Chapter 15
Exploring the Role of Microfinance in Emerging Nations

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ABSTRACT

This chapter explains the overview of microfinance; the efficiency of microfinance institutions (MFIs) and sustainability; microfinance and interest rates; microfinance and information technology (IT); microfinance, social capital, trust, and repayment rates; microfinance and health care; informal microfinance institutions (IMFIs) and tourism entrepreneurship; and the importance of microfinance in emerging nations. Financial services provide a method for people and businesses to obtain credit and manage available assets on a continuous basis. Microfinance has a significant role in bridging the gap between formal financial institutions and rural poor households. MFIs can access financial resources from banks and other financial institutions and provide financial services to poor households. The chapter argues that promoting microfinance has the potential to enhance financial performance and reach economic goals in emerging nations.

INTRODUCTION

Microfinance is an effective tool for promoting entrepreneurship and poverty reduction (Boachie, 2016). Microfinance has demonstrated the great success in the poverty relief in developing countries and microfinance is experiencing rapid economic growth in developed countries (Hettihewa & Wright, 2011). Microfinance institutions (MFIs) provide microcredits (i.e., small loans not backed by collateral) to low-income individuals with poor or non-verifiable credit history (Serrano-Cinca, Gutierrez-Nieto, & Reyes, 2016) toward improving their quality of life (Churchill, 2015). The poor households need access to savings products (Cozarenco, Hudon, & Szafarz, 2016). MFIs have to effectively operate to fulfill their missions of serving poor clients and being sustainable in the global economy (Segun & Anjugam, 2013).

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MFIs can enhance their contribution to financial inclusion promotion by expanding their support of financial services, participating in a credit bureau, and providing portability of accounts, greater flexibility in operation, and financial literacy training (Shankar, 2015). Microfinance has developed from a purely welfare-oriented activity to the commercial line of banking business (Schmidt, 2010). Microfinance utilizes the direct engagement with the poor and attempts to generate economic growth through market-driven business initiatives (Goel & Schnusenberg, 2014). The provision of microfinance services (e.g., micro loans, insurance, savings, and technical assistance) is considered as an effective measure for the reduction of poverty and the levels of unemployment in emerging nations (Gasmelseid, 2015).

This chapter focuses on the literature review through a thorough literature consolidation of microfinance. The extensive literature of microfinance provides a contribution to practitioners and researchers by explaining the advanced issues and implications of microfinance in order to maximize the economic impact of microfinance in emerging nations.

BACKGROUND

Microfinance emerged in the 1970s as an effective strategy to increase the credit access among poor households in developing countries who were routinely ignored by formal lenders and left to borrow from informal money lenders at elevated interest rates (Rajbanshi, Huang, & Wydick, 2015). Over the past three decades, microfinance has become a popular development intervention (Baruah, 2010). Microfinance has dramatically changed during the last decade, moving from the scope of donor-financed non-governmental organizations (NGOs) toward a widely disparate industry (Mersland, 2009), including a growing number of commercial banks.

MFIs have helped thousands of people to cross the poverty line (Youssry, Winklehake, & Lobera, 2015). The development of microfinance programmes in Europe has increased due to the establishment of a large number of small businesses, increase in unemployment, high inflation rates, and the poor population, which all constitute the stimulating conditions of microfinance development (Jawadi, Jawadi, & Dechamps, 2010). Many microfinance programmes are heavily dependent on subsidies (Quayes, 2012). MFIs' subsidies and donations affect their outreach activities, where the institutions that receive more subsidy funding tend to display greater outreach to poor households. Adverse selection, moral hazard, absence of enforcement mechanisms, and high costs should have made microfinance nothing if nonexistent, or at least subsidized (Shapiro, 2015).

MFIs offer nonfinancial services, such as entrepreneurship-related knowledge (Chakrabarty & Bass, 2013), in addition to financial services to agrarians and poor borrowers at the bottom of the pyramid (Chakrabarty & Bass, 2014). Microfinance providers (e.g., MFIs and microfinance banks) are considered as the best apparatus for alleviating poverty (Ali & Khan, 2015). Microfinance encompasses microcredit, referred to as microlending (Assadi & Hudson, 2012). With the rise of microfinance in developing countries and its evolution to a business model in developed countries, microfinance has fully transitioned to the Internet, taking the form of social lending (Assadi & Hudson, 2010).

The microfinance industry offers attractive opportunities to investors who want to help alleviate poverty in developing countries (Briere & Szafarz, 2015). Microfinance increases the recipients' economic empowerment (Mazumder & Lu, 2015). Although there are many positive effects of microfinance on poverty reduction in the world, negative impacts of microfinance are found, such as over-indebtedness (Aye & Nakamori, 2014). One of the strategies to defend the negative effects is to increase the capacity

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