MICROFINANCE IN IMPROVING THE NATIONAL ECONOMY

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ABSTRACT

Since the introduction of microfinance in the late 1970s, it has been growing immensely to improve the standard of living and eliminate poverty in the global environment. The role and importance of microfinance have been improved irrespective of the financial crisis faced by the world back in 2009. Despite being the global success and considered a key component for the economic growth, there is a mixed opinion regarding the benefits it has to offer. Along with that, very little work has been done for evaluating the contribution it makes for improving the economic conditions of the country. This paper considers the possible impact of microfinance on the economic growth in terms of eliminating or reducing poverty rates, improving the lifestyle and ultimately "Gross Domestic Product (GDP)" improvement for any country.

Keywords: Microfinance, loan, economy, growth.

INTRODUCTION

The term microfinance is considered as the involvement of financial institutions that provide financial services to the general public without the intervention of a banking institution. The research conducted by Thaker (2018) determines that about "*2.5 billion adults*" that earns about an average of $4 per day does not have access to their bank accounts. The reason associated with such drastic figure does differ in the presence of various factors including their perception and opinion about financial charges being levied (Huang et al., 2016). It is estimated that about three-quarters of the entire world population does not have access to their bank accounts, particularly due to huge costs associated with the banking transactions and poverty. Along with that, expensive bank opening requirements are also among the key factors that demotivate the public in opening their respective bank accounts (Pan, 2019). Along with that, for meeting their everyday need or financing the study plan, house construction or car financing, banks often reject the loans particularly due to lack of knowledge about the banking norms and conditions associated with the loans. Microfinance is used for providing these basic banking services to the people that involves accepting the deposits, extension of the loan amount and providing insurance services (Nadzri et al., 2017). This research paper will consider the impact of microfinance on economic development as a whole and how it improves the lifestyle of the public in terms of meeting their everyday requirements.

LITERATURE REVIEW

In the technical terms, "*microfinance*" involves a well-functioning and effective financial sector that is considered important for efficient resource distribution (Zhang &Yang, 2019). It also leads to higher productivity within the economic environment as people tend to invest more of their money (Taiwo et al., 2016). This also discourages the concentration of the financial resources to a single department or sector. It also results in higher productivity, increased investments and also results in global economic growth. There are various researches, including the one conducted by Alfaro (2017) shows that the financial sector or microfinance plays a key role in developing the economy, i.e. it has a positive impact on the economy. Zhang & Sun (2017) has also highlighted that accessing financial literature and government policies that promote financial institutions are also important in the modern corporate environment. Efficient and accurate financial data is necessary that ensures sustainable economic growth for low-income families that still faces the major component of poverty (Alessa et al., 2018).

Considering the developed models of "*microfinance to economic growth*", Arbolino et al. (2018) identify that microfinance is the key integral component that determines the integration of financial needs of the common people together with the country's financial system in place. This ensures that the government policies align with the financial requirements of the general population as it ensures the daily needs of the population is satisfied. This integration is reasonably expected to have a positive impact on the economic growth and in improving the standard of living of the people (Malysheva et al., 2016). However, Othman (2016) determines the long-term implications of reducing income inequality are considered the immediate channel of microfinance influence. Contextually, financial growth is evaluated through four different manners. Firstly, financial sustainable markets promote the local industries and companies for their market penetration and in returns improve the financial growth of the country as a whole. It promotes higher exports and improving the employment rate within the country (Singh &Mittal, 2016). For the second aspect, microfinance is used for facilitating the governments that have a poor governance structure that prohibits the development of key programs. Third, microfinance supports the development of the financial industry in terms of maturity in both developed and under-developed countries. In the last, microfinance also assists in supporting the domestic financial restructurings by distributing the major factors into smaller components (Hes et al., 2017).

METHODOLOGY

For considering the methodology of this research, the research conducted by Shetty & Vasanthi (2019) is considered as it compares the underlying scenario of microfinance and its impact on economic growth in various part of the world. It involves analyzing the time series studies conducted in respect of different countries that are more appropriate in considering for testing the *"temporal or lead-lag relationship"* between microfinance and economic growth.

DISCUSSION

For the underlying research chosen for this paper, it involves using the *"Auto-Regressive Distributive Lag (ARDL)*" that is considered free from the limitations imposed by the unit root and co-integration tests. Othman (2016) estimation technique has enabled for disentangling the reverse causality and more specifically, it has determined the endogeneity of microfinance on the economic growth. The results obtained through the analysis conducted by Shetty & Vasanthi (2019) determines that factors including microfinance loans, agricultural productivity and per capita income were found significant and were considered significant factors in reducing the poverty in the countries.

RESULTS

The results of the discussion also define that microfinance loans have a positive impact and tend to improve the economic growth regarding the short-term implications. The application of improving the consumption spending along with encouraging investment and business development has a positive impact on improving the rate of growth regarding the economic stability and development in financial institutions.

Variables	Chronic poor		Ascending household		Descending households		Never poor	
	1987-88 2000		1987-88 2000		1987-88	2000	1987-88	2000
Labor force								
Family size	5.66	6.05	6.50		4.88	6.97	5.94	6.3
Number of earners	1.54	1.77	6.40		1.75	1.87		9
No. of agricultural workers	1.19	1.10	1.70		1.30	1.22	1.75	
No. of nonagricultural workers	0.35	0.67	2.31		0.45	0.65	2.18	
			1.05				1.12	
Natural assets			1.01				0.84	
Owned land (ha)	0.27	0.24	0.65		0.60	0.47	0.63	
Cultivated land (ha)	0.27	0.21	1.30		0.78	0.31	1.34	
Rice area (ha)	0.35	0.29			1.01	0.37		
MV rice cultivate area (ha)	0.10	0.18			0.31	0.24		
			0.42				1.23	
Human assets			0.74				1.29	
Average years of schooling of all	3.16	5.90	0.38		4.08	7.45	1.06	
earners			0.54				0.75	
			0.46				1.51	
Financial assets ($)	13	31	0.78		15	12	1.01	
Amount of institutional loan taken	27	10	0.19		31	4	0.57	
Amount of noninstitutional loan taken	40	41	0.57		46	16	0.70	
Total amount of loan taken								
Physical assets ($)	98	131	5.18		163	174	8.09	
Total nonland fixed assets	77	101	12.60		154	99	15.98	
Agricultural assets	20	30			9	75		
Nonagricultural assets								
			17	45			13	108
			28	17			89	42
			45	62			102	151
			137	658			323	1242

Figure 1: Asset Base and Income Statistics

Reasons of improvement	Dynamic poverty groups					
	Ascending households			All groups		
	Cases	%	Rank	Cases	%	Rank
Structural	98	73.1	I	297	74.4	I
Increase in natural assets	10	7.5	4	42	10.5	4
Increase in human assets	35	26.1	2	93	23.3	2
Increase in financial assets	6	4.5	6	27	6.8	6
Increase in physical assets	37	27.6	1	101	25.3	1
Increase in social assets	6	4.5	6	14	3.5	8
Favorable market conditions	4	3.0	7	20	5.0	7
Life cycle	32	23.9	II	89	22.3	II
Increase in labor force	16	11.9	3	40	10.0	5
Positive change in household demography	16	6.0	5	49	12.2	3
Crisis	4	3.0	III	13	3.3	III
Positive shocks ("good luck")	4	3.0	7	13	3.3	9
Total cases	134	100	_	399	100	_

Figure 2: Reason for Improvement for Well-being

CONCLUSION

Improving financial institutions also leads to higher productivity within the economic environment as people tend to invest more of their money. It also discourages the concentration of the financial resources to a single department or sector. This also results in higher productivity, increased investments and also results in global economic growth.

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