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THE PECULIARITIES IN MICROFINANCE TRENDS: ANALYZING DIFFERENT GEOGRAPHICAL REGIONS IN THE PERIOD 2014-2021

ABSTRACT

The paper investigates the ongoing trends in microfinance, particularly the trend peculiarities per regions. The data encompassed three periods including years 2014, 2017 and 2021. By utilizing the empirical data, the paper offers a comprehensive overview and analysis of the different microfinance aspects and their trends and transformation during the specified period.

The results and conclusions from the analysis demonstrate the strong trend in increased values for three aspects in the analysed regions. Indicators representing global values show evidence of strong trend of increased impact of social, commercial, and digital aspects.

Findings not only underscores the microfinances significance in promoting financial inclusion, but also highlights the adaptability and acceptance of the microfinance institutions in addressing the evolving needs of low-income populations across the global regions. Determination of these trends is crucial for all stakeholders in the financials systems to exploit the high potential of microfinance as a significant support for economic and social well-being.

Keywords: Microfinance, social aspects, commercial aspects, digital aspects

JEL Classification: G, G00, G21

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Introduction

Microfinance is a widely used term in present days as an income generation tool for poorer population and effectively running approach of funding in many third-world countries. This tool has great significance in alleviating poverty and vulnerability of the poorer groups through shattering the disastrous cycle of poverty (Chowdhury, 2009). Microfinance is a financial service provided to unemployed or poor people or groups who would otherwise have no other way of benefits by any other financial services. It is a variety of services for low-income individuals, mostly women and young clients. The goal of microfinance is to aid poor people by giving them an opportunity to be self-sufficient and economically empowered through diverse ways (Islam, K.A. 2016).

Microfinance is constantly evolving in the track of developing contemporary products and services aimed to improve the living standard of the poor. The modern aspects of microfinance, driven by dynamic changes in the economy, accompanied by the digitalization are drastically changing the role of microfinance.

Recent years the microfinance sector has undergone a profound transformation based on technology shifts. Thus, microfinance is emerging as a valuable tool for poverty easing, financial inclusion, and economic development across various dimensions and regions. In the three observed periods 2014, 2017 and 2021, this sector experienced dynamic shifts and remarkable trends that reshaped its landscape and impact. This period promoted continued growth of microfinance in all regions, but also introduced significant increase in social, commercial and digital dimensions of microfinance (Chen et al., 2017).

Main research hypothesis is testing whether the microfinance dimensions observed via three aspects are increasing linearly in all regions and observed periods. The main idea is to analyse if one dimension is substituting the other or if all are increasing towards higher impact rate of usage by the population (Banerjee et al., 2010).

For this purpose, the paper is based on the World bank's global Findex database and their massive survey for usage of formal and informal financial services in all countries around the world. We use comparative analysis and graphical representation of trends to determine trend and status per indicator representing the social, commercial, and digital aspect of microfinance.

1. DATA AND METHODOLOGY

The source of data for this research is the database of Global Findex - World bank for years 2014, 2017 and 2021. This database contains the answers of 123.000 participants from 123 countries around the world. For analysing the microfinance trends between several aspects in this case we use data from different global regions and global data for the selected indicators.

In this research we use several indicators indicating the social, commercial, and digital aspects of microfinance. The main criteria for indicator selection were that the selected indicator has at least 60% available data from the countries, regions, and years. Other criteria which influenced the selection of data were the importance of the selected period and its impact to the lowest income group.

Ensuing the selected criteria in this paper we use the following indicators for analysing trend between different dimensions:

- Borrowed from a formal financial institution, income, poorest 40% (% ages 15+) representing social aspects.
- Owns a credit card, income, poorest 40% (% ages 15+) representing social aspects.
- Made a digital payment income, poorest 40% (% ages 15+) representing digital aspects.
- Yearly average for account income, poorest 40% (% ages 15+)- representing participation of the poorest income group in the financial system.

Furthermore, in the analysis we use the following global regions indicators available in the Global Findex database:

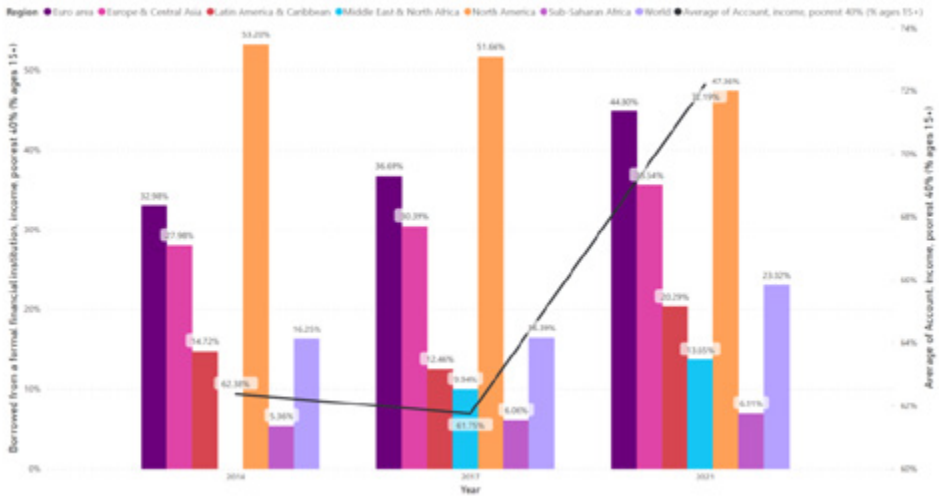
- Euro area;
- Euro and Central Asia;
- Latin America and Caribbean;
- Middle East and North Africa;
- North America;
- Sub Saharan Africa;
- World.

2. SOCIAL ASPECTS OF MICROFINANCE IN DIFFERENT GEOGRAPHICAL REGIONS

The social aspect of microfinance encompasses its ability to empower marginalized individuals and communities by providing them with access to financial services. It fosters financial inclusion, reduces poverty, and promotes economic self-sufficiency (Ahlin et al., 2010). Microfinance institutions often prioritize lending to women, fostering gender equality, and enabling them to start and expand small businesses (Beisland et al., 2021). Moreover, microfinance encourages savings habits and financial literacy, enhancing the overall well-being and resilience of vulnerable populations. The social impact of microfinance extends beyond financial transactions, contributing to social development, improved livelihoods, and reduced inequality within societies (Banerjee et al., 2013).

For the representation of the social dimension of microfinance we use the values of the indicator of "Borrowed from a formal financial institution, income, poorest 40% (% ages 15+)" which means that values consider percent of poorest population which borrowed money from the formal financial institution. This indicator is used under the assumption that the concept of microfinance considers the access to finance to low-income groups and that this indicator is closely related to access of low-income groups to finance. We also use the indicator of percent of average accounts per year of the poorest 40% of the population as the indicator of involvement of this population in the finance system. Another assumption we use is that by using these two indicators per different periods in this case 2014, 2017 and 2017 and with different global regions should provide insight of microfinance trends of the social aspects.

Graph 1 Borrowed from a formal financial institution, income, poorest 40% (% ages 15+) and percent of average accounts per year of the poorest 40% of the population



Source: Global Findex Database of World Bank.

https://www.worldbank.org/en/publication/globalfindex. Accesses 15.08.2023.

Graph 1 demonstrate that we have the strongest upper trend of borrowing money in the **Euro area and Europe and Central Asia** area and **Middle East and North Africa** (not considering the lack of data for 2014 for Middle East and North Africa), and a slow upper trend in the **Sub-Saharan** area **globally** world wise. A downward trend is registered in **North America** while in the case of **Latin America and Caribbean** values decreased in 2017 from 2014 and significantly increased in 2021. Analysing the values, the average accounts of the poorest population and comparing with and the money borrowed from the low-income population, we can conclude that the poorest population have higher percent of borrowing money, than the average percent of account of the low-income population. Such finding leads to general conclusion that in years 2014 and 2017 the population is borrowing money with higher rates than the accounts used by population. For the year 2021 we can perceive the trend of using accounts on average higher than the borrowing values in all regions.

The general conclusion is that the borrowing trend is closing in the year 2021 in highest registered values, except in the case of North America. Having in mind that the borrowing rate in North America is 47% which is significantly high compared to other region and it is just 10% lower than the highest registered rate of 53%, we can conclude that the hypothesis of the high impact of social aspect of microfinance is high and with an upper trend.

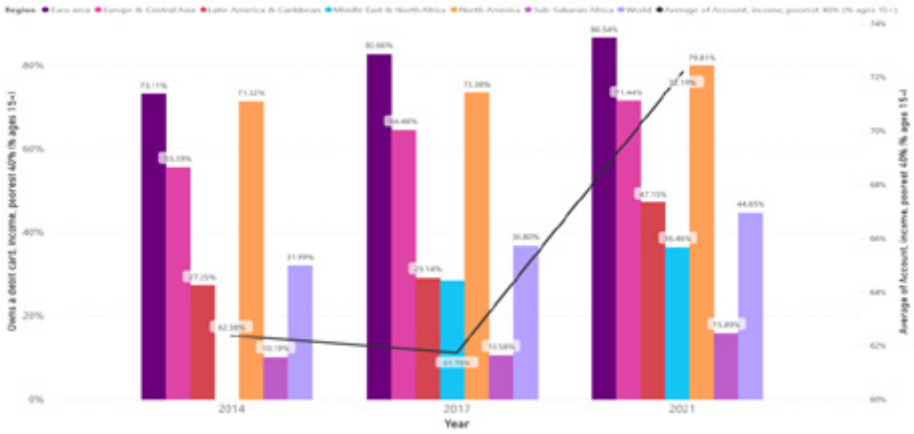
3. COMMERCIAL ASPECTS OF MICROFINANCE IN DIFFERENT GEOGRAPHICAL REGIONS

The commercial aspect of microfinance emphasizes its sustainability and profitability as a financial industry. Microfinance institutions operate as businesses, seeking to generate revenue while serving low-income clients (Hermes et al., 2011). They charge interest rates and fees on loans to cover operational costs and ensure financial viability. Commercial microfinance models aim to attract investments and achieve financial self-sufficiency, which enables them to expand their outreach and offer a wider range of financial products (Khavul, 2010). This aspect recognizes the importance of balancing social impact with financial sustainability, ensuring that microfinance can continue to reach, and benefit underserved populations over the long term (Abrar et al., n.d., 2023).

For the representation of the commercial aspects of microfinance we use the values of the indicator of "Owns a credit card (% age 15+) income, poorest 40% (% ages 15+)" which means that values consider percent of the poorest population which owned a credit card. This indicator is used under the assumption that owning a credit card by people of the poorest income group commercial would provide income to the financial institution issuing credit card. Also, we also use the indicator of percent of average accounts per year of the poorest 40% of the population as the indicator of involvement of this population in the finance system. Another assumption is that by using these two indicators per different periods in this case 2014, 2017 and 2017 and with

different global regions, should provide insight of microfinance trends of the commercial aspects.

Graph 2 Owns a credit card, income, poorest 40% (% ages 15+) and percent of average accounts per year of the poorest 40% of the population.



Source: Global Findex Database of World Bank.

https://www.worldbank.org/en/publication/globalfindex. Accesses 15.08.2023.

Graph 2 shows that we have the strongest upper trend of owning a credit card by the poorest population in all regions except for Latin America and Caribbean. Looking into the values of the average accounts of the poorest population and comparing with and the money borrowed from the low-income population, we can conclude that the trend of increased use of credit cards is higher than the trend of opening an account. This indicates that the commercial dimension of microfinance, represented by the owning a credit card by the poorest income group has an increased impact in almost all regions.

4. DIGITAL TRANSFORMATION AND MICROFINANCE IN DIFFERENT GEOGRAPHICAL REGIONS

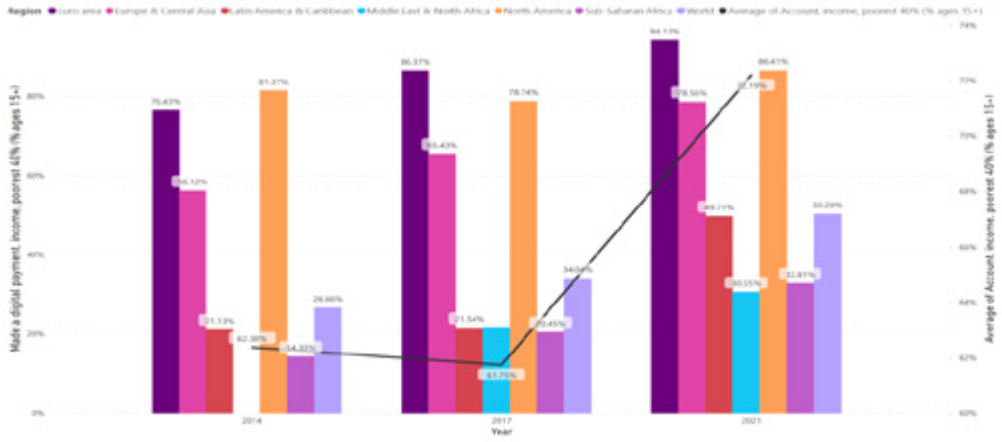
Traditional financial services and channels have evolved from brick and mortar into the digital world. The expansion of digital financial services (DFS) meant more financial assets and easier access to financial inclusion for everyone. According to the data from Global Findex Database of World Bank in the year 2017 3,8 billion people (69 percentage of the adult population) possess a financial account (bank and mobile money), which is an increase of 1,2 billion people regarding 2011. In Sub-Saharan Africa, one in five adults now has a mobile money account, more than double as in 2014.

The digital aspect of microfinance refers to the integration of technology and digital tools into microfinance services (Siwale et al., 2021). It leverages mobile banking, online platforms, and digital payment systems to improve accessibility and efficiency. This allows clients, especially those in remote or underserved areas, to access financial services, make transactions, and receive loans or savings digitally (Benami et al., 2021).

The digital dimension also enables data analytics and risk assessment, enhancing the speed and accuracy of loan approvals. It can lower operational costs, reduce paperwork, and promote financial inclusion by extending services to individuals who were previously excluded from the formal financial sector, ultimately democratizing access to finance (Kandie et al., 2021).

For the representation of the digital aspect of microfinance we use the values of the indicator of "Made a digital payment, income, poorest 40% (% ages 15+) which means that we are using the percent of people from the lowest income group. Here we also use the indicator of percent of average accounts per year of the poorest 40% of the population as the indicator of involvement of this population in the finance system. Also, another assumption is that by using these two indicators per different periods in this case 2014, 2017 and 2017 and with different global regions should provide insight of microfinance trends of the digital dimension.

Graph 3 Digital payment, income, poorest 40% (% ages 15+) and percent of average accounts per year of the poorest 40% of the population



Source: Global Findex Database of World Bank.
https://www.worldbank.org/en/publication/globalfindex. Accesses 15.08.2023.

Graph 3 demonstrates that we have a strong upper trend in all regions apart from the region of North America in 2017, where the values are registered lower than the previous period of 2014. Highest registered values of digitalization through this parameter are registered in Europe area in 2021. The lowest rate of digitalization is showed in Sub- Saharan Africa with 32.81% in 2021, while globally we have significant increase up to 50,29% on global level seen though world values. Compared to the average account for a low-income population per country, we derived to the findings that the values of a digital payment indicator are increasing at a much higher rate than increasing the accounts. Such findings lead to the conclusion that digital dimension through the observed period has increased impact in the low-income population group.

Conclusion

Social, commercial, and digital aspects of the microfinance sector have demonstrated high adaptability and resilience during the years from 2014 to 2021. It has evolved from a simple model of small loans into a multifaceted industry that leverages technology, embraces sustainability, and navigates complex regulatory landscapes. While challenges persist, the impact of microfinance on improving financial inclusion and empowering individuals and businesses in underserved regions cannot be denied.

The ongoing COVID-19 crisis has also reinforced the need for increased digital financial inclusion. Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers.

The finding of this paper provided evidence that all three aspects of microfinance increased its influence on low-income populations. In all regions and in three observed periods, in the case of observed indicators we have robust evidence of a high trend of acceptance of indicators symbolizing social, commercial, and digital aspects of microfinance.

General recommendation drawn from the finding is that economic policy makers should use these peculiarities in the microfinance trend to produce higher rates of economic development, and stronger economic support for low-income groups through the concept of microfinance.

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