, microfinance also offers a plethora of energizing opportunities for expanding markets and creating social change (Armendáriz & Morduch, 2010). In terms of poverty alleviation, microfinance creates employment and generates income, stimulating social well-being among the poor segments of society and serving as an important tool for poverty reduction in both developing and developed economies, though microfinance is more prevalent in developing economies due to its unique characteristics. Countries with greater MFI gross loan portfolio per capita ratios had lower poverty head count ratios and higher consumer spending, confirming the macroeconomic influence of microfinance on poverty reduction (Miled & Rejeb, 2015). Some research, on the other hand, have indicated fewer beneficial effects of microfinance on poverty reduction. Women are the primary objective of microfinance, in line with the essential Sustainable Development Goal of achieving gender equality and empowering women. Finally, women are more concerned about their families' well-being and

spend more in education, providing a multiplier effect that increases the usefulness of a microfinance program's credit funds (Croson & Buchan, 1999, Maclean, 2010). Microfinance is frequently used to empower women through enhancing their psychological well-being and economical standing.

Female borrowers are prioritized, and the proportion of female customers in microfinance programs is significantly greater than that of male peers. According to a typical intrahousehold bargaining model, a microfinance intervention would expand outside possibilities for women, perhaps lowering violence against women since husbands would have more motivation not to damage and potentially lose their wives (Caridad Bueno & Henderson, 2017). While gender disparities impede economic growth and long-term development, the role of microfinance in empowering women is more important than ever (Cheston & Kuhn, 2002; Swain & Wallentin, 2009). Several empirical research have indicated that microfinance programs aid women's social and economic empowerment. It is important to note that the beneficial effect is not absolute, as the impact of microfinance on women's empowerment has been shown to be affected by factors such as age, education level, marital status, inherited assets, number of sons alive, and level of income, as well as their husbands' level of education. The benefits of microfinance to women can also be limited when males feel threatened by women's financial independence and authority and resort to violence to reclaim control. The beneficial impact of microfinance on women's empowerment may potentially be exaggerated, given women rarely have complete control over their finances (Armendáriz & Morduch, 2010).

Moreover, microfinance programs may be integrated into other educational social programs such as group-based health education, marketing, and job skill training, particularly in low- and middle-income nations. In general, microfinance has a favorable impact on a country's economic growth and development (Lopatta & Tchikov, 2016). Overall, the most accurate, reliable, feasible, and fair quantitative evaluation of microfinance social performance remains contentious, making agreement on a single approach to quantify the potentially good social effects of microfinance challenging. Despite their popularity, the authors note that standards-based methods cannot be used to assess microfinance's social performance because they fail to cover all dimensions of the theory of change, and future studies should use specific evaluation frameworks and indicators to assess its effectiveness more comprehensively. Appraising microfinance's social returns is particularly important since it allows for the comparison of measurable impact to measured expenses in order to quantify the change caused by a specific financial statement (Morduch & Ogden, 2019). Finally, policymakers, socially conscious donors, investors, and stakeholders must comprehend the precise effects of microfinance on many elements of social performance. As

a result, a combination of several assessment methodologies is required to completely and effectively quantify the scale of microfinance's social performance. Finally, despite its numerous excellent social consequences, microfinance is not without flaws.

Microfinance has been recognized as one of the most significant development policy ideas in the world, as well as a vital tool for groups fighting poverty across the world. Poverty reduction, job creation, women empowerment, economic growth, social inclusion, and finally contributing to social development are common social ambitions of MFIs. Microfinance may help both developed and developing countries generate self-employment and build microenterprises. Households can extend prospects for additional income accumulation with the help of microfinance, helping them to provide for their family. Access to credit can assist to end poverty quickly, interrupt the poverty cycle by making money available, and allow possible business opportunities. Families may save and even invest in better housing, healthcare, and education, increasing the sustainability and longevity of the good effects. Microfinance allows entrepreneurs in underdeveloped nations and underprivileged areas to live, function, and even prosper in order to provide additional job possibilities for others. Participation in a microfinance program is connected with increased consumption, greater nutrition, higher living standards, and rising economies.

In terms of poverty alleviation, microfinance produces employment and income, increasing social well-being among the underprivileged parts of society and functioning as a significant instrument for poverty reduction in both emerging and established countries. Microfinance services, such as microcredit, have been found to enhance people's living conditions, raise income and generate jobs through entrepreneurship, and smooth seasonal consumption in many developing-world countries. Increased incomes allow poor people to accumulate assets and improve their living situations, consumption levels, and health. Microfinance is also often recognized as a tool for women's empowerment through enhancing their mental well-being and socioeconomic standing. MFIs have a direct impact on household income through enhancing productivity, diversifying output, providing insurance and marketing schemes, and optimizing the use of existing resources. Apart from financial assistance, microfinance promotes human rights and democracy, as well as the empowerment of poor and underrepresented individuals. Microfinance programs can be integrated into other educational social programs such as group-based health education, marketing, and job skill training, particularly in low and middle-income nations.

A tool for accurately measuring microfinance's social performance is required. However, establishing the most accurate, reliable, realistic, and fair quantitative evaluation of microfinance social performance remains contentious, making agreement on a single approach to quantify the potentially good social effects of

microfinance challenging. Although data on financial success is frequently clear and abundant, data on social performance is often lacking or inadequate. Much progress has been made in enhancing the evaluation of microfinance's social impact using criteria agreed upon by industry leaders. To completely and properly quantify the scale of microfinance's social performance, a combination of several evaluation methodologies is required.

In general, microfinance has become an important tool in combating poverty and assisting international development by providing specially designed financial products and services, as well as the necessary technical support to targeted recipients to start and/or grow businesses in order to sustain themselves. Individuals from low-income families who have been designated as 'credit unworthy' by large formal institutions to have access to a certain type of credit or services were the primary recipients. Microfinance, in general, serves the only purpose of assisting the poor or low-income households in certain regions by providing them with the required support and financing to create small productive companies. Microfinance institutions provide these specialized financial products and services (MFIs). Nowadays, the global number of MFIs is growing, and regardless of size, age, or other distinctions between MFIs, there is a degree of, or at least an expected level of, social performance accomplished by the microfinance programs launched by each of these MFIs. Nonetheless, the main question is: how is the social performance of microfinance evaluated? With the considerable consequences for beneficiaries' wellbeing, the necessity of social performance evaluation cannot be overstated. Mainly, properly-executed microfinance evaluations may assist in identifying policy solutions for the microfinance business as well as exposing whether or not MFIs are actually doing what they claim to be doing (Awaworyi *et al.*, 2018).

Given the expanding nature of the microfinance sector, a vast number of empirical studies that investigate various elements of the industry have developed. Nevertheless, the majority of these studies are concerned with issues other than social performance; the handful that have investigated social performance as a study topic use mostly qualitative methodologies and concentrate on the specific problem of social effect.

Conclusion

After a detailed analysis of microfinance sector, the findings are that those institutions are intended to alleviate poverty. Yet, the influence of microfinance extends across other dimensions. As a result, MFIs have been subjected to a series of impact evaluations, as indicated by mainstream literature

Several more writers have presented a broad variety of results and statements; nonetheless, the majority of these revolve around studying microfinance program users over time and identifying one or more indicators that might serve as a measure of impact.

Microfinance is seeing by people as an umbrella for the provision of banking services to impoverished people by poverty-focused financial institutions (microfinance institutions - MFIs) who are not covered by conventional financial service providers. According to the World Bank, around 1.1 billion people live in severe poverty, earning less than USD 1 per day, and approximately 2.7 billion people, accounting for nearly 40% of the world's population, earn less than USD 2 per day. Severe poverty rates vary greatly among emerging nations, ranging from 9% in East Asia and the Pacific to 41% in Sub-Saharan Africa.

Another way that MFIs aid in the reduction of poverty is through the empowerment of low-income communities. It makes an implication on the level of control over existing resources and the decisions that have been made. As poverty is multi-dimension, poor individuals require diverse assets and abilities within the individual context, including components such as health and education, and within the collective context such as the capability of organizing and mobilizing for collectively identifying solutions to challenges. The empowerment of men and women from lower-income contexts calls for the removal of institutional limitations that restrict them from improving their welfare while limiting their ability to make decisions.

The provision of microcredit is the primary service of microfinance. They are often modest loans to the working poor. The findings of the study emphasized that microfinance has an impact on the socio-economic development of low-income households who are unable to access financial services as a result of their poverty. It helps these individuals to engage in the diversification of their household incomes while also alleviating their income. Therefore, microfinance opens up opportunities for borrowers from low-income households to play an essential role in developing economies. It reduces the level of poverty among lower-income individuals by giving them access to the financial services they need to be empowered and to accumulate assets.

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