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TOPIC OF DOCTORAL DISSERTATION

"The role of microfinance institutions in the contemporary economy and their financial performance"

Candidate

Fitore Rudhani

Mentor

Prof. Dr. Diana Boskovska

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Abstract

The subject of research of this doctoral thesis is identifying and evaluating the role and contribution that microfinance institutions (MFIs) have in the development of the economy, reducing poverty, improving the well-being of marginalized categories of citizens, as well as micro and small enterprises. Microfinance institutions in the course of their operations aim to reduce extreme poverty, influence the reduction of gender inequality and achieve greater social and economic empowerment of certain groups of the population, especially women. A special focus in the paper is placed on the role of IFIs in the Republic of Kosovo, which indirectly enables the identification and evaluation of the impact of microfinancing on the development of developing countries.

According to the findings of the theoretical research on the role of microfinance institutions, the need for a more in-depth study of the market of microfinance institutions is ascertained, because it is a market that is constantly growing, and the products offered are more expensive compared to other products on the market and above all intended for a low-income population. The doctoral thesis uses secondary data obtained from published financial reports from IFIs, as well as from other relevant institutions.

Key words: Microfinance, MFI, unemployment, poverty, women entrepreneurship, financial indicators

Апстракт

Предмет на истражување на овој докторски труд е идентификување и оценување на улогата и придонесот што микрофинансиските институции (МФИ) го имаат во развојот на економијата, намалувањето на сиромаштијата, подобрувањето на благосостојбата на маргинизираните категории на граѓани, како и на микро и малите претпријатија. Микрофинансиските институции во текот на своето работење имаат за цел да ја намалат екстремната сиромаштија, да влијае на намалувањето на родовата нееднаквост и постигнување поголемо социјално и економското зајакнување на одредени групи на население пред се на жените. Посебен фокус во трудот е ставен на улогата на МФИ во Република Косово, што посредно овозможува и идентификување и оценка на влијанието на микрофинансирањето за развојот на земјите во развој.

Според наодите од теоретското истражување за улогата на микрофинансиските инстутиции се констатира потребата од подлабинско проучување на пазарот на микрофинансиски институции, бидејќи тоа е пазар кој е во постојан раст, а производите што се нудат се поскапи во споредба со другите производи на пазарот и пред се се наменети за популација со ниски приходи. Во докторскиот труд се користат секундарни податоци добиени од објавени финансиски извештаи од МФИ, како и од други релевантни институции.

Клучни зборови: Микрофинансирање, МФИ, невработеност, сиромаштија, женско претприемништво, финансиски показатели

INTRODUCTION

It is being seen that the number of studies on microfinance institutions has recently been increasing. Microfinance institutions are part of many decisions for society regarding the goals, requirements and objectives of society for daily life activities. These institutions undoubtedly have a very important role in providing financial products and services that are closely related to a significant amount of market demand. While the role and importance of microfinance has attracted a great deal of interest in recent years, there are still many unexplained details from previous studies that do not yet have a concrete definition. Given the fact that the population in Kosovo and the Western Balkan countries are large in number in terms of demand for microfinance products, and on the other hand the research that reveals more details about these products, the price and everything else about of them, are few as studies, with a slightly increasing potential. Aspects that strengthen the need to research this area are women's empowerment, youth empowerment, social welfare, support and job creation through the opening of new businesses and self-employment. Economic development involves many situations, diverse people, diverse ideas, which always need initial investment at the moment of starting the implementation of the entrepreneurial idea. Undoubtedly, even during the life of the business, there is a need for products that are considered empowerment for their existence and success. Obviously, the need for these products arises even for the lower income population, where the main focus for this layer is the well-being and fulfillment of essential needs related to consumption and education. The low-income population faces extremely severe shortages of basic necessities, especially in the last two years when all countries have been gripped by the COVID-19 pandemic, thus affecting credit demand and supply. While the microfinance program also focuses on the role of a mechanism aimed at poverty reduction especially in developing countries. During the review of the literature in the field selected for the study, it was noticed that microfinance institutions have been emphasized many times as an instrument of great importance for poverty reduction, contributing to the low-income population in improving their income, increase savings and consumption as well. Also, the purpose of this study is to examine, analyze the impact of Microfinance as well as focus on the intervention and its contribution to poverty reduction. Simply there are minimal studies detailing the role and influence of MFIs on the contemporary economy, since we know that Microfinance is a development tool.

So, this study focuses on address this literature gap by exploring the role of MFIs in the contemporary economy. The significance of microfinance institutions in Kosovo has increased considerably over the last ten years (Tasha et al., 2018). Microfinance is viewed both as a tool for fighting poverty in developing nations and as an instrument for reconciliation after a conflict environment is dissipated. Following its war in 1999, Kosovo found itself in a devastating environment with its entire economy being diminished (Shkodra, 2019). MFIs in this country, therefore, have been applied approaches to fighting poverty and creating new development possibilities for small firms. The Kosovo microfinance sector has experienced rapid advancement beginning as MFIs that were donor-funded in 2000, and then undergoing transformation into financially sustainable microcredit organizations (MCOs) (Shkodra et al., 2021). These MFIs have presented increased access to formal credit to small-scale entrepreneurs and individuals in the low-income category.

1. Subject and purpose of the research

To establish a proper direction for the research process, both primary and secondary questions have been developed. Research objectives make a concise description of what the study is attempting to attain. The primary objective of the study is to establish the role of microfinance institutions in the contemporary economy and financial performance with a focus on the case of Kosovo. Based on the primary objective, the following secondary objectives were created:

- To evaluate the role and impact that MFIs have in the contemporary economy by assessing its influence on businesses and individuals;
- To assess the contribution of MFIs to the growth of the economy in Kosovo by establishing its impact on poverty, women entrepreneurship and unemployment.
- To asses the financial performance of MFIs generally and then with the particular focus of MFIs in Kosovo by highlighting factors that define performance of MFIs;
- To assess the obstacles of the operating of the MFIS in Kosovo;
- To evaluate some recommendations and directions for improvement of MFI' operating in Kosovo;
- To make base for farther research of MFIs in Kosovo, but in generally in the developing countries.

The research has its focus on MFIs and their impact on the contemporary economy. First of all, the impact to the contemporary economy is theoretically research by assessing its influence to businesses and individuals. Microfinance institutions ensure that the presentation of financial resources to the low-income entities and micro and small enterprises (MSEs), present substantial benefits supporting growth and advancement while also contributing to the reduction of poverty (Hossain et al., 2020). In most developing nations, formal financial markets only provide services to a small percentage of the population which is about 20%-30% (Lensink et al., 2018). The decreased accessibility of banking and other financial resources is viewed as some of the challenges that face SMEs. These limitations typically restrict most businesses from fully participating in the financial sector (Hermes et al., 2018). Substantial research has indicated the significance of savings and credit services to these small enterprises (Be Island et al., 2021). This emphasizes the growth of MFIs as critical elements for investment, employment, and economic growth.

The factors that influence the financial operations of MFIs are also the subject of this research. Determinants of the financial operations of MFIs that are included in the research are: interest rate, non-interest income, asset composition, deposit composition and liquidity.

As a developing country, MFIs in Kosovo have a crucial role in the development of the country’s economy and the support of its small enterprises (Beisland et al., 2021). Therefore, there exists an urge for establishing the impact and role of MFIs in the economy and assessment of their monetary achievements. There has also been a minimal assessment of the role of MFIs with an emphasis on the economy of Kosovo, as most of the studies conducted on the issue have findings that were only relevant more than a decade ago. This study therefore, assesses this problem with a focus on the case of Kosovo. Namely, the study assesses the contribution of MFIs to the economy in Kosovo by establishing its impact on poverty, unemployment and women entrepreneurship, as well as its role in the financial sector.

Lastly, the study establishes the standards of financial performance for MFIs in the economy of Kosovo by highlighting factors that define performance of MFIs. The existence of different standards of performance also increases the difficulty associated with establishing the performance of MFIs and their contribution.

2. Explanation of the working hypotheses and theses

Three hypotheses were established for the research. The first hypothesis proposed is formulated in the following terms:

H1: In developing countries, MFIs have a substantial contribution to the development and growth of the economy such as the case of Kosovo's economy.

By providing microcredit and financial services to small enterprises and individuals in the lower income bracket, MFIs support investment into the growth of economy. They also support an increase in the purchasing capability of consumers and the expansion of small businesses. From this general hypothese come out more theses:

-The development and growth of MFIs in many nations have acted as an essential sector for developing another alternative of financial support that support individuals within the lower income brackets and their small enterprises in increasing their income.

- MFIs have presented substantial contributions to the growth of the economies of different countries and decreasing the scarcity of income (Hossain et al., 2020).

- MFIs present loans to the population to affordable interests' rates while allowing individuals to make repayments in easy installments.

- MFIs support entrepreneurs in running their businesses while teaching them to deal with existing interruptions.

- These benefits, however, shift from one country to the other and vary with the existing political and economic frameworks.

H2: The operating of the MFIs is determined by financial and non-financial performances.

In the research in focus is the financial performance of MFIs, that is influnced by many determinants. An understanding of the financial and non-financial performance can only be effectively established through existing determinants of performance. From this general hypothese come out more theses:

- The high interest rates of the micro loans offered by MFIs showcase positive financial performance and increased profitability.
- High non-interest income showcases the high level of profitability within an MFI.

- There is a direct correlation between the asset composition of an MFI and a rise in its profitability and its financial performance.
- When an MFI has low deposit composition, it indicates an increase in its transactions and efficiency in its operations.
- When an MFI has a high level of liquidity, it has an increased capability to meet its short-term obligations.

H3: The financial performance of MFIs in an economy are largely dependent on the support of the government.

The financial performance of MFIs in a country's economy are substantially influenced by the existing regulatory frameworks and corporate governance standards that have been established. The economic framework within an economy also establishes the level of performance in an MFI. From this general hypothesis come out more theses:

- Government involvement in the MFI sector often results in increased transparency resulting in better financial performance.
- Increased government involvement facilitates regulatory reform which maintains the integrity of the financial system. Therefore, MFIs have a conducive environment specialize their services and have better performance.
- The focus on business environment by government support strengthens the banking system resulting in increased access to infrastructure by MFIs.

3. Research methodology

The doctoral dissertation includes several methods of scientific research. Analysis and synthesis as basic research methods are present throughout the dissertation. They involve the use of inductive and deductive analysis to identify the necessary elements and their relevance in the research process. The synthesis finds its application to systematize the identified elements and to contribute to providing a logical sequence of the research, but also to the drawing of conclusions. The descriptive method has its application, primarily in presenting the subject of the research with relevant information.

A statistical method is used to collect data, process it and extract results. For greater clarity, the presentation of statistical data and findings are realized with the help of excel program, through excel tables and graphs. The statistical method allows us easier access to reading and commenting on research results. The study primarily uses secondary data.

The descriptive analysis method is applied for analyzing data in the study. Descriptive analysis is a form of data analysis that assists in the description, showing, or summary of data points in a manner that is constructive (Kemp et al., 2018). The analysis of the descriptive method involves the application of frequency tables, cross tabs, pie charts, and bar charts for the representation of the data under analysis.

A comparative method is applied at the end of the research, to compare analysis the performances of MFIs in Kosovo. The purpose of using the comparative method is to identify common features and differences of MFIs.

A convenient sampling method is applied to the process of obtaining the sample. Convenience sampling is a form of non-probability sampling that includes the sample being obtained from that aspect of the population that is close (Elfil et al., 2017). The main aspects of this method are that the subjects are easily and conveniently available having operated over the last ten years and making reports of their financial activities for the last ten years. Data is collected from a database of audited financial statements of the MFIs in Kosovo. The information that are collected includes the general profile, the outreach to the client and the market, the products and services being provided, the impact assessment, plans, services received and conditions for service accessibility. The data obtained is also supplemented with other data from different government publications and reports presented within the country's financial sector.

The mentioned methods help in the realization of the entire research, drawing solid and relevant conclusions and verifying the set general hypothesis.

4. Contents

The content of the doctoral dissertation as titled “The role of microfinance in the contemporary economy and their financial performances” involves plans and procedures of research associated with the topic of the dissertation which is presented in the order: introduction, five chapters, following by the discussion and conclusions.

Since in chapter one we have elaborated main contents of the research including the structure of the research to understand more closely by abstract what is researching about, so the first chapter provides an overview of the concept of the microfinance market, institutions, products and the contemporary definition. The characteristics of these institutions are also mentioned, being presented from the aspect of all those who have at least once benefited from the researched institutions.

Chapter one has described theoretical review of Microfinance Institutions, especially difference between microfinance and microcredit in general as part of market; concretely is described the detailed review of the literature on microfinance contingent access in general. The second chapter involves an assessment of the role of the microfinance institution in the contemporary economy, provides a detailed overview of the role of microfinance institutions, emphasizing the impact of the three things we focus on, namely: poverty, rural development, women entrepreneurship. The third chapter presents the determinants of financial performance of microfinance, introduces models and studies the performance details of these institutions. The fourth chapter focuses on Kosovo more specifically on the performance of financial institutions in the Kosovo market, mainly on the structure and impacts that these institutions have in focus goals. Chapter Fifth discusses in detail the analysis of the financial performance of microfinance institutions in Kosovo, the limitations and comments of the research. The conclusion provides a discussion and conclusion of the research and study implications for microfinance market practitioners as well as provides further details on future research opportunities.

CHAPTER I. THEORETICAL REVIEW OF MICROFINANCE INSTITUTIONS

The review of the existing literature on the main concepts of microfinance is done to highlight the nature of the services provided, the evaluation of the contribution of microfinance institutions in the economic activities of young people and women, the identification of indicators of economic growth. The identification of gaps in previous studies related to microfinance, poverty alleviation, employment has been done in detail, offering an original contribution to the existing set of knowledge in the microfinance industry.

In developing economies women entrepreneurs suffered lots of barriers to enterprise because of male dominated in asset ownership. It is considered that microfinance researchers have given numerous arguments which in one way or another argue that access to microfinance can help significantly reduce poverty, thus contributing to an increase in income as a potential increase in investment which investments generate income, in improving the economic and social situation of women's gender quota as well as in the accumulation of assets. Considering microfinance as one of the ways to pull people out of the background of extreme poverty, we come to the conclusion that the poorest countries in the world are the main markets for the initiatives of these institutions. Microfinance institutions are those that continuously provide access to microfinance products for those households whose incomes are low and which households are limited by other financial systems. It means that commercial banks which constantly offer financial products are inclined not to offer these products to certain groups of individuals who have insufficient monthly income as well as assets which may be part of the return guarantee to credit.

Therefore, microfinance institutions offer opportunities to this group of the population by also offering, in addition to certain products, easier conditions for the payment of loan installments.

In literature there has been a wide range of studies with a focus on the role of microfinance in different aspects of economic growth. Advancement in microfinance institutions (MFIs) typically presents a positive impact on the population of the country in question (Hossain et al., 2020). Gnawali (2018) conducted a study evaluating the impact of microfinance institutions in the economic empowerment with women. This study focused on the case study of Butwal Sub-Municipality. The study utilized primary data through self-administered questionnaire to the women in the municipality which was then analyzed through the use of appropriate statistical instruments and percentage analysis (Gnawali, 2018). The findings of the study were that microfinance institutions have a positive role in the women that invest in them by increasing the accessibility of and control over their resources. Taiwo et al., (2016) explores the roles of these microfinance banks and institutions on small and medium enterprises. The study also assesses the degree to which the small business has benefited from the credit scheme of microfinance banks. After collected primary data from interviews, the study recommended to increased support of microfinance banks by the government (Taiwo et al., 2016). This support is needed to facilitate small business growth and expansion while establishing the significance of microfinance banks in SMEs and the subsequent economy.

Miled et al., (2015) examined the relationship between microfinance and poverty-reduction at the macro-level. The article utilizes cross-sectional data that covers 596 microfinance institutions. The article establishes that countries with greater MFIs' gross loan portfolio per capita are found to have decreased levels of poverty head count ratio and greater level of per capita (Miled et al., 2015). These findings of this study confirm that microfinance has an essential role in reducing poverty at the macro level and developing nations should focus on the equalizing role of microfinance. BaoQuoc et al., (2014) carries out a discussion of the role of microfinance in the development of an agricultural economy such as that in Vietnam. The paper, in its analysis, outlines that microfinance contributes to the Vietnam economy in several ways. These ways include enhancing the development of the agricultural economy, assisting in the reduction of poverty in rural societies, maintaining stability in the agricultural financing market and present financial education to the local residents (BaoQuoC et al., 2014).

In their assessment of the impact of microfinance on economic growth in Nigeria, Ayodele et al., (2014) establish that the activities of MFIs cannot be overemphasized if facilitating sustained economic growth in Nigeria. Through the application of secondary data and the application of ordinary least square of multiple regressions, the study found that loans and advances to the public has a substantial impact on economic growth in the country (Ayodele et al., 2014). Based on these findings, the study recommends that the government should structure an enabling environment with the capability of microfinance institutions in microcredit delivery (Ayodele et al., 2014). This chapter presents a clear and concise introduction to the topic being studied. So, it includes a background of the study detailing the concept of MFIs, then a statement of the problem highlighting the need for exploring the role of MFIs. The theories underpinning the performance of microfinance institutions and their contribution to the contemporary economy are explored and various topics associated with the research problem are also evaluated based on existing literature and sources. Since the 1980s, micro-financial services have generated considerable interest among academics, donors, and development practitioners as an alternative to the documented failures of government rural credit assistance to reach low-income households (Hulme & Mosley, 1996; Johnson & Rogaly, 1997).

1.1. The History of Microfinance

Microfinance can be traced back to the *mid-nineteenth century*, when the thinker Lysander Spooner wrote on the benefits of modest payments to businesses and farmers as a means of lifting people out of poverty. Yet, it was not until the end of World War II, within the Marshall Plan, that the notion gained real traction (Hasan & Raza, 2012). However, the contemporary definition of microfinancing dates back to the 1970s, when institutions such as Grameen Bank of Bangladesh, led by microfinance pioneer Mohammad Yunus, were pioneering and defining the modern business of microfinancing. Akhtar Hameed Khan is another forerunner in this field. A fresh wave of microfinance ventures introduced several improvements into the market at the time (Hasan & Raza, 2012). During this time, numerous forerunners began experimenting with lending to underprivileged individuals.

The fundamental reason microfinance dates back to the 1970s is because the programs demonstrated that individuals could be relied on to repay their loans and that it was viable to provide financial services to the poor through market-based firms without subsidies. Shorebank was the first microfinance and community development bank in Chicago, established in 1974. Timothy Guinnane, an economic historian at Yale, has been conducting research on Friedrich Wilhelm Raiffeisen's village bank initiative in Germany, which began in 1864 and reached 2 million rural farmers by 1901 (Guinnane, 2005). Timothy Guinnane indicates that it was previously demonstrated that microcredit could pass the two requirements of people's moral repayment and the ability to give financial services to the impoverished. Timothy Guinnane, an economic historian at Yale, has been researching Friedrich Wilhelm Raiffeisen's village bank initiative in Germany, which began in 1864 and had reached 2 million rural farmers by 1901 (Guinnane, 2005). Timothy Guinnane indicates that it was previously demonstrated that microcredit could pass the two requirements of people's moral recompense and the ability to give financial services to the impoverished (Copestake et al., 2016).

The World Bank has estimated that over 16 million people are supported by 7000 microfinance organizations worldwide. Moreover, these small loans that enable new businesses assist around 500 million households (Copestake et al., 2016). The United Nations Economic and Social Council declared in 2005 the International Year of Microcredit in a call for the banking and construction sectors to ‘fuel’ the powerful entrepreneurial spirit of the worlds impoverished. The International Year of Microcredit has five objectives, first to evaluate and promote microfinance's contribution to MFIs; to increase public knowledge and comprehension of microfinance as a critical component of the development scenario and that the financial industry should be included in the promotion; provide a support mechanism for long-term access to financial services and finally encourage new collaborations and innovation in order to strengthen and enhance the outreach and success of microfinance for all. Mohammad Yunus, an economics professor and the creator of Grameen Bank, was awarded the Nobel Peace Prize in 2006 for his achievements. According to a release from Nobelprize at the time is was stated that:

> *"The Norwegian Nobel Committee has chosen to give the Nobel Peace Prize for 2006, divided into two equal parts, to Muhammad Yunus and Grameen Bank for their efforts to build economic and social growth from below. Long-term peace cannot be realized until vast populations discover means to escape poverty. One such method is microcredit. Development from below also promotes democracy and human rights. Muhammad Yunus has demonstrated that he is a leader capable of translating visions into real action for the benefit of millions of people not just in Bangladesh but also in many other nations. Lending to the impoverished with no financial security looked to be an impossibility. Yunus has grown microcredit from humble beginnings three decades ago, mostly through Grameen Bank, into an increasingly essential tool in the fight against poverty. Grameen Bank has served as a source of inspiration and model for the various microcredit organizations that have sprouted up across the world. Every person on the planet has the capacity and the right to live a decent life. Yunus and Grameen Bank have demonstrated that even the lowest of the poor can work to bring about their own growth across nations and civilizations. Yunus' long-term goal is to eradicate global poverty. The aim cannot be accomplished alone through microcredit. But, Muhammad Yunus and Grameen Bank have demonstrated that, in the ongoing attempts to attain it, micro-credit must play a significant role" (Yunus, 2007:2).*

We now take a step back from broad generalizations to investigate the possibilities for a more fractured history of microfinance. This is demonstrated through six PhD dissertations carried out at the University of Bath in several years (Johnson, 2003; Nino-Zarazua, 2006; Cabello, 2007; GoodwinGroen, 2012; Gravesteijn, 2014; Humberstone, 2015). While the topics vary, they all strive to provide a more local, inductive, interpretative, institutional, and multidisciplinary perspective on microfinance. The studies have been divided into three groups. Johnson and Nino-Zarazua concentrate on demand and how it is shaped by specific socio-cultural norms and practices. Gravesteijn and Humberstone concentrate on the supply side, beginning with the mainstream framework for thinking about performance management in microfinance but demonstrating how it is still subject to local values, objectives, and organizational culture. Cabello and Goodwin-Groen highlight social embeddedness as well, but through an examination of path-dependent variation in microfinance regulation. The capacity to have a say in how these organizations run, and hence the flexibility this provided to the terms and circumstances involved, was a crucial factor for their selection (Johnson, Malkamäki & Nino-Zarazua, 2010). Johnson has been able to track quick changes in the usage of financial services in Karatina, and more broadly in Kenya, through subsequent studies. Observing the rapid adoption of M-Pesa in recent years, she has gone beyond interpretations of this development as simply a route for domestic remittances facilitated by lower transaction costs, to highlighting its affinity to an already long-established tradition of inter-personal exchange among Kenyans. This, she claims, functions within a fiduciary culture of entrustment and duty with equality at its heart, allowing for negotiability akin to mutuals but in marked contrast to banks' inclination to behave more hierarchically (Johnson & Nino-Zarazua, 2011; Johnson, 2016).

These profound discoveries have strong consequences for financial technology replicators: seemingly similar goods will have drastically varying take-up depending on how they resonate with past social ties. More fundamentally, since financial service use is tied to involvement in the formation of supply, as the study asks how far supply and demand can be examined separately. Nino-PhD Zarazua's study into the financial landscape in a peri-urban hamlet on the outskirts of Mexico City was similarly heavily influenced by social embeddedness. Notwithstanding the practical problems of obtaining willing respondents in a society defined by a high level of generalized suspicion, he used a similar study technique to Johnson. His study region was chosen with care from a district with a high density and diversity of informal, semi-formal, and formal financial sources. Several respondents belonged to CAME (Consejo de Asistencia al

Microemprendedor), a group-based microfinance organization with a reach second only to Compartamos. He discovered that respondents' age, gender, education, economic standing, or other socioeconomic variables predicted very little difference in their usage of financial services. Instead, most individuals appeared to have developed either ‘a culture of money’ or a mental model of skepticism toward nearly any financial service, according to him (NinoZarazua & Copestake, 2009). The acquisition of what we now call financial capacity was a very social process; for example, elder women typically introduced younger cousins into their Economic group. It was found that the material impact of the CAME program on members' well-being was perhaps less relevant than the cognitive and relational influence. While switching from group-based to individual loan products may increase access by cutting service delivery costs, it may also erode these non-material benefits. In short, Nino-Zarazua discovered, like Johnson, that the social interactions in which microfinance products were embedded had a substantial influence on product acceptance and therefore impact.

Microfinance was and is not a new concept, and neither is the establishment of microfinance regulation and oversight (MFIs). Microfinance has a long history in every now-developed country. This is significant because it represents a viewpoint that differs from that of many in the microfinance community, who identify microfinance with credit. Attributing the origins of microfinance to contemporary initiatives overlooks not only the historical depth and scope of microfinance, but also centuries of experience, which implies learning through trial and error, failure, and success. In Europe, the origins were all informal and small-scale, including informal savings organizations, such as box clubs in London during the 18th century (Seibel, 2005). Microfinance originated in Europe as a result of massive rises in poverty during the 16th century. Loan funds first appeared in Ireland in the 1720s, employing peer monitoring to ensure the return of originally interest-free loans from donated resources in weekly installments (Seibel, 2003). After a century of slow growth, two events triggered a boom: (a) a special law in 1823 that transformed charities into financial intermediaries by allowing them to charge interest on loans while also collecting interest-bearing deposits; and (b) the establishment of a Loan Fund Board in 1836 for their regulation and supervision (Seibel, 2003). Around 1840, over 300 funds formed as self-sufficient and sustainable organizations, deriving their resources through deposit collecting and making small loans to the needy.

Its development was funded by earnings and deposits, and their reach finally reached 20% of Irish homes. The funds began to eat into commercial banks' primary business by offering three times greater deposit rates. This drew commercial bankers to the barricades. They utilized their power to stifle the expansion of the Loan Funds, first by financial repression, then by convincing the government to impose an interest rate restriction in 1843. The Loan Funds lost their competitive edge as a result, and they gradually declined over the second part of the nineteenth century, eventually disappearing in the 1950s. Hence, the Irish Loan Funds' history is divided into three parts: a century of steady growth as informal institutions, a few decades of fast growth as formal institutions in a favorable regulatory environment, and a century of collapse due to financial repression (Seibel, 2003).

1.2. Definition and theories of microfinance institutions

Microfinance Institutions (MFI) are described as organizations engaged in minimal financial transactions while using different approaches to provide financial services to low-income households, microenterprises, small-scale businesses, and other entities that cannot access conventional banking resources (Hermes et al., 2018). Below we will list some of the main definitions and theories from different authors on what microfinance is and its role.

In terms of definition, Robinson (2001:42) defines microfinance *as "small-scale financial services for both credits and deposits provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and businesses."* Many economies, including India's, experimented with subsidized lending for the poor for decades. However, the only tangible result was maybe an increase in Non-Performing Assets (NPA). Then emerged the realization that the primary issue for the poor was credit availability rather than credit cost. In reality one of the accomplishments of microfinance might perhaps be the 'end of interest rate argument'. Microfinance has emerged as a method of economic development. It is the provision of financial services to low-income clientele, such as the unemployed and the self-employed. Microfinance is seen as a potent instrument in the battle against poverty. Poor families and households use financial services provided by various microfinance organizations (MFIs) to supplement their income, acquire assets, and protect themselves from external shocks (Helms, 2006).

The scope of microfinance clients is broadening to include anybody who does not have access to financial services. According to information available on existing consumers, specialist MFIs service a rather restricted spectrum of clientele. The majority of customers are concentrated near the poverty line, with some very poor and vulnerable non-poor clients represented. The majority of current microcredit borrowers are entrepreneurs in the informal sector. Many potential customers are still turned down. The concept and goals of microfinance are not new. For ages, little informal savings and credit societies have existed all across the world. Since the early 1990s, the emphasis has shifted from the relatively restricted practice of microenterprise loans to the broader idea of microfinance. This was primarily due to developments in development ideas and policies, as well as promises for participatory, human-centered, empowering techniques. Thus, the microfinance idea seeks to reach the poor, disadvantaged, and financially excluded populations, as well as mainstream development-oriented financial services to replace subsidized credit and contributions (Rahman, 2010). Poor customers require a wide range of financial services, not only short-term working capital loans. Poor individuals, like everyone else, require a variety of financial services that are handy, flexible, and competitively priced. These individuals, depending on their circumstances, require not only loans but also savings, cash transfers, and insurance. Microfinance may be an effective tool in the fight against poverty.

Because studies focus solely on one component of the puzzle: microcredit, existing research on the impact of microfinance likely understates the value of financial services for the poor. According to research, the poor may grow their earnings, acquire assets, and lessen their susceptibility to external shocks by having permanent access to sustainable microcredit (Srinivasan & Sriram, 2003). Microfinance enables disadvantaged households to transition from day-to-day survival to long-term planning, investment in better nutrition and living circumstances, children's health, and education. If microcredit alone has this type of impact, then access to a larger range of services is likely to improve impoverished people's lives much more drastically. Future research will presumably provide more light on the added impact of savings. However, microfinance, particularly microcredit, is not always the solution. Microcredit is not ideal for the poor and hungry who do not have a steady source of income or a method of repayment. Small grants, infrastructure upgrades, job and training initiatives, and various non-financial services may be better suited for the poor in many circumstances. Moving forward, the challenge is to better identify the financial service needs of individuals who are now excluded from the financial system, as well as approaches to react to these needs that have the potential to be self-sustaining. However, a deeper knowledge is not enough. This understanding must be converted into consistent access to high-quality, affordable, and convenient financial services provided by a variety of financial service providers. Only when supply begins to match demand will impoverish people be able to take charge of their financial life and plan their own routes out of poverty (Mustafa & Saat, 2013).

Moreover, two theories focused on the role and contribution of MFIs to the economy of a country and the growth of associated small firms are:

Traditional Theory of Financial Innovation

The traditional theory of financial innovation was established by Sundbo in 1997 (Alamad, 2017). Sundbo presented two paradigms in the theory founded on the fundamental prototypes, which are the entrepreneur paradigm and the technology-economic paradigm (Alamad, 2017). In the entrepreneur paradigm of innovation, the entrepreneurial activities of the entities in the market act as a factor driving financial innovation (Alamad, 2017).. The technology-economic paradigm emphasizes technological development as being the center of the innovation process that is established on the random technology progression (Alamad, 2017). This theory is relevant as MFIs have supported the innovation of services that satisfy the demand of SMEs.

Financial Constraints Theory

The financial constraints theory was established by Schumpeter in 1950. In the establishment of the theory, Schumpeter found that firms conduct innovations to address the constraints and inconveniences resulting from imperfections in the market, regulations, and operational costs. (Hanusch, 2017). Wan et al., (2021) also stated that financial innovation is conducted to minimize the constraints that restrict the earning capability of the firm. Therefore, MFIs conduct innovations to assist in optimizing the returns on capital in consideration of the goals of the firm. Aghion et al., (2017) also stated that organizations are needed to further renew the environment that they exist in.

More than half of the global population is restricted from access the traditional financial market (Hossain et al., 2020). Due to regulated access to money, microfinance presents three characteristics which are security, economic growth, and the opportunity of taking one's future into one's hands. One of the general characteristics of microfinance institutions is that they deliver financial services to small businesses and individuals at the household levels. These institutions specifically offer services to those that do not have sufficient credit or to individuals with insufficient access to the services being presented by traditional financial institutions such as a bank (Hossain et al., 2020). MFIs, however, show adaptations of their services to cater to these populations and provide them with financial credit (Joseph et al., 2019). MFIs also typically possess explicitly social objectives of assisting individuals and populations who are in the low-income group.

1.3. Characteristics of the microfinance

The phrase '*microfinance institutions*' primarily refers to financial institutions that are committed to supporting typically disadvantaged families and small businesses in acquiring access to financial services. This commitment may replace or enhance other commercial or governmental aims, such as increasing shareholder profit, directing investment into priority areas, or mobilizing savings to fund government operations. MFIs are distinguished in common usage from purely commercial, small-scale, possibly informal financial institutions dealing with the poor (for example, village moneylenders, pawnshops, and informal transfer systems) and from large, possibly government-sponsored schemes that may hold numerous small accounts as byproduct of their main business (for example, national savings schemes or post office savings banks). However, it should be noted that the same public policy challenges, particularly those linked to regulation, may occur in conjunction with the other organizations indicated above.

These alternative organizations may exhibit many of the same features as MFIs, and in many countries, they may even play a bigger role than MFIs in providing financial services to disadvantaged people. Furthermore, the difference is not always applicable, particularly when establishing institutional categories or types of services for regulatory reasons. Regulatory definitions should be based on observable, objective characteristics rather than an institution's self-declared purpose. Institutions in the MFI category share certain basic traits, but they also range substantially in terms of their operations, size, and financial success. A country's public policy concerning MFls must consider the similarities and distinctions among the institutions that exist or may be founded there.

1.3.1. Clientele and Services

MFIs offer a diverse variety of services. MFIs are well recognized for providing lending to low-income people and small businesses, but many also accept deposits. In addition, some MFIs provide their clients with other financial services such as insurance or counseling and training. This training is frequently connected to the MFI's principal activities: for example, training in company management may make a loan more useful to the borrower while also increasing the odds of payback. MFIs are sometimes used as a vehicle to promote additional services and education, such as health awareness. MFIs' principal clients are virtually often people who experience significant impediments to receiving financial products from traditional banking institutions. These obstacles are mostly comprised of high operating expenses and risk issues. Clients of an MFI may be spread in remote regions, have few negotiable assets, whether physical or financial and live in an environment where enforcing formal property rights and other contracts is costly and unpredictable.

To overcome these obstacles, MFIs must be creative. Loan repayment incentives, for example, can be produced using a variety of strategies (Morduch, 1999), such as the group lending model pioneered by Grameen Bank in Bangladesh in the mid-1970s as we mentioned in the sections above. Even though the loans are issued to individuals, all group members are held accountable for loan repayments under group lending. Lending took the form of monies being allocated by village-level management committees led by village leaders in several countries. In this situation, the village chiefs are held liable for loan repayment, although they use proper enforcement measures for individual borrowers. Perhaps most notably, credit-granting MFIs sometimes utilize dynamic incentives, in which a borrower receives a little quantity at first, but when a solid repayment history is established, the borrower may be eligible for greater loans. When loans are not returned, the fear of no additional lending increases repayment incentives. Small company loans are a significant aspect of MFI activities, but lending and deposit-taking to help households with their consumption may be more vital for most MFIs and their clients. Savings facilities not only help households moderate their consumption, but they are also useful in making and receiving payments and keeping a financial record. One of the lessons of the recent growth of the MFI industry is that even the most impoverished people want and are able to save.

MFIs are not evenly distributed around the world. They tend to be particularly in the developing countries. There is some indication that a disproportionately significant number of

MFIs in Africa are savings cooperatives, whereas lending operations are more prevalent elsewhere. Nonetheless, the number and scale of MFIs have lately increased fast in many of the nations where the MFT industry is still in its early stages of growth. Most MFIs appear to be linked to NGOs and may be legally incorporated as such, maybe as a nonprofit entity. Depending on the legal structure of the nation in which they operate, MFIs may also take the form of credit unions or savings cooperatives, private limited corporations, or other entities. Only a few commercial banks have successfully joined the microfinance market thus far. Key components in formal commercial banks' success in handling microfinance business were the capacity to select borrowers who would repay on time and to manage the loan portfolio to guarantee that delinquencies were kept under control. This needs either accurate credit scoring technology or extensive local expertise. Furthermore, establishing a distinct, specialized MFI business within a commercial bank has frequently proven to be helpful.

1.3.2. Financial Performance

Microfinance institutions (MFIs) typically deal with small transactions involving low loan sizes and deposits, but these may still be significant in comparison to clients' income and assets. MFIs often have limited financial resources and keep inadequate records, which makes it difficult to assess their financial performance and cost-effectiveness. The costs of providing microfinance services are typically high due to overhead and fixed costs, including labor-intensive processes such as loan monitoring. Loans to the poor are also considered risky due to several factors, including income stream fluctuations, lack of diversification, and absence of collateral. As a result, MFIs often charge high-interest rates on loans and engage in oligopolistic behavior in their local markets. However, despite high expenses, MFIs may still have a positive impact on well-being. Some MFIs have good loan recovery rates, but the risk of defaulted loans is always present. Even financially self-sufficient MFIs may require significant capital injections or subsidies at their start-up stage. Overall, the financial performance of MFIs varies widely, and more research is needed to systematically study the sector (Filder & Paxton, 1997; Vogel, 2000).

Financialization has been one of the primary notions connected with changes in financial governance during the last decade. It has come to refer to a broad change in the heaviness of economic activity in the realm of finance. This implies a transition in which financial agents, forms of calculation, and practices have gained political clout. According to Epstein, financialization is primarily concerned with *"the rising significance of financial motivations, financial markets,* *financial players, and financial institutions in the operation of local and international economies"* (Epstein, 2005: 3).

Krippner (2011) on the other hand using a slightly different conceptual frame, notes that the concept of financialization has been used to address a wide range of disparate processes, including the ascendancy of shareholder value, the widening gap between Anglo-American capital markets and bank-based financing structures, the growing power of financial elites, and the complexity of novel financial innovations (Krippner, 2011). Krippner proposes an accumulation-centered view of financialization to examine the growing importance of financial enterprises in driving general accumulation patterns in the American economy. She claims that the US economy has recently exhibited *"a form of accumulation in which gains accrue predominantly via financial channels rather than through commerce and commodity production"* (Krippner, 2011: 174). Financialization, according to Froud et al., includes wide changes in not just the power of financial practice but also the broad outlines that define and govern enterprises. They stress the active function of coupons (all forms of financial paper) in determining the behavior of enterprises and daily populations by contrasting the financialized economy with production capitalism. *"Coupon pool capitalism,' they say, is a novel general form in which the pool of newly issued coupons acts as a regulator of company and family conduct as well as a regulator of macroeconomic trajectory"* (Froud et al., 2014: 126). As Martin explains, this implies that finance will become increasingly important not just as a matter of economic administration, but also as a code of self and citizenship daily. According to him, the development of financialization is accompanied by a call to 'living by finance' at the everyday level, a necessity to 'lives like capitalists' by adopting the modes of control of the financial sector as practices important to the everyday conduct of citizenship:

"The current financial situation is more than just a show... but an invitation to be a part of what is on exhibit as a basic part of oneself. Finance is more than just deciding what to do with the money one has worked for; it is also a method of working that money over, and eventually, a method of working over oneself" (Martin et al., 2020: 16–17).

Financialization has come to refer to the growing dominance of financial calculations, practices, and identities, frequently in realms formerly ruled by other forms of logic, such as microfinance. Microfinance is broadly concerned with the issue of financial inclusion, or connecting individuals on the edges to mainstream or established lending practices regularly.

Microfinance is a reasonably effective attempt to redefine development by enabling disadvantaged populations to create formal linkages to conventional lending practices and by nurturing a type of financial agency among the extremely poor. Weber has remarked, however, that the world of microfinance, which is frequently portrayed as a vital component of development policies and programs, is inextricably linked to the larger world of financialization. Although it is frequently portrayed as a tool through which those on the periphery of the global economy can begin to accumulate assets and lay the groundwork for entrepreneurial strategies that may break cycles of poverty, it also operates in ways that can promote and legitimize forms of neoliberal globalization (Weber, 2004: 360). According to Weber, microfinance can be *"conducive to efforts to advance financial sector liberalization... and seeks to establish on a global scale the (legal) political framework for the trade in financial services agenda in particular"* (Weber, 2004: 360). Although Weber's approach highlights the similarities between microfinance and larger neoliberal restructuring processes, it does not give a comprehensive view of financialization and microfinance. Her view of how microfinance is entwined in the global political economy's broad structural constraints does not adequately assess the frequently micro-level or ordinary ways in which microcredit has become a more extensively financialized item over the last several years. Although microfinance has always been a deeply financial practice, concerned with how specific populations could be made to relate more fully to mainstream credit practices, it has recently become a site of financialization, that is, an object transformed into an 'investable asset' capable of generating financial profits for investors.

1.3.3. Making microfinance a tradable asset

The Anglo-American markets, particularly in the aftermath of the 2008 global financial crisis, focus on capital markets as a source of corporate governance. This mode of governance emphasizes the transparencies and efficiencies of capital markets, relying on market discipline enforced by investors who respond to signals generated by capital market reporting practices. This financial mindset is becoming increasingly important in microfinance and its future, as microfinance is being transformed into a standalone financial asset. This transformation is due to the rise of Microfinance Investment Vehicles (MIVs), aimed at connecting private investors in capital markets directly with issuers of microcredit. This move implies articulating microfinance as a category intelligible not in terms of its traditional relationship with social responsibility,' but in terms of the 'regular science' of finance. It is a shift that: *"Recognizes microfinance investments as legitimate and useful asset classes with measurable and attractive risk-reward characteristics,* *traded in secondary markets, and appealing to investors without the need for a "socially responsible crutch" or any concession to the risk-adjusted market rate of return"* (Balbo, 2017: 105). As microfinance becomes more intertwined with financial orthodoxy, it becomes enmeshed in webs of financial convergence and best practice, articulated as a category intelligible not in terms of its traditional relationship with social responsibility but in terms of the regular science of finance (Lumianski et al., 2019). This shift recognizes microfinance investments as legitimate and useful asset classes with measurable and attractive risk-reward characteristics, traded in secondary markets and appealing to investors without the need for a socially responsible crutch. However, this process is not only making microfinance more reliant on private pools of capital but is also transforming microfinance into a channel of financial profit, an investable object defined in terms of its status as a source of financial accumulation (Dieckmann et al., 2007).

1.4. Social performance of the Microfinance institutions

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). 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 (Armendàriz & 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). 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. 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. Microfinance is also often recognized as a tool for women's empowerment through enhancing their mental well-being and socioeconomic standing. 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. 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. 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? 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. the handful that have investigated social performance as a study topic use mostly qualitative methodologies and concentrate on the specific problem of social effect. In contrast to the reasons why the scientific approach is rarely applied, Karlan and Zinman (2019) and Meade (2019) argue that the impact of microfinance is complicated, and so exact quantitative methodologies must be at least as complex as what is studied. In this regard, the authors argue that, despite the technicalities and complexity involved, the adoption of rigorous techniques in measuring microfinance effect should not be abandoned. In turn, Ghalib (2018) examines social impact evaluations and the fundamental assumptions of the assessment process.

The author discovers crucial indicators that have a significant impact on social impact and may therefore construct a general model of microfinance impact. Notwithstanding the foregoing, Karlan and Zinman (2019) utilize randomised control trials to measure impacts, while Mutai and Osborn (2014) investigate the consequences of MFI customers' asset acquisition. The latter claims that identifying and monitoring customers' assets over time is a valid approach of gauging microfinance's social impact. Barnes' approach might be a good measure of effect, but studies in that direction cannot be certain whether or not other variables outside of microfinance influence MFI customers' wealth building. 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. The microfinance sector has traditionally seen this method as too demanding and costly for MFI practitioners to engage with, and hence new practitioner-centered alternatives have evolved in recent years. Maitrot (2019) proposes a paradigm in which the goal is to 'improve' microfinance impacts rather than 'prove' them, and so the objective is to establish indicators and methods by which MFI administrators may analyze and improve on them. This approach attempts to distinguish between the terms ‘social impact' and ‘social performance,' explaining that the former relates to assessing the impact on beneficiaries (and thus is more related to the previous studies), whereas social performance refers to *"the effective translation of a [microfinance] institution's social mission into practice"* (Gupta & Mirchandani, 2020:307), and thus is more practitioner-centered. To advance on the latter, proponents of this notion have assisted in the development of social performance metrics and ratings based on a consultation process comprising mostly MFI managers and practitioners. According to recent social performance measuring results (Bensalem & Ellouze, 2019), non-profit MFIs outperform for-profit MFIs, but larger MFIs are less oriented toward the poor. Despite efforts to have these outcomes audited by external specialists, existing social performance measures and ratings are mostly based on MFIs' subjective replies and viewpoints.

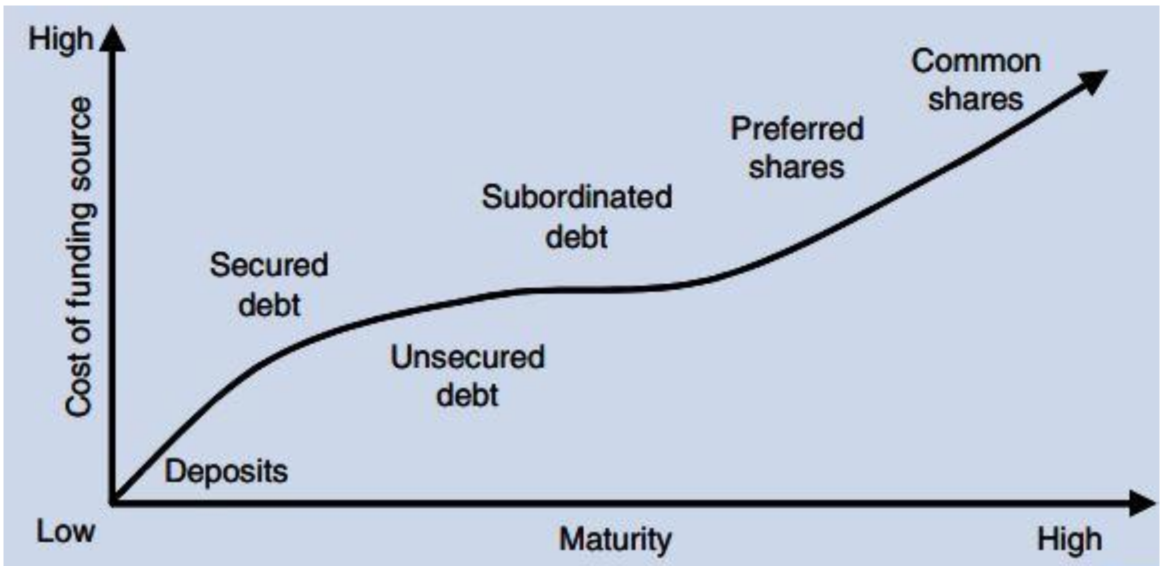
1.5. Funding sources of MFIs

Funding sources refer to where MFIs obtain the money to lend to their clients. MFIs rely on a variety of funding sources, including commercial banks, social investors, government agencies, and development finance institutions (DFIs). Commercial banks provide loans to MFIs, which they use to lend to their clients. Social investors, such as foundations, impact investors, and philanthropic organizations, provide equity or debt funding to MFIs. Government agencies and DFIs also provide debt financing and technical assistance to MFIs. Funding structures refer to the mix of funding sources that MFIs use to finance their operations. The funding structure of MFIs depends on their business model, size, and level of maturity. Generally, MFIs use a mix of debt and equity financing. Debt financing is cheaper but requires collateral, while equity financing is more expensive but does not require collateral. The funding structure of MFIs also affects their financial sustainability and their ability to manage risks (Hermes & Hudon, 2019).

In recent years, there has been a trend towards greater diversification of funding sources and funding structures among MFIs. This is partly due to the growing demand for microfinance services and the need to expand the reach of microfinance institutions to new markets. As a result, many MFIs are exploring new funding sources, such as crowdfunding, social impact bonds, and blended finance. Blended finance refers to the use of public and private funds to finance social and environmental projects, including microfinance (Githaiga, 2022). MFIs play an essential role in promoting financial inclusion and economic development. The loan volume of MFIs has been growing steadily, with Asia being the largest market. MFIs rely on a variety of funding sources, including commercial banks, social investors, government agencies, and DFIs. The funding structure of MFIs depends on their business model, size, and level of maturity, and affects their financial sustainability and risk management. There is a trend towards greater diversification of funding sources and funding structures among MFIs, driven by the need to expand the reach of microfinance institutions to new markets.

Historically, an MFI's funding structure has followed a consistent pattern throughout its life cycle. While start-up MFIs are more reliant on donations in the form of equity grants, donations, and technical assistance, more advanced MFIs exhibit higher debt leverage through domestic or foreign borrowing; over time, some even evolve into more formalized financial institutions (e.g., non-bank financial institutions) or even regulated MFIs such as niche banks. Domestic deposits (if their legal status allows it) and debt finance are the primary sources of funding for the most sophisticated MFIs. Apart from deposits, debt funding often consists of both subsidized and commercial borrowing from a wide range of local and foreign sources, including (international) development agencies, social investors, and quasi-commercial and commercial lenders. Some microfinance institutions (MFIs) even get access to capital markets by issuing bonds, going public, or securitizing their loan portfolios. Yet, an increasing number of institutions are departing from this usual pattern. Some new MFIs, for example, are even registered as regulated microfinance providers. Some choose to operate as specialist lenders rather than becoming a licensed MFI. Of course, there is no one ideal capital structure for an MFI; rather, funding structure selections for the individual best financing mix are dependent on a range of criteria. Internal elements such as loan portfolio expansion and savings mobilization, as well as external factors such as the legislative framework, the availability of donors and commercial lenders, and, finally, the development and openness of the domestic financial system, are all critical. The costs and maturity of particular fin Issuing equity is the most expensive source of capital for MFIs (save for grant equity and other gifts), followed by unsecured and subordinated debt, with retail deposits being the least expensive. Potential currency risks must also be addressed while seeking international investment. Yet, capital structure decisions must also take into account the age of each instrument. While equity capital is largely used for long-term funding, debt has a medium-term maturity, whilst deposits often have a short-term experiencing source, on the other hand, play an important influence in selecting the ideal funding mix (Kianersi et al., 2021).

Graph 1 Funding structures of MFIs



***Source:* https://www.cgap.org/research*. *DB Research, CGAP, (Accessed, October 2022)*

In the long run, and from a normative standpoint, it would be preferable to allow MFIs to refinance themselves largely through domestic funding sources, either through national deposit-taking or by tapping local capital markets through the issuance of bonds or shares. After all, microfinance is a solution to a developing country's underdeveloped banking system. The ultimate goal of creating financial markets in emerging markets and developing nations is to mobilize domestic financial resources and enable local investors to tap into domestic savings more effectively. Eventually, foreign private sector investors' involvement in MFI financing would shift from providing direct loans to MFIs via structured debt instruments or funds to increasingly investing in an MFI's domestic bonds or shares.

1.6. Types of microfinance products and services

In this part are analysied few clasifications of the microfinance products and services according to certain autors.

MFIs have a wide range of services that do not just involve business loans. While business loans are presented for entrepreneurs who need capital for starting or expanding a productive business, MFIs also offer diverse services such as savings accounts and current accounts (Lensink et al., 2018). The savings and credit accounts can be applied to afford poor individuals a secure location to keep their earnings and earn interest on their savings. The micro-savings account allows entrepreneurs to operate savings account without minimum balance (Hermes et al., 2018). These services help users to develop financial discipline and establish an interest in saving for the future. The non-financial services of MFIs encourage new members in institutions that contribute to its growth.

- ***The traditional microfinance*** institution product is the financial product most especially the micro lending provided in form of short-term working capital with repayment period between three months and one year. This product is easy to deliver, monitor and multiply (Ryne, 2001).

- ***Micro insurance services*** are also presented and include a form of coverage given to those that borrow loans. These insurance plans have decreased premiums as compared to traditional insurance policies (Minani et al., 2018).

- ***Other loan products*** may be particularly structured for housing or educational fees. This range of services assists clients with the products that are required for their daily living needs. The services provided by MFIs are socially empowering for the disadvantaged target groups being served, ranging from women, refugees, minority ethnic groups, and others through the provision of channels for attaining financial independence (Minani et al., 2018).

In some cases, those who receive microloans are expected to take training courses, such as cash flow management. Microfinance Institutions are referred to as organizations that provide financial services (such as savings, credit, funds transfer, insurance, pension remittances, etc.) that are targeted at low -income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self – employed (Rosengard, 2000).

The MFIs products are broadly classified into two namely financial products and non-financial products. The financial products include loan, savings, leasing, insurance, fund transfer, pension remittance, etc. (Ijaiya, 2006; Ijaiya, 2010; Ijaiya & Afolabi, 2012; Muiruri, 2014). Micro leasing is a financial product that can be offered by microfinance institutions, a product that is commonly used to raise funds for all those clients who have financing requirements related to capital equipment. Micro leasing enables the institution to enter into long-term finance and provide short-term and medium-term capital financing for fixed assets (such as equipment, agricultural machinery or vehicles) especially for those who cannot pay in full or even pay advances and lease. There are three types of leases, namely: finance lease, operating lease and lease-purchase lease. Micro insurance as a product offers help to customers as they can withdraw from their premium to mitigate disaster and focus on their businesses. Micro leasing is another financial product of MFI.

Micro insurance on the other hand, allows their clients to pool risk by collecting relatively small premiums from a large population and funding relatively large payment to the small portion of that population that suffered losses from specific risk events (Ryne, 2001).

Studies also show that MFIs provide disaster awareness, alertness and communication. These findings referred to disasters where the MFIs played significant role in the 1998 Hurricane Mitch in Central America; the 1997 floods in Poland; the 1998 Bangladesh floods which the World Bank described as the worst in living memory, and the 2008 flood disasters in Kalutara District in Sri Lanka (Huda & Prabin, 1999; Zaman, 1999; Brown & Nagarajan, 2000; Mathison, 2003; Fernando, 2008; Ijaiya, 2010). In another study by Paul, Insah and Nanagpiire (2014), five selected MFIs in the Upper West Region of Ghana also played significant role in the region disaster where the MFIs distributed relief materials to 40 per cent of victims affected by the disasters in the region. While there is no standardized lending procedure, a few elements are similar in various microfinance institutions. The first step in this standardized procedure is the identification of the potential customer. The second step includes the organization of the potential customers into groups to support the establishment of information asymmetry and the absence of collaterals. This is done through the transfer of what may be individual liabilities into group liabilities while holding the group with the moral responsibilities for repayments. Empirical research on the impact of products on entrepreneurship development is still lacking,

Microfinance refers to the complete flexible structured and procedures by which financial services are provided to small business and individuals in the low-income group on a sustainable basis. These services involve savings, micro-loans, trainings and insurance (Bezboruah et al., 2017). Micro credits act as incitements for the economy presenting a dynamic cycle that supports most low-income individuals to enhance their living standards. Another significant characteristic of this credit is that the tenure is very short. The loan tenure of microcredits is short as the loans being availed are typically characterized by a small amount (Bezboruah et al., 2017). Most of these loans do not require any collateral; and are repaid in greater frequencies. Microcredit refers to small credits only, whereas microfinance includes savings opportunities, insurance, training and advocacy (Elahi & Rahman, 2006).

We should emphasis that microfinance institutions are responsible for making small loans to low-income borrowers, offering job opportunities, and building borrowers' capacity by teaching them skills such as loan administration, entrepreneurship, and management (Purkayastha, Tripathy & Das, 2020). Based on their different types, they usually imply different challenges and different advantages. Here we will present a few of them. *First if we take the case of a group with joint liability (*JLG). This is often a small, informal group of 4-10 persons seeking loans on the basis of mutual assurance. The loans are mostly utilized for agricultural or related purposes. Farmers, rural workers, and tenants are among the borrowers in this category. Each member of a JLG is equally responsible for prompt debt repayment. Since this entity does not require financial management. Personal preferences in credit lending, however, are one of the structure's primary faults, resulting in the system's partial failure. The validity of the Joint Liability Group model lately increased as a result of various promotional initiatives undertaken by institutions such banks (Mia, 2016). Secondly in the case of a *Self-help Organization*. A Self-Help Collection is a group of people that come from similar socioeconomic backgrounds and band together to aid one another. For a limited period, these small business owners combine together to create a common fund for their mutual business needs. They are classified as non-profit organizations. The organization is in charge of debt collection.

Collateral is not required for this sort of cooperative financing. Nevertheless, borrowing rates are frequently low. Some banks for example have created relationships with SHGs to improve financial inclusion in rural parts of the country. The NABARD SHG linkage program, for example, permits various self-help organizations to borrow money from banks if they can demonstrate that their borrowers have made regular payments. Self-Help Groups have done better than this technique since they are better suited to India's population density and are considerably more sustainable (Dash et al, 2013). The major goal of this plan is to strengthen the rural economy from beginning to end. Unfortunately, because rural credit and recovery systems remain a huge concern in developing countries as this technique has not been fully adopted. Several regional banks also failed as a result of substantial amounts of non-performing assets (Khan & Gulati, 2022). Another example are the *Cooperatives in rural areas.* Rural cooperatives were established with India's independence. This fund pooled poor people's money and provided financial services. Nevertheless, this strategy required complex monitoring systems and was only effective to creditworthy borrowers in rural India. As a result, this plan did not achieve the intended level of success. Additionally, this system only serviced credit-worthy people in rural areas, omitting a sizable percentage of the country's economically disadvantaged population.

The provision of microcredit is the primary service of microfinance. They are often modest loans to the working poor. These loans often have a local currency equivalent that begins just below USD 100 and can grow to many times that amount over time depending on the geographic location. For example, in Asia, the average loan is around USD 150, but in Eastern Europe and Central Asia, the average loan is around USD 1600 (Sumner, Ortiz-Juarez & Hoy, 2020).

1.6.1. Advantages and challenges of MFI products and services

Microfinance has a great deal of advantage as it gives resources and money to individuals who are financially disadvantaged, such as those who cannot access regular banks' checking accounts, credit lines, or loans. These people may be forced to rely on dangerous loans or high-interest payday advances, or even borrow money from relatives and friends, if microfinance is not available. Microfinance allows people to invest in their businesses, and hence in themselves and in the economy of a country overall. Despite the type their pose great socio-economic advantages. Plan International, a global organization focused to the development of children's rights and women's equality, concurs, stating: Banks simply will not lend to persons who have little or no assets, and they hardly issue the modest loans that are associated with microfinance (Liñares-Zegarra & Wilson, 2018).

On the other hand, having more than one type of loan, MFIs can also help different age groups. Children from low-income families are more likely to miss school or not be enrolled at all. This is due to the fact that the agriculture business employs the majority of low-income families. Families rely on their children to work and be productive in order to pay their financial obligations. Getting microfinance products minimizes the chance of running out of money, implying that youngsters have more possibilities to complete their education. Microloans, like savings, are an important aspect of microfinance. When people's basic needs are met, it's natural for them to save the money they don't need for a future emergency. This allows for increased investments and, eventually, higher income for those living in developing nations. Microfinance allows for little improvements rather than massive ones. People will have a safe place to invest their money if enough of these improvements take effect. Microfinance can also help poor-country entrepreneurs create new work opportunities for others. When more people are able to work and earn an income, there are more revenues available to flow among local businesses and service providers, which supports the rest of the local economy. Everyone at all levels gain from job creation through microfinance, not only entrepreneurs. Grameen Bank employs around 21,000 people in Bangladesh and specializes in microfinance. It corresponds to tens of thousands of jobs created purely for the purpose of bringing people out of poverty (Ferdous, Begum & Akter, 2020).

However, the main challenge that MFIs pose is that the majority of traditional banks charge a low interest rate on their loans, ranging between 8 and 12%, whereas MFIs charge a high interest rate on loans ranging between 12 and 30% of the principal amount. A loan defaults. People's failure to manage their debts results in loan default, stifling the growth of MFIs. Another significant challenge in the path of microfinance organizations is individuals' lack of awareness of fundamental concepts. A lack of financially sustainable programs is a concern since viable initiatives can grow to bigger sizes than subsidized ones. To summarize, borrowers above the poverty line profit more from microloans than those below the poverty line (Nugroho et al., 2017).

The microfinance market is divided into categories depending on the services provided by the business, which include group and individual microcredit, insurance, leasing, and others. Among these services, group and individual microcredit account for a sizable portion of the microfinance sector. Business loans to small and medium firms are among the key elements that may be attributed to the dominance of the group and individual microcredit industries. It also comprises wage loans for low-income employees and customized cashflow solutions for micro-entrepreneurs. Furthermore, the group and individual microcredit industries are expected to grow at a rapid pace throughout the projection period. Its expansion is supported by the government's increasing programs to support micro, small, and medium-sized companies (MSME) in emerging economies, such as India (Pignatel & Tchuigoua, 2020).

Microfinance has the potential to alleviate poverty, increase economic growth, and promote financial inclusion. However, there are still many challenges and limitations that MFIs face, and their future implications need to be examined.

One of the main challenges that MFIs face is sustainability. Many MFIs depend on donor funding, and this funding is not always stable. Moreover, MFIs often lend to people who have little collateral and a high risk of default, making it difficult to generate income. The high cost of operations and limited revenue can lead to financial instability and bankruptcy for many MFIs. The sustainability of MFIs is essential to ensure that they can continue to provide financial services to low-income individuals. Another challenge that MFIs face is the issue of over-indebtedness. Over-indebtedness occurs when borrowers have taken on too much debt, making it difficult for them to repay their loans. This can lead to a cycle of debt, where borrowers take on more debt to repay existing debt. Over-indebtedness can also lead to a decline in the borrower's creditworthiness, making it difficult for them to access credit in the future. Over-indebtedness is a significant concern in the microfinance industry and has led to several crises in the past. Another challenge that MFIs face is the lack of regulation. Many countries do not have adequate regulatory frameworks for microfinance, which can lead to fraud, abuse, and unethical practices. The absence of regulation can also lead to a lack of transparency and accountability, making it difficult to ensure that MFIs are providing high-quality services to their clients. Moreover, MFIs operate in diverse cultural and legal environments, which can pose significant challenges for regulatory agencies.

Despite the challenges that MFIs face, there are also several opportunities for the industry. One of the most significant opportunities is the increasing use of technology. The use of technology has the potential to transform the microfinance industry, making it more efficient, transparent, and accessible. For example, mobile banking technology can be used to provide financial services to people in remote areas, where it is difficult to establish a physical presence. Moreover, technology can be used to improve the creditworthiness of borrowers by collecting data on their repayment history, which can make it easier for them to access credit in the future. Another opportunity for the microfinance industry is the increasing awareness of social and environmental issues. MFIs can play a significant role in promoting sustainable development by providing financial services to people who are excluded from the formal banking sector. Moreover, MFIs can promote social and environmental responsibility by incorporating social and environmental considerations into their lending practices.

For example, MFIs can lend to businesses that promote sustainable development, such as renewable energy companies, organic agriculture businesses, and fair-trade cooperatives. Another opportunity for the microfinance industry is the increasing collaboration between different stakeholders. MFIs can work with governments, civil society organizations, and the private sector to promote financial inclusion and sustainable development. For example, governments can provide regulatory frameworks that support the development of the microfinance industry. Civil society organizations can provide technical assistance and capacity building to MFIs. The private sector can provide funding and expertise to support the growth of the microfinance industry.

The future of microfinance will depend on how effectively it addresses the challenges and opportunities that it faces. The sustainability of MFIs will be essential to ensure that they can continue to provide financial services to low-income individuals. This will require MFIs to develop sustainable business models that generate enough income to cover their costs and invest in their growth. Moreover, MFIs will need to diversify their funding sources to reduce their dependence on donor funding. To address the issue of over-indebtedness, MFIs will need to adopt responsible lending practices that ensure that borrowers can repay their loans. This will require MFIs to conduct thorough assessments of borrowers' creditworthiness and provide appropriate financial education and support to help borrowers manage their debt. Moreover, MFIs will need to work with other stakeholders, such as regulators and civil society organizations, to develop regulatory frameworks that promote responsible lending practices and protect borrowers from over-indebtedness. To address the issue of regulation, MFIs will need to work with regulators to develop regulatory frameworks that support the growth of the microfinance industry while protecting the interests of borrowers. This will require MFIs to develop transparent and accountable practices that promote good governance and ethical behavior.

Moreover, MFIs will need to work with regulators to develop appropriate consumer protection measures that ensure that borrowers have access to high-quality financial services that meet their needs. The use of technology will play a significant role in the future of microfinance. MFIs will need to adopt digital technologies that enable them to provide financial services more efficiently, transparently, and at a lower cost. This will require MFIs to invest in digital infrastructure and develop digital skills among their staff and clients. Moreover, MFIs will need to work with technology providers and other stakeholders to ensure that digital technologies are accessible to all, including people in remote areas and those with limited digital literacy. The increasing awareness of social and environmental issues will also have significant implications for the future of microfinance. MFIs will need to adopt sustainable lending practices that promote social and environmental responsibility. This will require MFIs to develop new financial products and services that support sustainable development, such as green loans and micro-insurance products that protect against climate risks.

1.6.2. Challenges and Opportunities in Microfinance Investment

Fixed-income investments and the supply of debt-based products have been the mainstays of microfinance investment to date. Debt accounts for 85% of MIV investments and 70% of DFI direct investments. Following years of financial returns of more than 5%, MIV returns began to fall in 2008 and continued to fall into 2009. MIV returns reached a record low of 2.5 percent in 2010. Notwithstanding the increased nation risk and counterparty risk associated with microfinance investments, they are more than 350 basis points lower than the JP Morgan corporate bond benchmark in developing economies (CEMBI). Yet, 2010 returns are still positive and are 200 basis points higher than the six-month LIBOR rate (Marcial & Hemminger, 2010). Pricing has been influenced by lower MFI demand for foreign debt and plentiful supply from cross-border investors. The average interest rate paid by an MFI to a MIV fell by 250 basis points in 2009, reaching a historical low of 7.9 percent in May 2010. They force lenders to compete and drive harsh bargains on conditions (Deiana, 2009).

Reduced demand is leaving MIVs with more uninvested assets that provide very little revenue. Certain MIVs are also required to make considerable loan loss provisions against potential MFI defaults in unstable markets. These provisions are also consistent with the worsening in MFI portfolio quality found between 2009 and 2010, with the SYM50 reporting portfolio at risk (PAR) at 30 days increasing from 2.9 percent in 2008 to 4.5 percent in 2010. The combination of decreased revenue and larger loss provisions has resulted in lower MIV fixed-income returns, which fell to 2.5 percent in 2010 (O'Donohoe et al., 2010). Credit risk is rising dramatically, and investor net returns are not projected to revert to historical levels of 4-5 percent in the next two years. Moreover, demand for foreign debt finance is expected to remain modest over the next year as MFIs seek additional domestic funding sources, including local commercial debt and mobilizing savings, where available. Between 2008 and 2010, the percentage of foreign debt in MFI financing liabilities tracked by SYM50 declined from 51% to 33%, while the share of savings climbed from 43% to 57% (Glisovic & Reille, 2010). Fixed-income investments may not generate attractive risk-adjusted returns in this climate for commercial investors, particularly institutional investors with strong fiduciary requirements. Lenders will need to boost their proportion of local currency investments to better respond to MFI demands and stimulate demand. In 2009, MIV local currency funding surged by 56%, while overall microfinance investment climbed by just 18%. this strategy seeks speculative exposure in emerging market currencies with an upward outlook relative to the US dollar.

The crises in various markets, including Bosnia and Herzegovina, India, and Nicaragua, as well as the overall downturn in the industry, are driving stock investors to lower their return expectations. Smaller MFIs earlier in their growth cycle provide fresh investment options for equity investors; additional chances exist in building new MFIs in countries with huge markets but low microfinance penetration. Such MFIs demand investors who are willing to commit to a long-term, hands-on strategy (Chen, Rasmussen & Reille, 2010). Questions concerning the corporate governance of MFIs underscore the critical role that equity investors may play. MIVs are anticipated to hold more than 140 board seats in MFIs. The Spanish BBVA has also bought seven microfinance institutions (MFIs) in Argentina, Chile, Peru, and Puerto Rico in order to create a network of microfinance banks. Telenor and the bank are now collaborating to offer a variety of financial products, including savings services, with the goal of scaling up through the use of mobile banking technologies (Marulanda et al., 2010).

CHAPTER II. THE ROLE OF THE MICROFINANCE INSTITUTION IN THE CONTEMPORARY ECONOMY

An evaluation of the function of the microfinance institution in the modern economy is covered in the second chapter. This entails evaluating how microfinance institutions affect economic expansion. With the trends in the MFI sector being highlighted, the function of MFIs in the financial sector is also established This chapter 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.

2.1. The impact of microfinance institutions to the economy

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.

2.1.1 Impact of microfinance on the poverty

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.

Another way that MFIs aid in the reduction of poverty is through the empowerment of low-income communities. Empowerment can be defined as expanding the freedom of choice and action to structure the life of an individual (Miled et al., 2015). It makes an implication on the level of control over existing resources and the decisions that have been made. Empowerments involve expanding the level of assets and abilities of poor individuals to engage in while also influencing, controlling, and holding the frameworks that influence their lives accountable (Bent, 2019). 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.

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.

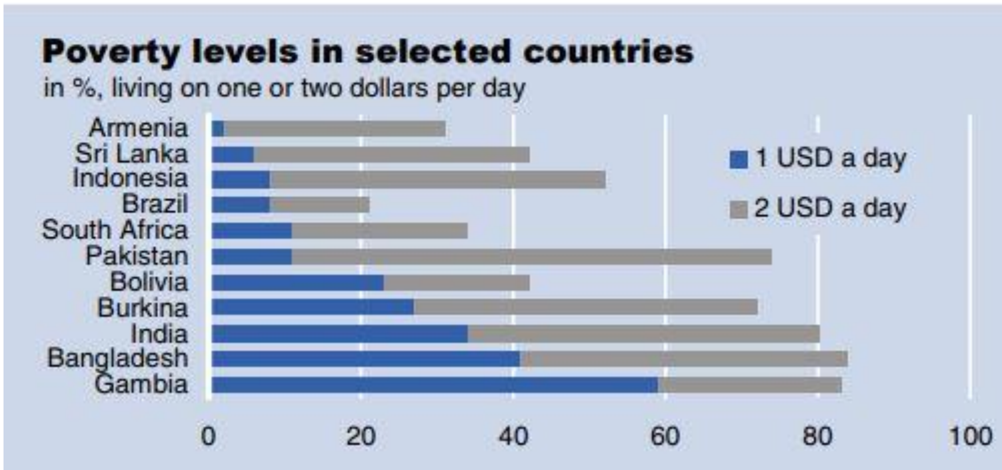
The shift in the income of clients is the primary effect of micro-finance institutions (Boateng et al. 2015). Financial services assist households at the poverty level to elevate their income while building assets needed for mitigating risk, planning for the future, increasing the consumption of food, 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 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. The findings of the study emphasized the significance of control variables that positively affect the household income of women. Bent (2019) states 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. Microfinance is an umbrella word 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 (Graph 2).

Graph 2. Poverty levels in selected countries year 2017



Source: *World Bank, https://www.worldbank.org/en/topic/poverty (Accessed, October 2022)*

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."

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.

2.1.2 Impact of microfinance to the unemployment

For developing economies, increasing the rate of employment is an essential objective where unemployment and underemployment are the main cause of poverty. Various government and non-government sectors are focused on enhancing the likelihood of employment for those who are unemployed sustainably by utilizing varying developmental programs (Okafor, 2016). The financial sectors act as a base for developing the economy of a country. MFIs have acted as a platform for the development of the country. One of the ways they can do this is by raising finance through the extensive mobilization of saving from the individuals with surplus and utilized as a channel of transfer to the people with finance deficits to generate income. MFIs enable those from low-income households to do this through the delivery of financial services. The services they provide contribute to the creation and preservation of a job for the unemployed component of productive individuals. Samer et al., (2015) argue that MFIs contribute to the creation of employment opportunities through the delivery of financial services and products. By participating or joining MFIs and accessing their financial services, a large number of unemployed households often live in a better condition than what they were in before receiving the needed financial services.

In their study, Abrar et al., (2021) also stated that the services of microfinance institutions to a majority of the population in developing nations have been critical in creating opportunities for entrepreneurship and the growth of small businesses. The creation of opportunities for entrepreneurship has been critical in limiting the level of unemployment in the markets being served. These services have also facilitated the efficient management of scarce resources while protecting themselves from risk through the identification of areas for investment and gaining return. Abrar et al., (2021) further established that access to capital, cost, capital market, collateral needs, access to information, and the management of capital is easier through the provision of microfinance services.

After receiving microfinance services, the income of respondents increases along with the level of employment. Imtiaz et al., (2014) state that MFIs have a crucial role in increasing the level of income and employment. Microfinance policies empower different microfinance institutions to supply credit to the informal sector. This makes MFIs a relevant stakeholder in reducing the level of unemployment by presenting the need for support to businesses within these sectors. Boateng et al. (2015) state that one of the ways MFIs contribute to an economy is through the provision of opportunities for generating income for lower-income households. The main aim of individuals to take part in microfinance initiatives is to gain access to credit funds so that they can begin microbusinesses and create employment for them. Within developing nations, microenterprises have an essential role in the generation of employment. Most of the households are engaged in the work they begin from the borrowed funds. Okafor (2016) states that in some contexts where individuals have made increased investments, these businesses have structured employment for more individuals within their families.

Bent (2019) establishes that many individuals from lower-income households have structured varying forms of businesses with the assistance of microfinance programs. Microfinance services have contributed toward the generation of individual incomes from small-scale businesses and agriculture holding, which then decreases the daily wages-based labor. The micro-enterprises that are developed as a result of funding from MFIs act as the primary source of self-employment. The loans presented by micro-finance programs have been largely invested in the operation of retail shops such as cosmetics, furniture, and the processing of food to running service sectors such as beauty parlors and restaurants and to conduct agricultural-based businesses such as vegetable farming. Different microfinance programs have contributed to the creation of self-employment within the local level through micro and small-level enterprises. Boateng et al. (2015) identifies microfinance services as an important determinant of self-employment. The provision of loans without interruptions or complicated procedures can increase self-employment by as much as two times. This impact on self-employment is particularly visible in cases where job opportunities are very low.

Nwude et al. (2018) state that MFIs also decrease the level of unemployment within low-income households by increasing the access to education and finance for women. Microfinance services are assisting rural women in obtaining financial independence while also empowering them to be better at decision-making. A majority of the rural population lacks credit access, particularly those that do not have physical collateral or the education that they need for the proper organization of their finances. Through the provision of needed microfinance services, MFIs also help them access increased educational services. The micro-credit services presented by MFIs enable individuals from low-income households to fund their educational interests and capabilities. This funding ensures that they are adequately educated while also facilitating their access to employment opportunities that are set at specific educational levels. In this way, MFIs are able to ensure that their clients are sufficiently skilled and educated to perform in high-paying jobs, which then empower them.

Alam et al. (2021) state that, another way microfinance contributes to a decrease in the level of unemployment is to provide the needed support to startups. MFIs not only contribute to the creation of a higher quantity of jobs but also contribute to an elevated quality of work. Alam et al. (2021) state that when MFI officers are visiting clients, they often have the chance to observe the working conditions and standards that these clients have. This observation includes components such as occupational safety and health risks, as well as the methods and techniques being applied (Samer et al. 2015). Another focus of MFIs is to find ways of decreasing the exposure to risks while also decreasing the bank's exposure to risks as well. The application of tools, resources, and processes that facilitate the provision of support to clients has enabled them to have better outcomes with the consumers.

The European Commission identifies a direct correlation between inclusive entrepreneurship and the provision of microfinance services (OECD|European Commission, 2021). It further states that inclusive entrepreneurship policies are focused on supporting the establishment and expansion of business by groups with minimal representation, such as women, migrants, and seniors, as well as those who are not employed (OECD| European Commission, 2021). Microfinance is identified as an essential aspect of the inclusive entrepreneurship strategy. MFIs are included in the strategy as they present small loans to those engaged in entrepreneurship social enterprise, members of staff that want to engage in self-employment, those who are not employed, and others that live in poverty. This provision of services is identified as contributing to economic initiative, entrepreneurship, the creation of jobs, self-employment, skill development, and actively including individuals that suffer a disadvantage ([OECD] European Commission, 2021). These contributions are essential to increasing the employment opportunities available for those from low to middle-income backgrounds while ensuring increased economic growth.

Small businesses in rural towns need the financing to assist them in maintaining operations, investing in technologies, and growing businesses. MFIs are able to leverage the microfinance services that they provide to ensure that businesses grow to expand while also hiring a greater number of individuals (Imtiaz et al., 2014). A large number of individuals live in secondary towns and rural locations, where small organizations and agricultural livelihoods can engage in the generation of jobs and the raising of incomes. The presentation of long-term stable financial support helps firms to create growth opportunities for firms and new jobs, supporting the diversification of economies. MFIs ensure that their clients experience greater livelihoods by providing the facilities they need not only to create opportunities for self-employment but also by providing the support needed for the expansion and growth of existing businesses (Okafor, 2016). Through these steps, MFIs have a substantial role in decreasing the level of the economy through their contribution to diversification.

2.1.3 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. He 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.

2.1.4. 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 is 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.

2.2 The role of microfinance institutions in the financial sector

In the financial sector, MFIs have a substantial contribution in increasing the utilization and coverage of financial services, both on the savings and credit side (Swapna, 2017). An understanding of this role can largely be established through the financial intermediation theory. Financial intermediation is identified as the degree to which financial firms bring deficit spending units and additional spending units (Oli, 2018). Banking institutions have the ability to appropriately monitor lenders. Based on the financial intermediation theory, financial intermediaries are active because imperfections within the market prevent savers and investors from direct trading. These intermediaries fill in informational gaps that exist between clients that save and investors as they have a comparative informational advantage over these two groups. Financial intermediaries influence the growth of the economy by affecting the rate of saving.

According to Lensink et al. (2018) establish that microfinance presents financial services to populations that are unable to utilize banking and linked services. The platform presented by MFIs includes the presentation of these resources through the provision of microloans to those in lower-income groups, mainly in rural locations are rates marked by affordability (Oli, 2018). The microloans provided can be repaid through well-structured payment frameworks, and collaterals are not required in the procedure. In most cases, those who borrow may be called to establish groups of a specific quantity for the qualification of loans. This strategy is employed by MFIs as a way to decrease the risk associated with defaulting (Lensink et al., 2021). A majority of these services are designed to satisfy the financial needs of the most vulnerable groups in different markets, such as minority ethnic groups.

Small businesses obtain investment capital from MFIs and utilize them for the expansion or establishment of certain services. Most of these businesses are unable to gain financial resources from channels other than MFIs, and they show a consistent reliance on MFIs for financial services while conducting their operations (Oli, 2018). Oli (2018) stated that a majority of the entrepreneurs had utilized the culture of obtaining capital from MFIs as opposed to commercial banks as it is easier to access credit from these institutions. Therefore, individuals in the low-income bracket can access much-needed financial services from MFIs.

In the financial sector, MFIs also contribute to the development of financial stability. Small microfinance loans provide individuals with the opportunity of generating sufficient income for the payment of necessities such as food, shelter, and basic medical needs. Providing households with opportunities for extensive financial stability may assist in decreasing the number of individuals on public assistance initiatives.

MFIs play a substantial role in increasing financial activities within any economy. These institutions have increased the number of individuals that access financial services, both depositors and borrowers. Swapna (2017) found that the growth of MFIs has a positive influence on the access and use of financial services. The rise in assets, loan portfolios, and average deposits that result from the provision of financial services mean that more individuals are able to access financial services from these institutions as a result of the availability of funds. MFIs target individuals from various financial contexts, such as traders and farmers and those who benefit from government credit initiatives. MFIs also operate as commercial groups, full banking firms, and programs by communities or the government. MFIs also structure their credit services that match the goal of financial inclusion as the overall inclusion that presents a holistic category of services. This holistic category of services includes higher accessibility to financial services timely and sufficient credit as required by vulnerable groups in the society (Abrar et al., 2021). The customization of finance services to the different contexts of clients is also ensuring that there is financial inclusion of different groups.

Another way that MFIs positively contribute to the financial sector is by increasing the amount of money in a country's economy through the provision of loans. A large number of MFIs do not require collateral for the provision of loans, while other MFIs did with collateral categories such as group guarantees, livestock, household products, grain, and farm produce. The waiting periods are also still very short and range between days and a year. The requirement for financial services is very high for working capital, elevated for educational fees, capital investment, weak need for consumption, and very weak for social needs.

The "absurd gap" in servicing the people living in poverty refers to the ostensibly vast disparity between actual microfinance supply and prospective demand. Various estimations have been developed to highlight the disparity of 2.5 billion people living on less than $2 a day, and 1.2 billion on less than $1.25 per day; 3.6 billion individuals in developing nations lack access to formal financial institutions, whereas 1.8 billion have unmet credit-services need (Robinson, 2001) and about 2.5 billion individuals do not have access to financial services (Chaia et al, 2009).

In comparison, there are an estimated 10,000 MFIs, of which 3,652 MFIs are reporting to the MicroCredit Summit Campaign, representing 205 million customers and 2,000 MFIs are reporting to MIX Market, representing 100 million clients. Yet, calculating the prospective finance requirements of the impoverished is difficult. Inferring a strong demand for microcredit from these numbers overlooks a key factor: a considerable proportion of the poor who have a financial income may have latent demand for financial services in general, such as savings accounts and money transfers, but not necessarily for microcredit. There are a number of causes behind this. Many impoverished people choose to be employed rather than start their own businesses. Establishing a company to supplement their income is just the second-best option for them. Even if they currently manage a firm, owners may not want to increase their risk by levering it up. Smaller firms can benefit from minimal investments at the start-up period, but they cannot often absorb bigger sums of cash later on. As a result, the latent demand for microcredit appears to be restricted, and the real gap in servicing the poor appears to be considerably lower than estimated (Hartarska & Mersland, 2012).

2.3. Microfinance market trends and states

In the next text, we analyze deeply the microfinance market trends for the last twenty years, from 2002-till now. Microfinance Institutions (MFIs) provide financial services, including credit, savings, insurance, and remittances, to low-income individuals who have little or no access to traditional banking services. MFIs play a vital role in alleviating poverty, promoting economic development, and empowering disadvantaged communities. In this part, we analyze the loan volume, funding sources, and funding structures of MFIs. Loan volume refers to the amount of money that MFIs lend to their clients. The loan volume of MFIs has been growing steadily over the past decade. According to the Microfinance Barometer 2020, the global microfinance industry reached a loan portfolio of $140 billion in 2019, serving 140 million clients. This represents an increase of 6% in the loan portfolio and 7% in the number of clients compared to the previous year. In terms of loan volume, Asia is the largest market, accounting for 42% of the global loan portfolio, followed by Africa (31%) and Latin America (25%) (Thuard et al., 2019).

2.3.1. General characteristics of the microfinance market trends

The microfinance industry has experienced significant growth over the past few decades, and it is expected to continue growing in the future. Within this section we analyze the global microfinance market trends, opportunities, and industry forecasts for the future (Liu, Li & Wang, 2020). According to the World Bank, the microfinance industry provided services to over 140 million clients globally in 2018, with a loan portfolio of over $114 billion (World Bank, 2018).

The market is expected to continue growing due to several factors, including the increased demand for financial services: There is a growing demand for financial services among the unbanked population, especially in developing countries. Microfinance institutions (MFIs) provide an opportunity for this population to access financial services, including loans, savings, and insurance. Moreover, another factor is the government support: Many governments have recognized the importance of microfinance in promoting financial inclusion and poverty reduction. As a result, they have introduced policies and regulations that support the growth of the microfinance industry. Technological advancements have also shown to be a deterministic factor, as technology has made it easier for MFIs to reach remote areas and provide financial services to the unbanked population. Mobile banking, for instance, has enabled MFIs to reach more clients in rural areas. Finally, an important factor is the increased competition: The microfinance industry has become more competitive over the years, with more players entering the market. This has resulted in lower interest rates and better services for clients (Ashta & Herrmann, 2021).

The microfinance industry presents several opportunities for players in the market. Some of these opportunities include for example the expansion of services, where MFIs can expand their services beyond loans to include savings, insurance, and other financial services. This can help them to attract more clients and increase their revenue streams. On the other hand, they provide partnerships, as MFIs can partner with other financial institutions to expand their reach and increase their client base. For instance, they can be a partner with commercial banks to offer joint products to clients. Technology adoption is an important tool for MFIs. MFIs can adopt new technologies to improve their efficiency and effectiveness. For instance, they can use mobile banking to reach more clients in remote areas. Another important tool is the diversification: MFIs can diversify their loan portfolios to reduce their risks. They can offer loans to different sectors, including agriculture, small businesses, and women-led enterprises (Rachmawati, 2015).

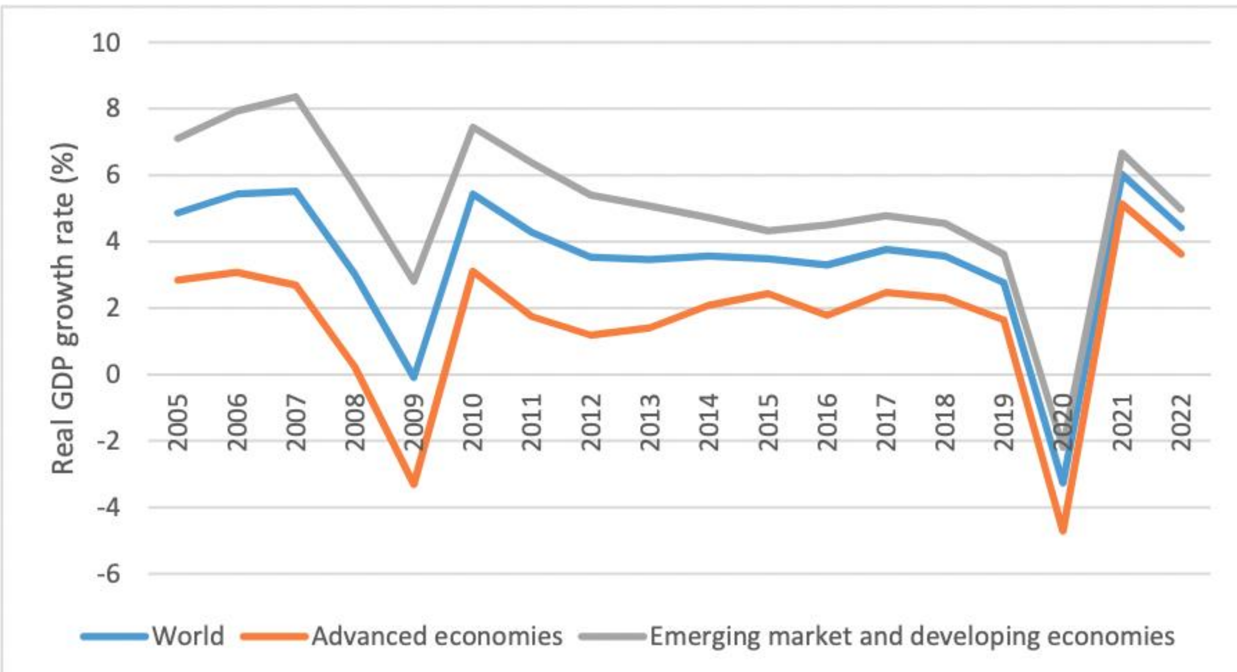
As mention another substantial trend in microfinance is the increased digital transformation. One of the ways digital transformations can be observed is through the channels (Fairooz et al. 2019). MFIs have started to identify different ways of reaching and interacting with consumers as a way of providing 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 (Fairooz et al. 2019). MFIs have started increasingly investing in increasing capabilities and infrastructure as digital solutions have become essential in the microfinance industry. Advanced economies, also known as developed countries, are typically characterized by high levels of industrialization, well-established financial and legal systems, and strong social safety nets. These economies tend to have high levels of income and are home to some of the largest multinational corporations and financial institutions in the world. In terms of Real GDP growth over time, advanced economies have experienced varying levels of growth in recent years. In 2018, many advanced economies experienced relatively strong growth, with the United States, for example, experiencing a Real GDP growth rate of 2.9%. However, this growth slowed in 2019, with the United States recording a growth rate of 2.2%. In 2020, the COVID-19 pandemic had a significant impact on advanced economies, with many countries experiencing sharp declines in Real GDP growth due to lockdowns and other measures aimed at controlling the spread of the virus. For example, the United States saw a contraction of 3.5% in Real GDP in 2020, while the Eurozone as a whole contracted by 6.6% (Bonardi et al., 2020). Looking ahead, many advanced economies are expected to experience a rebound in Real GDP growth in 2021 as vaccination campaigns allow for a gradual lifting of restrictions. The United States, for example, is projected to see a growth rate of 6.5%, while the Eurozone is expected to grow by 4.4% (Silva et al., 2021). However, there is still significant uncertainty surrounding the global economic outlook, and the pandemic continues to pose a risk to economic growth.

On Graph 3 is showed trend of real GDP rate for period 2005 to 2022 year.

The 2020 contraction was deeper and more widespread than global financial crisis in 2009 year. In 2009, the world economy declined by 0.1%, mainly driven by a sharp fall in output in advanced economies. In 2020, the pandemic's impact on emerging and developing economies (-2.2%) was less severe than on advanced economies (-4.7%). This is a notable difference compared to 2009 when emerging markets and developing countries grew by 2.8%, while advanced economies shrunk by 3.3%.

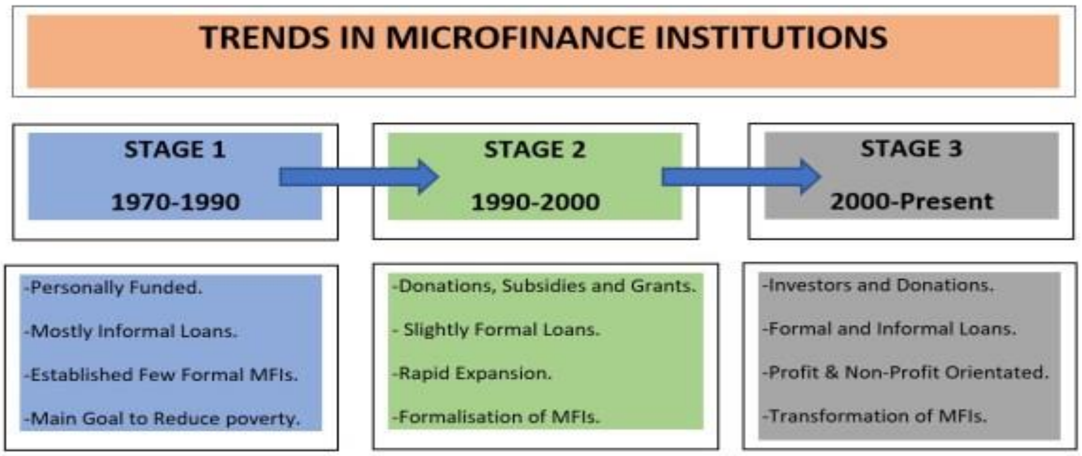
Graph 3. Real GDP growth in % for period 2005-2022



Source: *IMF, World Economic Outlook Database (12 April 2021)*

Expanding the analysis to include affluent nations such as Canada, France, and the United States, a common trend emerges. These nations have embraced versions of economic models that aim to assist individuals in becoming revenue creators. Microfinance Institutions (MFIs) have had a global impact and spread because microfinance is recognized as one of the most effective instruments for combating poverty. MFIs were initially reliant on contributions, grants, and government subsidies. Yet, during the last decade, several microfinance institutions have discovered that in order to offer ongoing service, pay administrative, financial, and operational costs, and budget for future expansion, they may need to generate a profit. MFIs have been focusing somewhat more on their financial side in recent years, and as a result, the sector is shifting towards profit-oriented MFIs, which indicates that these MFIs are utilizing market-based concepts.

Figure 1. Trends in Microfinance Institutions



Source: *https://doi.org/10.1163/2031356X-34010005_(09, Jun 2021)*

This means that there have been three stages of MFIs since their inception, as seen in Figure 1 below (Ghosh & Van Tassel, 2009). Bank Rakyat Indonesia (BRI), K-Rep in Kenya, Mibanco in Peru, First Microfinance Bank (FMFB) in Pakistan, and CARD Rural Bank in the Philippines were among the first microfinance banks to pursue a profit-driven model. Similarly, PRODEM, Bolivia's biggest microfinance Organization, turned into BancoSol, a financial institution. In conclusion, despite the fact that MFIs were created as non-profit institutions to deliver social benefits, it appears that microfinance institutions are becoming increasingly profit-oriented for a variety of reasons (Brau & Woller, 2004).

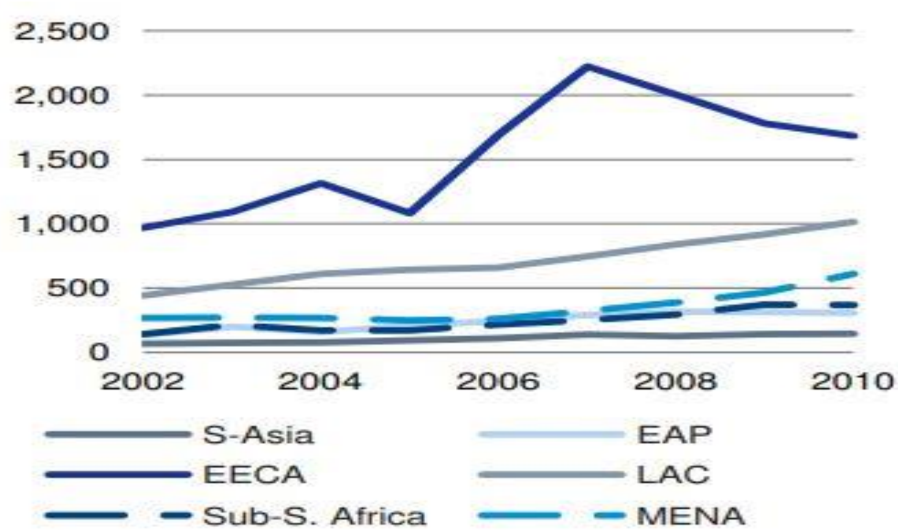
2.3.2. Analysis of the microfinance trend for the period 2002-2010 year

As before stated, microfinance originated in Bangladesh, when researchers began experimenting with micro-loans for the rural poor in the 1970s. From then, the idea spread quickly over the world. Nowadays, the majority of borrowers are still from rural South Asia and the East Asia and Pacific (EAP) area. Microfinance grew across Latin America and the Caribbean (LAC), Eastern Europe and Central Asia (EECA), and Sub-Saharan Africa throughout time (Sub-S. Africa). It is worth noting that the typical loan amount in the latter regions is generally bigger than in South Asia, East Asia, and the Pacific, where microfinance has its beginnings.

The microfinance market was from then and still is continuously evolving after the first microfinance organizations were established. When microfinance first gained traction in the 1980s, it was focused on lending to the rural poor for income generation, mostly through solidarity group loans of small and lowest sums. Microfinance has since grown into a more comprehensive development instrument, providing access to financial services to all unbanked persons in emerging and developing economies. Microfinance in the beginning only referred to payment services, savings accounts, insurance, and other financial services that may be provided on a small scale, in addition to conventional microcredit, which is the financing of small enterprises and start-ups. With the expansion of the product offering, the base of microfinance consumers and the methods of supporting them evolved. Individual contracting has increasingly supplanted group financing, and MFIs have moved into cities and begun to target richer clientele (Taylor, 2011).

Microfinance's global development coincided with an expansion into urban areas in both high- and low-income nations, while in many cases, microfinance was centered on urban regions from the outset. The average loan size in Latin American nations, but also in EECA and the Middle East and North Africa (MENA), more than quadrupled between *2002 and 2010,* reflecting the growing number of wealthy clienteles. In 2010, metropolitan regions served more than 60% of wealthy clients and over 50% of disadvantaged clientele (see Graph 4).

Graph 4. Average loan size by region, in USD, median (2002-2010)



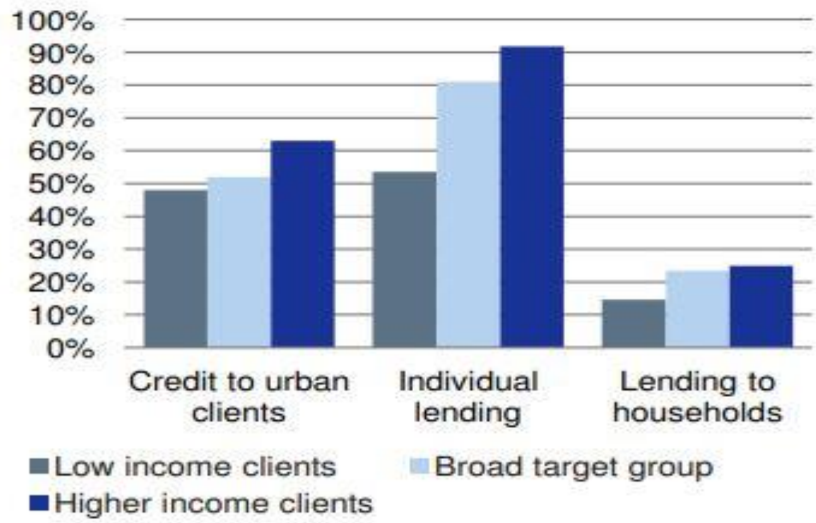
Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 Septembre 2012)*

Microfinance growth was accompanied by a transition from group to individual lending. Individual lending is popular in these circumstances since group lending is more difficult to apply in metropolitan areas and wealthy borrowers prefer individual contracts. Individual contracts are also becoming more popular in rural regions, as is lending to low-income clientele. More than 90% of microcredit was given to higher-income customers, while more than 50% is given to low-income clients on an individual basis. While group lending continued to dominate in South Asia, individual lending was the norm in most of Latin America and Eastern Europe.

Moreover, a rising proportion of loans were being issued to support household necessities rather than investments, accounting for 25% of MFI's total lending volume on average. Because MFIs couldn't entirely monitor what purpose a loan is utilized for, the true figure is likely to be higher. The majority of loans are utilized for non-business activities at least in part. It should be highlighted, however, that non-business credit was frequently utilized not only for consumption purposes but also to pay for school or medical expenses.

Individual lending: Many MFIs provide loans to individuals who do not have access to traditional banking services. These loans are often small and short-term and are used to finance income-generating activities or to cover unexpected expenses. Lending to households: MFIs may also provide loans to households to finance specific needs, such as home improvements, education, or healthcare. The target group for household lending can also vary but often includes low-income households and those in rural areas. The group with Higher income clients is with 90% volume for lending money. Credit to urban clients: MFIs also provide credit to urban clients, who may have some access to traditional banking services but still face barriers to accessing credit. The target group for credit to urban clients can vary but often includes those who are unable to obtain credit from traditional banks due to a lack of collateral or credit history. As we can see from Graph 5 it has Higher income client group it has more than 60% volume.

Graph 5. Loan characteristics, average share in MFI lending volume by target group, 2010 year



Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 Septembre 2012)*

Microcredit was mostly given in the early phases of the market by non-profit organizations sponsored by donors. The landscape of MFIs was transformed as microfinance has expanded into new categories and become a more commercialized enterprise. Many techniques were observed: Initially, non-governmental organizations have upgraded their status from NGO to the bank or non-bank financial institution in order to access various sources of funding (e.g., banks can accept deposits) and share profits. In 1992 for example, BancoSol in Bolivia was among the first to seek such upscaling. Second, rather than scaling up an existing NGO, donors frequently establish a so-called greenfield bank, which focuses on microlending while also pursuing a banking license from the start. Finally, commercial joined the microlending industry by establishing a microfinance department within a for-profit firm, a method known as downscaling.

Table 1. Structural Indicators of MFIs in 2010

	NGOs	**NBFIs**	**Banks**
Number of borrowers(median)	10,387	10,644	34,412
Number of depositors (median)	0	0	43,402
Gross loan portfolio (USD m, median)	3,945	7,292	77,354
Average loan size (USD, median)	315	670	2202
Average loan size/GNI per capita (median)	15%	32%	63%
Portfolio yield (real, median)	21%	27%	16%

Share of the loan portfolio in urban areas (mean)	49%	51%	61%
Share of the loan portfolio in individual loan contracts (mean)	53%	64%	81%
Share of the loan portfolio in household lending (mean)	11%	16%	23%
Share of institutions with for-profit status	3.4%	81%	98%
Share of institutions targeting low-income people	76%	61%	49%
Large institutions in terms of the number of borrowers	28%	32%	60%
Distribution of MFIs in the MIX Market dataset			
Share of number of institutions	***33%***	***35%***	***8%***
Share of total borrowers	***30%***	***39%***	***28%***
Share of total assets	***12%***	***28%***	***52%***

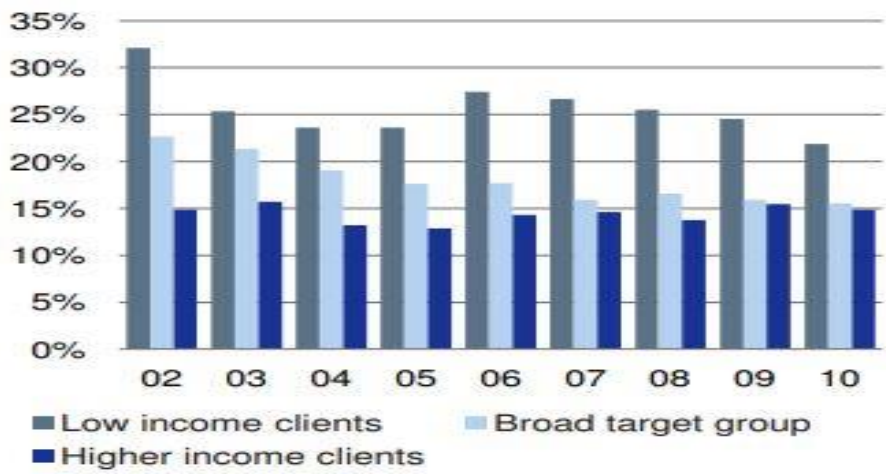
Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 September 2012)*

The essential characteristics of the three primary groupings of microfinance suppliers, namely NGOs, NBFIs, and banks, are compared in Table 1. The manner NGOs provided their services is still the most similar to the roots of microfinance. These institutions were typically tiny, with approximately 10,000 borrowers, and they primarily serve low-income clientele on a non-profit basis. Furthermore, non-governmental organizations (NGOs) frequently operated in rural regions and employ group lending rather than individual forms of contracts, with an average loan amount of USD 315.

NGO-registered MFISs appeared to lose their position as the principal channel for microlending in these years, while the relative importance of non-bank financial institutions (NBFIs) and banks grew. NBFIs presently served the greatest number of customers. The median NBFI served roughly the same number of borrowers as the median NGO, but its average loan amount is twice that of the NGO. NBFIs were mostly active in the EECA, but they are also found in Latin America, Sub-Saharan Africa, and South Asia. Banks have played a vital role in expanding microfinance to affluent regions and clientele, with a typical loan amount of USD 2,200.

Unlike with traditional banking, where refinancing costs are more important, running costs were the greatest single contribution to interest rates in microfinance. Lower-income clients' operating expenditures are often greater than those of richer clients. Variation is mostly due to loan amount, as well as the unique demands of the targeted customer group. Granting 100 USD loans to low-income consumers needs more time and personnel costs than issuing a single USD 10,000 credit to a richer client. The size of institutions is also important, with larger institutions being more efficient than smaller ones (see Graph 6).

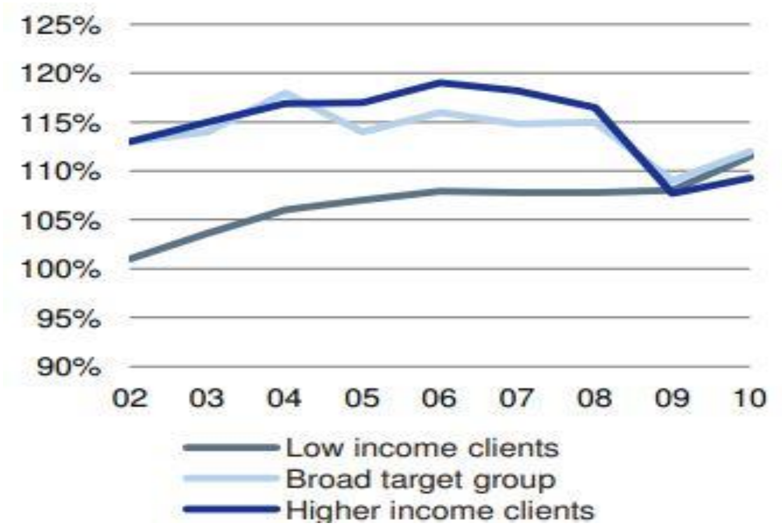
Graph 6. Operating expenses/loan portfolio by target groups, median (2002-2010)



Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 September 2012)*

Most MFIs during this period were self-sufficient, as assessed by income to total costs. This is true for both commercially operated institutions and non-profit MFIs. Efficiency benefits were noted, particularly among MFIs servicing low-income clients. During the previous ten years, those MFIs' self-sufficiency has increased from 100% to 110%. Lending to higher-income consumers or a broad clientele, on the other hand, has been viable for some time. Operational self-sufficiency among those two categories has been stagnant over the last decade, even declining between 2008 and 2009 (Hudon & Traca, 2011) (see Graph 7)

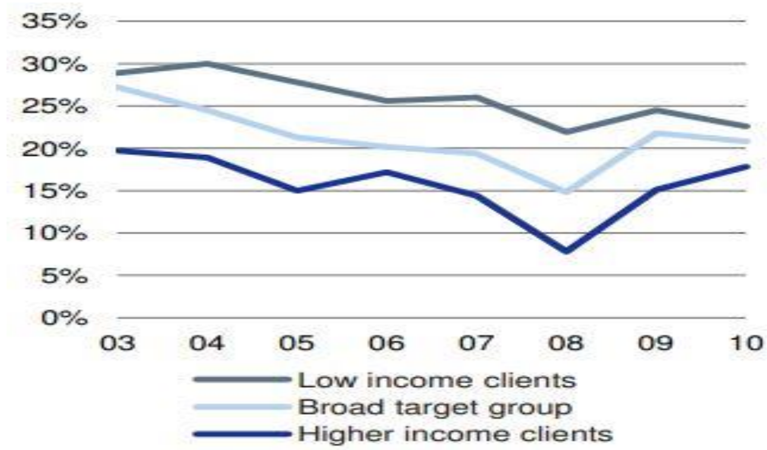
Graph 7. Operational self-sufficiency by target groups, median (2002-2010)



Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 September 2012)*

Looking at the statistics during this time, it appears that most efficiency gains have been realized without boosting actual rates. Between 2003 and 2010, the median MFI's gross portfolio yield fell by roughly 6 percentage points. The total level of portfolio yield has fallen in recent years, owing in part to efficiency advantages being passed on to customers. This effect has been particularly obvious for MFIs serving lower-income customers and those serving a diverse clientele, resulting in a narrowing of the income gap between lower- and higher-income consumers over time. Lower-income consumers have traditionally paid higher interest rates (and generated greater gross returns), reflecting the differing cost structure of MFIs targeting this specific market group (Bos & Millone, 2015) (see Graph 8).

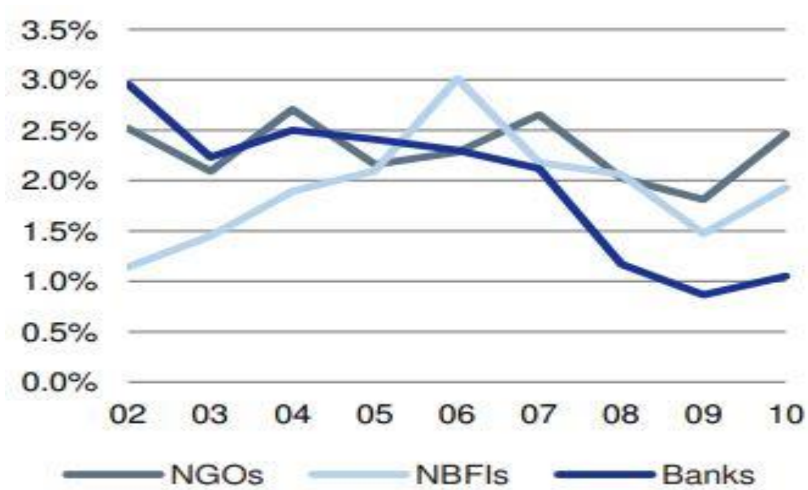
Graph 8. Gross portfolio yield (real) by target groups, median (2002-2010)



Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 September 2012)*

However, the median MFI's return on assets was between 1% and 3% over the time period under consideration. Return volatility varies by institution type, NGOs, which often serve lower-income clientele, were able to generate rather constant returns. This conclusion is consistent with the finding that operational self-sufficiency for MFIs servicing low-income clients has been progressively increasing. This is not unexpected given that higher-income clients are more likely to be part of the formal sector and more reliant on the economic cycle (Mersland & Strøm, 2013) (see Graph 9).

Graph 9. Return on assets by type of institution, median (2002-2010)

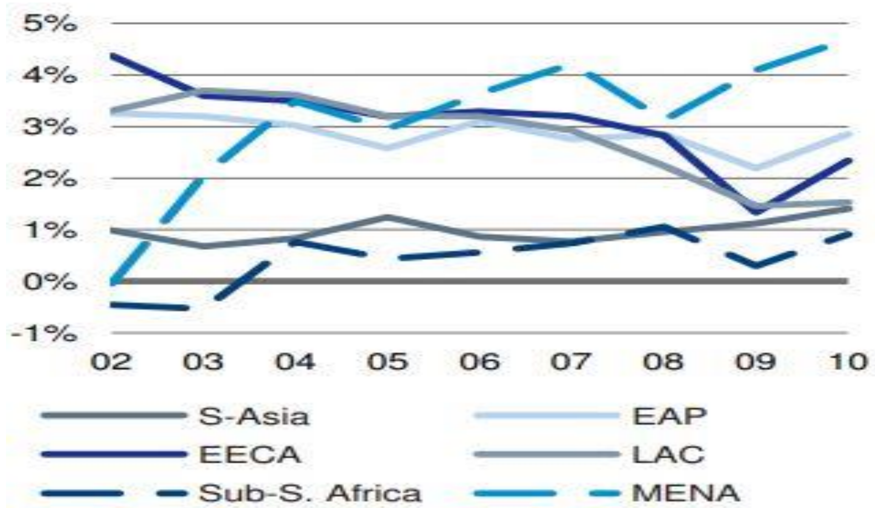


Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 September 2012)*

The global financial crisis impacted microfinance in emerging nations through a variety of mechanisms. As previously noted, international investors stopped providing cash to MFIs. Nevertheless, facts reveal that this was not the case, at least not much, since foreign funding growth fell but remained positive throughout the crisis. The global economic crisis that followed the financial crisis was undoubtedly a more meaningful avenue for contagion. A drop in remittances and a worsening of trade balances impacted several emerging market nations. This has, in some situations, diminished debtors' capacity to service their loan. Yet, even causal data calls into question the claim that issues in the MFI business are only or even mostly the result of the financial crisis. Indeed, some nations may draw a more direct line from the global crisis to domestic microfinance concerns than others (Rallens & Ghazanfar, 2006). Serbia and Moldova, for example, had their GDP fall by more than 4% in 2009, owing in part to the global financial crisis. The MFIs PAR30 was raised to 10% in this case (Anayiotos, Toroyan & Vamvakidis, 2010). Some nations, such as Ukraine, Tajikistan, and Argentina, faced microfinance issues but were less affected by global upheaval, and even maintained a relatively consistent economic growth path. MFIs' risk portfolios in Syria, Haiti, and Niger rose in 2007, and in Togo, Bangladesh, and Chile in 2008, prior to the global economic meltdown (Te Velde, 2011).

Microfinance at the time developed very unevenly across areas. For example, lending in SubSaharan Africa has always been riskier for economic and political reasons, and as a result, the profitability of MFIs operating there have been more erratic. In contrast, MFIs in Eastern Europe and Central Asia (EECA) have been functioning in a relatively stable macroeconomic environment for the majority of the area, however income levels, as well as macroeconomic and structural circumstances in which MFIs operate, fluctuate among nations (see Graph 10).

Graph 10. Return on assets by region, median (2002-2010)

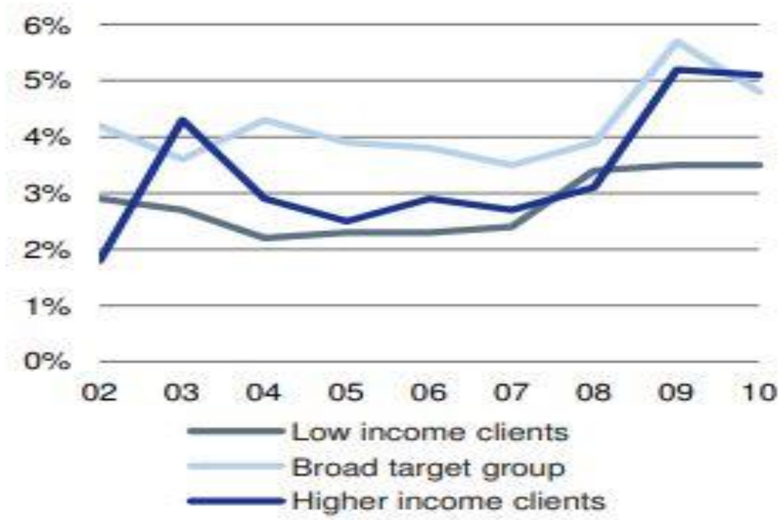


Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 September 2012)*

The Graph 10 illustrates that MFIs in higher-income areas were more lucrative than those in lower-income areas. It also demonstrates that MFI profitability suffered in most regions in 2008/2009, with MFIs only somewhat recovering in 2010. The median MFI in Eastern Europe and Central Asia had the greatest fall in return on assets (EECA). For a long period, the EECA had a well-developed microfinance market with a well-connected branch network. Yet, with the onset of the financial crisis in 2008, the return on assets was cut in half from 3% to 1.5%, while the PAR30 increased from 1% to 4% (Pytkowska, 2007).

The rapid development of the industry was frequently followed by a shift in the client base of MFIs and a general increase in the number of higher-income microfinance borrowers. This has a dual impact on the makeup of MFI portfolios: socially oriented MFIs lose profitable customers, which they frequently use to cross-subsidize poorer borrowers and become more sensitive to shocks. Because the ability of richer borrowers to repay depends on the economic cycle far more than that of the extremely poor, MFIs that target wealthy clientele become more vulnerable to overall macroeconomic conditions. Graph 11 below indicates that higher-income clients were more lucrative than low-income consumers up until 2008. Yet, profit margins for high-income clients have fallen substantially since 2008, while they have stayed roughly steady or even grown for low-income consumers. Profit margins for high-income clients fell to the same level as those for low-income clients by 2009. The portfolio at risk for MFIs targeting a higher-income and diverse clientele increased by roughly 2 % points in 2009, but stayed almost steady for low-income clients (Sonnekalb, 2014) (see Graph 11)

Graph 11. Impact of the financial crisis from 2008 on the clients



Sources: *https://www.academia.edu/1932713/DB_Research_Microfinance_in_evoluti, MIX Market, DB Research (13 September 2012)*

2.3.3. Analysis of the microfinance trend from 2011 till today

Structural indicators were and still are important measures of the performance and sustainability of microfinance institutions (MFIs) (Bhatt et al., 2018). Here are some commonly used structural indicators of MFIs within the 2011-2015 period:

- ***Age***: The length of time an MFI has been in operation is an important indicator of its stability and maturity (Sarma & Pais, 2015).
- ***Legal status***: The legal structure of an MFI can affect its ability to mobilize funds, attract investors, and access regulatory support (Cull & Morduch, 2018).
- ***Size***: The size of an MFI is often measured by the value of its loan portfolio, total assets, or number of borrowers. Size can affect an MFI's capacity to provide services, diversify its portfolio, and manage risk (D'Espallier et al., 2019).
- ***Outreach***: Outreach measures the extent to which an MFI reaches underserved populations, particularly those living in poverty or in rural areas (Das, 2020).
- ***Governance***: Governance indicators evaluate the quality of an MFI's management and board of directors, including their expertise, transparency, and accountability (Bhatt et al., 2018).

- ***Financial performance***: Financial performance indicators include profitability, return on assets, and portfolio quality. These measures assess an MFI's ability to generate sustainable revenue, manage risk, and maintain portfolio quality (Sarma & Pais, 2015).

Overall, these indicators can provide insight into the strengths and weaknesses of an MFI and help stakeholders make informed decisions about investments and support.

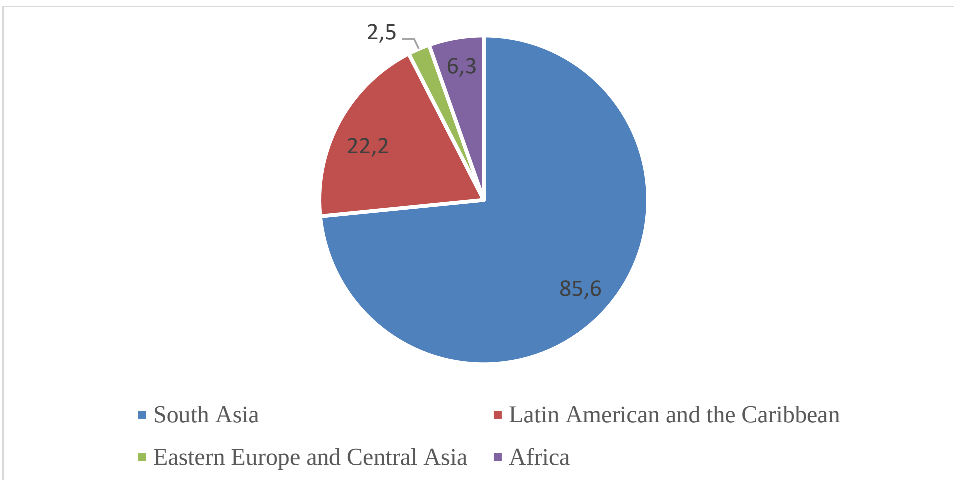
Partnerships between MFIs and commercial banks have allowed each to capitalize on their respective competitive advantages. While MFIs are more informed in their communities, banks have more access to funds and pre-existing infrastructure. The combination of the commercial and microfinance sectors is the outcome of cooperation. While traditional banks purposefully reduced their size in order to profit from this expanding industry, MFIs have expanded in order to access larger amounts of credit, augment their portfolios, and boost management and efficiency levels. Both sorts of institutions "scale up and scale down" their financial products to meet the needs of the clients they serve. The combination of these industries opens up a fresh microfinance trend: a growth in deposits as a source of capital. MFIS must shift their focus away from international debt investment, which is sensitive to foreign exchange risk, and toward their own domestic and regional markets, where domestic funds may be converted into productive loans for the poor. Owing to a lack of information and trust outside the community, the local poor may be more motivated to make deposits into local savings accounts (Ozili, 2018).

Additionally, and most critically, MFIs may minimize foreign currency risk by borrowing and lending in local currency. One of the most important ties between these movements is technical progress. Smaller and simpler financial transactions have become more cost-effective as a result of efficient technology, pushing commercial banks to scale down and reach a larger number of consumers. Low-cost ATMs, for example, with visual and audio instructions, are attracting rural and illiterate customers. The State Bank of India, for example, is reaching out to entire villages with 10,000 personal computer kiosks equipped with ATMs. Regional MFIs, on the other hand, that are expanding, might connect to worldwide ATM networks, causing deeper integration of the two sectors. The expansion of automated teller machines and phone banking services could lead to an even greater increase in local currency deposits. As physical banking and financial services infrastructure advances, microfinance is poised to become a new asset class (Wewege, Lee & Thomsett, 2020).

In fact, the microfinance industry was expected to continue growing in the coming upcoming years, driven by several factors. Firstly, the increasing demand for financial services among low-income individuals and small businesses in developing and emerging economies is expected to drive the growth of the sector. According to a report by the World Bank, approximately 1.7 billion adults worldwide lack access to formal financial services, creating a significant opportunity for MFIs to expand their outreach and serve this underserved market (World Bank, 2018). Secondly, the rise of digital technology and mobile banking is expected to transform the microfinance industry. The use of mobile phones and digital platforms has enabled MFIs to reach remote areas and provide financial services at a lower cost. In addition, digital technology has made it easier for MFIs to assess creditworthiness and manage risk, reducing the need for collateral and other traditional underwriting methods. A report by McKinsey & Company estimated that digital finance could add $3.7 trillion to the GDP of emerging economies by 2025, highlighting the potential for digital microfinance to drive economic growth and financial inclusion (O'Mahoney & Sturdy, 2016). Thirdly, the growing interest in impact investing and social entrepreneurship is expected to increase the availability of funding for MFIs. Impact investors are increasingly looking for opportunities to invest in businesses that create social and environmental impact, including MFIs. A report by the Global Impact Investing Network (GIIN) estimated that the global impact investing market was worth $228 billion in 2017, with microfinance accounting for 26% of total impact investments (GIIN, 2018). Finally, the regulatory environment for microfinance is expected to continue evolving, with increasing emphasis on consumer protection and financial stability. In many countries, regulators are implementing measures to ensure that MFIs operate in a responsible and sustainable manner, including setting standards for transparency, fair pricing, and client protection. While these measures may increase the compliance costs for MFIs, they are also expected to increase consumer trust and confidence in the industry, supporting the long-term growth of the sector.

On July 28, 2020, the Microfinance Committee addressed the microfinance industry's change during the previous decade. The focus shifted to the microfinance trends, triumphs, and problems, presenting the global trends in the industry as well as a glimpse into its future (Kaushal et al., 2021). The Covid-19 pandemic hit the world hard, impacting fragile economies in particular, and calling on the entire microfinance sector to act in a responsible way. Surveys conducted throughout 2020 revealed three major difficulties: the impossibility of meeting clients in person, difficulties in collecting repayments, and complications in disbursing loans. The operational constraints encountered have inevitably had significant financial repercussions. We observe two major consequences for almost all MFIs: an increase in the portfolio at risk (PAR) due to lower repayments, and a reduction in outstanding loans due to lower disbursements. Other problems have also arisen from time to time: temporary lack of liquidity, the impact of depreciating local currencies, and a slowdown in disbursements from donors. In the face of the crisis, most MFIs have shown resilience. Among the levers envisaged to return to financial stability: increasing the volume of their portfolio and the number of clients, opening up to new products and services, and even to new markets, in 2021 (FGCA, 2021).

Graph 12. MFIs number of customers in different regions in the world (in millions) (2020)

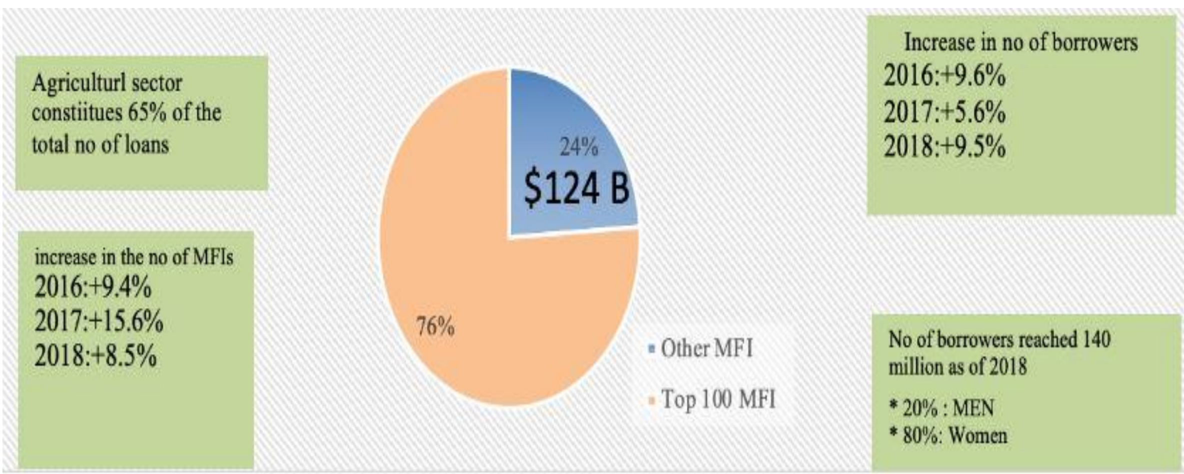


Source: http://ec.europa.eu/social/easi (Accessed, November 2022)

As shown in Graph 12, 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).

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 (Figure 12).

Figure 2. Worldwide MFI performance 2016 up to 2018



Source: https://cdn- https://www.european-microfinance.org/sites/default/files/document/file/BMF_2018_EN_VFINALE-2.pdf (Accessed, November 2022)

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).

Until 2011, only 50% of the world's population over the age of 15 (about 2.5 billion individuals) had an account at a formal institution, 22% saved at a financial institution, and 9% borrowed from a financial institution (World Bank, 2012). Nonetheless, account penetration varies per nation, depending on the country's degree of development. Whereas 89% of persons in high-income nations have an account with a formal financial institution, 41% in emerging economies and 18%

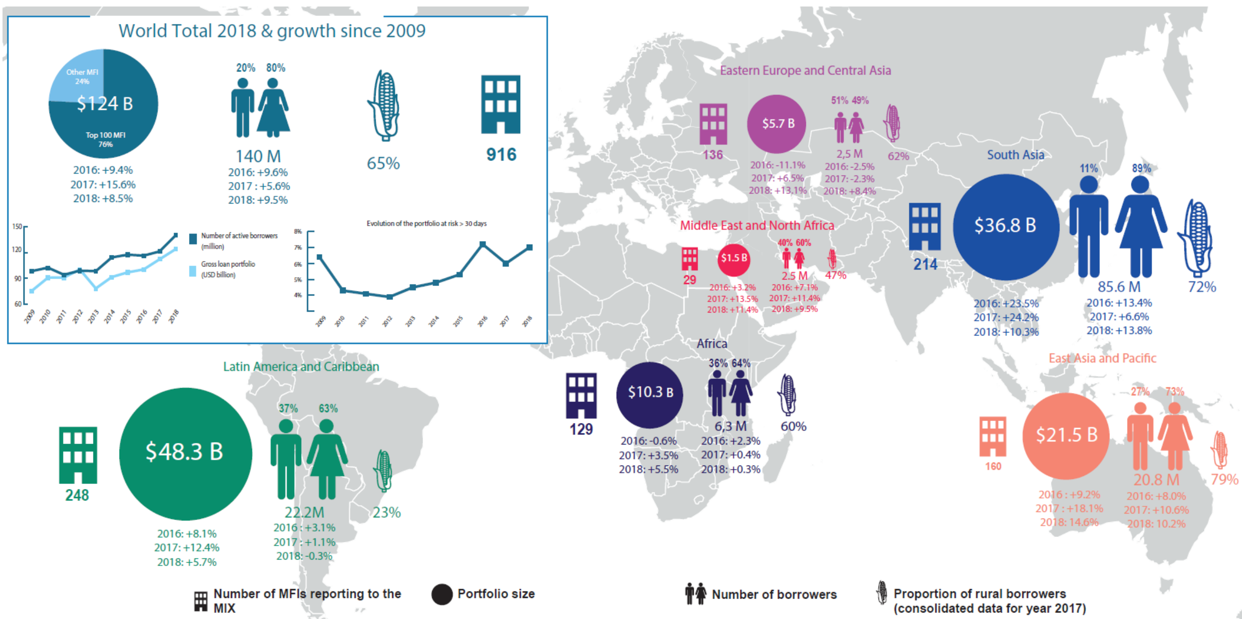
in the Middle East and North Africa (Demirgüç-Kunt & Klapper, 2012). According to MIX (which offers financial and social performance statistics on Microfinance Institutions throughout the world) in its 2011 Annual Report, there were over 3,000 MFIs (microfinance institutions) in 110 countries, representing over 92 million borrowers and 66 million depositors (Bayar, 2013).

Commercial bank shrinkage, an increase in the number of partnerships, an increase in the number of local currency deposits, and the merger of the commercial and microfinance sectors are all contemporary developments that are inextricably intertwined. Since commercial banks have discovered that providing financial services to the poor may be profitable, an increasing number have entered the market to serve lower-income clients. According to the World Bank's microfinance section, there are presently roughly 225 commercial banks "involved in microfinance," and this number is growing. The key reasons for the rise of commercial banks at the low-income level are 1) competition in current markets driving banks into new ones, 2) excellent payback rates by micro-entrepreneurs, and 3) technology providing more access to the poor while keeping transactions cost-effective. Despite governments in certain developing nations having mandated that commercial banks engage in particular sectors, banks are increasingly drawn to the microfinance industry because of the low risk, stability, and possible development prospects. Companies are joining either directly with their own resources, such as an internal microfinance unit, or through partnerships with current providers (Kemp & Berkovitch, 2020).

The worldwide microfinance market is expected to develop at a substantial CAGR of roughly 14.8% (2020-2026). The microfinance sector caters to the low-income and underserved segments of society. With considerable government help, the microfinance business has reached out to a lot of small borrowers in recent years. As a result, the worldwide microfinance business has grown slowly during the previous decade. The continuing establishment of microfinance institutions throughout the world contributes to the expansion. According to the World Bank, approximately 7,000 microfinance institutions operate globally, supporting roughly 16 million low-income individuals in emerging nations such as India and Bangladesh (Radović & Jeločnik, 2021).

Together with the expansion of microfinance institutions, the government's support for women's empowerment in rural regions is boosting the microfinance business. According to the Convergences Global Forum, approximately 80% of microfinance borrowers were females in 2018. According to the Global Development Research Center, women account for approximately 94% of all loan borrowers at Grameen Bank in Bangladesh (GDRC). Throughout the predicted period, such variables provide a large market capitalization for the microfinance industry. Nonetheless, the COVID-19 epidemic has had a huge impact on the microfinance business. Customers are harmed by global financial collapse, social separation, and other COVID-19 standards to contain the epidemic, which threatens the industry's income. As a result, several microfinance institutions have ceased repayments, leaving the business with no income (Zheng & Zhang, 2021).

Figure 3. Global microfinance trends for the 2009-2018 year



Source: [https://www.centerforfinancialinclusion.org/about/what-we-do/mix (Accessed, November, 2022](https://www.centerforfinancialinclusion.org/about/what-we-do/mix))

Microfinance institutions (MFIs) have given hundreds of billions of dollars over the last years, with an average annual growth rate of 11.5% during the last five years. At the same time, the number of borrowers globally continues to rise but at a slower rate than from 2000 to 2010, with an average annual growth rate of 7% since 2012, compared to over 20% in the previous decade (Dowla, 2006). In 2018, 139.9 million borrowers used the services of MFIs, up from 98 million in 2009. Despite the increase in the number of borrowers, 65% of the 139.9 million borrowers are from rural areas, and 80% of them are women. These statistics have not changed over the past ten years. With an estimated credit portfolio of $124.1 billion in 2018, MFIs reported another year of growth (up 8.5% from 2017) (see Figure 3)

Over the past ten years, MFIs have improved in efficiency as well. The operational expense ratio decreased by 2.7 percent during the course of a decade which saw a sharp rise in the cost per borrower, from an average of $68.4 in 2009 to $106.7 in 2018 (+56%). Between 2009 and 2018, MFIs also saw increases in their returns on equity and assets of +1.3 and +2.9 points, respectively. The portfolio's quality did, however, slightly worsen over time, with the 30-day portfolio at risk (PAR) increasing from 6.4% in 2009 to 7% in 2018. The PAR > 30 days decreased between 2010 and 2012 before rising once more and stabilizing at about 7% between 2016 and 2018.

2.4. Foresight of MFIs development until 2030

The worldwide microfinance market is divided into four regions: North America, Europe, Asia-Pacific, and the Rest of the World. Throughout the projected period (see Figure 4), North America and Europe are likely to have significant expansion in the global microfinance market. Germany, the United Kingdom, and Switzerland are key contributors to regional market growth in Europe. The United States contributes significantly to the North American microfinance market. The microfinance sector accounts for a minor portion of the North American area; financial institutions such as the Federal Reserve System of the United States have forecasted exceptional growth and opportunity for microfinance in the United States throughout the forecast period. Kiva and Accion International are two of the world's leading microfinance organizations (García-Pérez et al., 2020). 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 4. Global Microfinance Market Growth, by region for the 2020-2026 year

Source: *OMR Global (Accessed, November 2022)*

Asia-Pacific accounts for a sizable portion of the worldwide microfinance industry. India has the largest microfinance market in Asia-Pacific, followed by Bangladesh. The Government of India (GoI) is constantly working to promote financial inclusion in the banking industry through measures aimed largely at bringing India's underbanked people into the banking system. The Indian government has implemented a number of reforms to regulate, liberalize, and improve the country's financial industry. The government and the Reserve Bank of India (RBI) have taken many steps to make it easier for Micro, Small, and Medium Businesses (MSMEs) to obtain credit (MSMEs). These initiatives include launching a Credit Guarantee Fund Plan for Micro and Small Companies, giving collateral guidelines to banks, and establishing a Micro Units Development and Refinancing Agency (MUDRA) (Mia et al., 2018).

The leading players in the microfinance industry are making substantial contributions by offering improved technology-based solutions and growing their geographical presence throughout the world. Accion International, Bandhan Bank Ltd., Bangladesh Rural Advancement Committee (BRAC), Grameen Bank, Jamii Bora Bank, Kiva Microfunds, and National Bank for Agriculture and Rural Development are among the leading companies in the worldwide microfinance business (NABARD). To maintain a strong market position, these market players use a variety of techniques such as product launches, partnerships, collaborations, mergers, and acquisitions. Bandhan Bank Ltd., for example, will open 125 new branches across 15 Indian states in March 2020. Through such expansion, the bank sees prospects and establishes its foothold in the world's largest microfinance market (Tomizawa et al., 2020).

The worldwide microfinance market was estimated at $178.84 billion in 2020 and is expected to increase at a CAGR of 10.8% from 2021 to 2030, reaching $496.90 billion by 2030. The increase in the number of microfinance firms assists emerging nations in eliminating poverty and improving the standard of life for disadvantaged people, which is driving market expansion. Other reasons driving the microfinance market development include the move from traditional lending to microfinance, lower operational costs, and less market risk. Yet, high loan rates and shorter payback terms offered by microfinance providers stifle industry expansion. On the contrary, the rising adoption of modern technology in the microfinance industry across emerging nations, such as mobile banking, ATMs, POS, and others, is a prominent factor expected to generate prospective development prospects for the market (Ferraro et al., 2020).

The COVID-19 pandemic has had a limited influence on the microfinance business, as the epidemic has made lending activities such as past-due or non-collectible loans an implicit component of the financial system. Also, due to the expanding number of patients worldwide, the government has shut down several microfinance organizations. Furthermore, the European government provided several alternative digital channels for microfinance companies to advertise their goods and recruit customers, which has a beneficial influence on market growth. As a result, amid the global health crisis, this has become one of the primary growth causes for the microfinance sector (Korzeb & Niedziółka, 2020).

With the increased proliferation of smartphones and internet users throughout the world, online finance has grown significantly in recent years. Microfinance is regarded as one of the most convenient and extensively utilized lending options since it gives rapid affordability for applications. In recent years, more firms and individuals have begun to fill out loan applications online rather of going through the time-consuming lending procedure. According to an industry assessment by MFIN and KPMG, the introduction of new-age Fintech (Financial Technology) has helped the microfinance sector to accelerate its transformation to a more efficient digital model in order to serve a wider population at lower costs. Furthermore, the convenience with which borrowers may apply for loans, as well as various other benefits for lenders such as automated loan administration and speedy approval, are boosting market expansion.

Microfinance institutes and microlenders offer high-interest rates for a variety of loan amounts, which is a key impediment to industry expansion. Furthermore, because microfinance is primarily concerned with growing income, repayment terms are short and fees are high. Microfinance institutions borrow enormous sums of money from numerous banks and other institutions, resulting in high-interest rates and shorter payback terms, stifling market expansion. Additionally, because traditional microfinance banks are not permitted to collect deposits as a means of funding loans, the majority of microfinance institutes throughout the world must generate money through private equity. This has a detrimental influence on market growth. Furthermore, the tightening of government regulations on microfinance institutions is impeding market expansion (Akanji, 2001).

The increased usage of digital technology in the microfinance sector to provide new channels for individuals and increase their income opportunities supports market growth. Moreover, greater connectivity in emerging countries, as well as technology advances in certain

African and Middle Eastern countries, are likely to give attractive opportunities for market expansion. Additionally, the widespread use of advanced technologies in the microfinance industry, such as mobile banking, ATMs, point-of-sale (POS), and others, in developing countries presents a potential possibility for the business. For example, the Indian government has devised a number of financial aid programs for existing and prospective MSMEs. These initiatives seek to give financial assistance to aspiring MSMEs so that they can establish and/or flourish to their maximum potential. Moreover, prominent market players are bringing new technologies to increase their market share and give consumers with a better experience, which is projected to generate future opportunities for the industry (Rijanto, 2021).

CHAPTER III. DETERMINANTS OF THE FINANCIAL PERFORMANCE OF MFIS

Microfinance institutions promise to reduce, if not eliminate, poverty in a community and the country at large. However, to attain this objective and enhance the quality of life in the regions in which they operate, MFIs have to attain higher financial performance considering that donor constancy is given. This makes the financial performance of these institutions an important element of the organization. Multiple determining factors can influence MFIs' financial factors. According to the current literature on the MFIs' performance, both internal and external factors influence the daily performance of these institutions and have the power to influence their long-term financial performance (Hermes & Hudon, 2018). Internal determinants and factors are manageable as these institutions, through the top management, can manipulate them to ensure that they positively impact and affect organizational performance. However, this is not the case for external determinants and factors. Like other external factors, the management has little or no influence on the external factors. These institutions must mold and manipulate their practices, processes, and procedures to conform to external factors. This part of the study will focus on identifying and evaluating the determinants of the financial performance of MFIs.

Financial performance measures the change in financial health and state of a firm or the financial results from an administrative decision. It also defines the execution of decisions by members of an organization based on the company's financial health. It allows individuals to identify and evaluate the effectiveness of organizational processes and procedures, practices, and decisions made. In most cases, the financial performance of any organization is measured using ratios that compare different financial components and elements, which are key to assessing and understanding how the company is doing (Shkodra, 2019). In microfinance institutions, financial performance evaluation has been of great interest to academics and all stakeholders. It provides information and data used to make informed decisions concerning the future and the going concern of an institution. Notably, this is the only sector in an economy significantly influenced by macroeconomic variables such as interest rates or liquidity. As a result, the financial performance of this industry and these institutions significantly rely on economic stability. Macroeconomic stability is the pillar of any successful efforts to boost the private sector, mainly influenced by the availability of capital and resources.

In this chapter we analyzed few factor that influence the financial performance of the MFIs.

3.1 Interest rates

When an institution lends money, it is expected to be compensated for handing its claims over for a specific period of the loans to the borrowing entity (Shkodra, 2019). The net interest margin is established as having a positive reaction to the operating costs while being used to establish the profitability of an MFI. Shkodra (2019) states that the shifts in the market can also affect the interest rates that an MFI presents to its consumers, which also influences its performance. Fluctuation of interest rates can significantly manipulate and influence the financial performance of MFIs. According to Ferrari et al. (2018), the interest rate can be defined as the cost of borrowing funds from a financial institution. The interest rate is noted yearly, widely known as the annual percentage rate in most cases. Assets borrowed that encourage the implementation and use of interest rates include cash, consumer goods, vehicles, and properties.

In most cases, interest rates apply to most loaning and borrowing transactions. Individuals and associations get resources to obtain homes and workplaces, fund tasks, and launch or finance new undertakings or products. The cash acquired should be reimbursed either in full as a single amount by a pre-decided date or in occasional portions. The financing cost is applied to the principal sum acquired for business development from these microfinance establishments (Díaz-Martín et al., 2021). The cash to be reimbursed is much of the time more than the cash acquired since the MFIs need remuneration for the loss of purpose of the assets when the borrower has the cash. The lender might have invested the assets in a particular project that could generate income within that period but instead chose to provide the loan. Therefore, the lenders expect to be compensated for the opportunity cost of lending the money instead of investing it in an income-generating project.

High-interest rates are likely to increase the institutional interest income, but it is likely to reduce the demand for loans, thus crowding out the increased interest income. Borrowers, as rational consumers, will always look for ways and opportunities to exploit the funds and opportunities provided. This means borrowing funds when the interest rates are relatively low to benefit from the loans provided. Therefore, these MFIs are more likely to experience a booming business and high financial performance when interest rates are relatively low, considering that customers will be willing to borrow large sums of cash. On the contrary, when the interest rates are higher, the MFIs have an opportunity to enhance their financial performance as they enjoy increased profits and revenue. Unfortunately, only a handful of customers will be willing to borrow at that rate, considering that the money borrowed will not have a high value to them and their businesses (Istan & Fahlevi, 2020). This means that with the fluctuation of the interest rate in an economy, both local and foreign investors and borrowers are lily to refrain from borrowing and would instead wait until the interest rate and the economy is friendly or invests their resources elsewhere. Econometric proof of investment behavior suggests that notwithstanding traditional drivers, such as past development of the financial activity, real loan costs, and private sector credit, the private venture is colossally and unfavorably impacted by vulnerabilities and macroeconomic factors unsteadiness.

The cost of borrowing from a financial institution is significant in explaining an institution's financial performance, especially where profits are involved and subsequent returns to investors. For microfinance institutions and other financial institutions in a country, their whole economy is based on allocating resources by channeling assets from depositors to financial backers. MFIs can play out this job and obligation on the off chance that they create the necessary income o cover their functional costs. Therefore, these institutions have to generate cash to meet their fixed and variable costs to remain in operation. This means they need to have many depositors and a relatively high number of borrowers. Although higher interest rates mean more profits and revenues for the MFIs as their income increases, reduced loan demand can substantially and negatively affect their overall financial performance (Naz et al., 2019). This makes it critical and necessary for these institutions to develop an interest rate model that offers an opportunity to increase their profitability and encourage demand from the investors and the general population.

Notably, when investors are discouraged from borrowing because of higher interest rates, the money from the depositors lies in depositors' accounts as they cannot be channeled to investors unwilling to borrow at higher interest rates. This means that there will be no business for these financial institutions, increasing the risk of not making any profit. Fluctuating interest rates create inelastic loan markets since only a few investors will be willing to borrow when the interest rates are high. These financial institutions prefer to give loans at friendly interest rates to attract and retain a large customer base. Unfortunately, they do not have the power to control the interest rate, which is widely influenced by the economic conditions. Market and economic conditions such as inflation and inflationary expectations can significantly influence the interest rate in an economy (Ferrari et al., 2018). In most cases, inflation increases the cost of borrowing, which discourages investors from borrowing, thus reducing credit demand and the lending ability for MFIs. The foreign exchange rate also affects the interest rate and indirectly influences organizational profitability through the influence of loanable funds.

3.2 Non-Interest Income

This is another factor that can significantly influence an institution's financial performance, especially financial institutions. Non-interest income defines MFIs, and creditor income is generated fundamentally from deposits and transactional expenses, insufficient funds fees (NSF), yearly charges, month-to-month account administration charges, latency charges, and cheque and deposit slip expenses (Ghosh, 2020). This form of income can also be defined as the revenue an MFI generates from activities and areas outside their loaning tasks or any income acquired from exercises other than their core intermediation business. As mentioned earlier in the discussion, financial institutions' primary role and responsibility mediate between depositors and borrowers. They use the money deposited to lend out, which is their main source of income. However, they also engage in other services that generate non-interest income. For example, they charge penalty fees such as late fees and over-the-limit fees, which is a significant source of income for these institutions. For these foundations, interest implies a working income, which is the payment from ordinary business tasks.

Given their business model, their essential source of revenue is the loan cost, and their essential resources are cash. Notwithstanding, they depend on non-premium pay when the financing costs are low or when the credit demand is low (Köhler, 2014). This implies that when the financing costs are high, sources of non-interest pay can be brought down to draw in possible clients while retaining the existing ones. This can be a source of competitive advantage, considering that customers can use the non-interest income to choose one MFI over the other.

Expense pay covers most profits and revenues, neither interest pay nor institutional charges. This incorporates a wide scope of revenue, including fund management charges, expenses for venture counsel, trust and custody expenses, and commission on deals of third-party monetary items, particularly insurance. Non-interest pay incorporates an assertion of income items like net charges and commission (Köhler, 2014). It is worth noting that improving information and communication and the continued use of the internet have significantly changed and influenced the degrees and types of non-interest income for MFIs. For example, the internet, automatic telling machines (ATM), loan securitization, and credit scoring have allowed these institutions to increase their non-interest income.

An increase in non-interest income significantly and positively influences the overall earnings and profits of an MFI. Sadly, this form of income seldom increases without concomitant changes in interest pay, variable costs, fixed cost, and financing design. During the 1990s, the non-interest activities expanded, and financial specialists accepted that MFIs could move their income away from interest-based services. MFIs income is exposed to credit risk and loan costs toward charge-based monetary items and services. They believed this would minimize income volatility (Shah et al., 2018). Additionally, they believe that this shift and expansion would control income fluctuation because of earning diversification. Unfortunately, this was not the case considering that financial institutions are mainly accepted and known for facilitating loans instead of providing other services.

This form of income can be used to measure the financial performance of an MFI. Most loans these institutions provide depend on the relationship between the institution and its customers and between the depositors and borrowers. Therefore, these loans have higher exchange costs while most expense-based exercises are not relationship-based. These exercises require MFIs to hold almost no proper resources. The primary info important to creating charge-based exercises is normally fixed and semi-fixed costs like labor. Therefore, charge-based exercises and non-interest income demand higher operating leverage lending activities, which increases the volatility and vulnerability of MFIs' income and earnings. In addition, considering that these fee-based exercises, for example, trust services and shared reserve funds require almost no administrative capital, they have higher financial leverage than interest-based income or lending activities.

The quality of fee-based services and the fees charged influence the demand for these services and products, influencing the level of non-interest income. When all other economic factors are constant, increased investment and focus on non-interest income and activities reduce the risk-adjusted-performance. Potential diversification stabilizes income and profits considering that they complement institutional income when the interest rates are relatively low. However, MFIs cannot significantly rely on these services to stabilize their income, and neither can they rely on them as their main source of income (Shah et al., 2018). However, they significantly contribute to the income and revenue generated by an institution. An increase in non-interest income underlines the diversity of products and services provided by an organization. Considering that there is no extra labor needed to offer these services, they positively contribute to the income realized, which means that they positively contribute to the financial performance of these institutions. Any rational business is interested in increasing the profits generated and generating wealth for the stakeholders. As a result, they will exploit any opportunity to increase the profits generated and the overall income. This means integrating and balancing interest and non-interest pay and activities. Sadly, there is a negative connection and correlation between interest and non-interest pay, heavily influenced by the market's volatility. As a result of this negative relationship between these income streams, the non-interest income contributes to the financial performance of an organization. It stabilizes the overall income and earnings of these institutions.

The level to which MFIs depend on non-interest income and fee-based services to generate profits and enhance their financial performance is a function of the economic environment in which individual institution operates. Market interests are shaped and influenced by benchmark interest, including government support. The national bank rate or the rate at which MFIs loan cash to each other is affected by the rate at which the Federal Reserve pays bank revenue. Well known as the interest cost on overabundance reserves (IOER), it influences the demand for non-interest-based activities and an institution's financial performance. An increase in IOER leads to higher profits from interest income for MFIs. As the IOER increases, it becomes more gainful for an MFI to involve the decrease of expenses and charges as a promoting apparatus to draw in new deposits rather than as an approach to improving benefits and income (Naz et al., 2019). When they make this shift, the market rivalry on fees starts afresh, influencing the profits generated and financial performance.

3.3 Asset Composition

The financial performance of an MFI helps to identify and evaluate its financial health, which is key to attracting investors. One way that investors and the general public can determine and evaluate the financial performance of these organizations is through asset composition. A resource is an asset with a financial worth that an individual, an association, or even a country controls with assumptions that it will give advantages and benefits. A resource represents a monetary asset for an association or admittance to others and organizations that a firm has. A right or access is legitimately enforceable, which implies that monetary assets can be utilized at an organization's tact. Their utilization can be pre-blocked or restricted by the proprietor or the investors. For a resource to be available, a firm should have the right to it as of the financial statement date. Notably, different classes and categories of assets make up an organization's total assets. These classes are mainly employed to diversify an organizational portfolio and enhance returns (Istan & Fahlevi, 2020). Each class is expected to reflect different risk and return investment attributes and perm different in the market. There are five main classes and categories of assets that an MFI can own, which are in turn used to determine the total assets of an organization and its financial performance. They include equities, fixed income security assets, cash assets, marketable commodities, and real estate.

Equity assets

Equity, widely known as stocks, shares of ownership in publicly held organizations. They are sold on the stock market and are a popular investment opportunity. Investors may earn a return for the investment through dividends. An organization's financial performance is an important factor that affects stock prices. If an organization generates sufficient profits higher than the past periods, more investors will be interested in investing in the company, further increasing the stock price. Notably, the higher the stock price and the higher the demand for a company's stock, the higher the income and earnings generated (Istan & Fahlevi, 2020). Notably, stocks offer access to funds that organizations did not have initially, providing an opportunity to invest in processes and procedures that increase the income generated. Therefore, the stock is an important part of an institution's total assets and asset composition.

Fixed income securities

Widely known as bonds, fixed income securities are assets that involve lending money to an organization or government for a set interest rate. The current interest rates and inflation influence the value of the bonds. Notably, bond exchanges influence the income statement through premium cost and amortization of business ledgers. Therefore, they provide an opportunity for an MFI to diversify its income by providing bonds to other businesses, individual investors, and the government. The MFIs can increase their income through the bonds by receiving interest payments or by receiving a larger payment when the bonds mature. This means that the higher the value of the bonds offered by an institution, the higher the income and revenue, which translates to better financial performance.

Cash assets

They are widely known as currency and the medium of exchange. Cash assets mainly include short-term deposits or cash equivalents. They have a higher liquidity level, which means that they can be used by MFIs as cash or converted to cash quickly enough to allow these organizations to meet their short-term obligations. This means that MFIs can use cash assets to attract enormous liquid funds to generate stronger profits, attain more stability and enhance depositors', investors', and regulators' confidence, positively influencing their financial performance. Endlessly cash equivalent assists MFIs with their functioning capital requirements since these liquid resources can be utilized to care for current liabilities, which substantially improves an organization's financial health. The most common cash assets used by MFIs include short-term government bonds, commercial papers, and treasury bills.

Marketable commodities

These assets make it easier for the MFIs to retain their values over time. In most cases, financial institutions can invest in precious commodities such as artwork and collectibles, which can later be disposed of at high prices, contributing to the financial performance. The most common forms of marketable commodities that attract the attention of financial instructions include precious metals, especially gold and silver. The benefits of investing in these commodities are that they have an appreciation potential and provide some diversification benefits for a firm (Hermes & Hudon, 2018). Considering that they are attractive to investors, they can be a quick source of funds and allows institutions to diversify their portfolios and hedge against inflation, which is key to enhanced financial performance.

Real estate assets

Real estate assets define property purchases and investment. They include buildings, property lots, rental properties, and commercial real estate investment. They can offer high returns and profitability in flipping a house or renting to tenants. All alone, the land offers income, tax cuts, value building, cutthroat risk-adjusted returns, and a hedge against expansion. Therefore, it offers an opportunity for MFIs to enhance their income and earnings irrespective of the interest-based activities and income realized by an organization. It is a stable source of income for MFIs, which contributes to income generated while also enhancing a firm's portfolio by minimizing volatility. This translates to high income and better financial performance for organizations with large real estate investments or assets.

These different classes of assets make up an organization's total assets, which significantly influences the size of microfinance. The value of its assets can measure an organization's size and asset composition. The composition is enormously and positively associated with its financial performance, considering that it influences the individual ability of organizations to meet their short-term and long-term objectives and meet customers' demands and wants. This concept and variable are mainly used to capture the economies or diseconomies of scale. There is an agreement in the academic literature that economies of scale and synergies can increase to a particular level and influence a company's ability to minimize and control the cost of production, which is key to enhancing organizational financial performance (Ghosh, 2020). Beyond this level, financial institutions become too sophisticated to manage, and diseconomies of scale increase. The effect of the composition of organizational assets and the size of an organization can there be perceived as non-linear. The natural logarithm of asset compensation in MFIs is used as a proxy of size.

The failure to increase profitability and achieve better financial performance can be attributed to a lack of scale of economies, rooted in a lack of diversified asset composition. This implies that for an MFI to enjoy higher profits and better financial performance, they have to ensure that the average cost of operation and output reduces with the increased output. The more these firms produce with the current resources, the higher the output and the higher the profits and earnings. Thus, a diversified investment and asset composition portfolio diversify the source of income, positively and enormously contributing to the firm's financial performance (Ferrari et al., 2018). Besides, the higher the composition, the higher the company's total assets, the bigger the size of the firm, and the better economies of scale that the firm enjoys.

Deposit Composition

Bank deposits are another concept and factor used to measure and evaluates the financial performance of an organization. Considering that MFIs deal with accepting deposits and generating loans, evaluation of different components of deposits and their effect on the performance of these institutions is key to their success. Deposits mainly include cash placed into banking organizations for supervision. These deposits are set aside to deposit accounts, including savings, checking, and money market accounts. The account holders reserve the option to get to their cash as set in the overseeing rules and conditions of individual MFIs.

Saving accounts

A saving account is a premium-bearing deposit account held at a monetary organization. Albeit these types of deposits frequently pay a standard financing cost, their security and dependability make them one of the common alternatives used by consumers and investors for packing cash that they want available for short-term obligations and needs. As mentioned earlier, the primary business model for any financial institution is turning deposits into loans considering that they mainly earn through the interest rates earned from these loans. With savings accounts allowing individuals and organizations to access funds within short notice, it is popular among consumers, acting as the main source of funds for MFIs (Ferrari et al., 2018). This means that providing savings account services creates the perfect opportunity for MFIs to access a large quantity of deposits lent to investors at an interest rate. Therefore, it is one of the elements that significantly influence the earnings of an MFI and its financial performance.

Checking account

Another critical deposit of MFIs is a checking account. A financial institution holds a deposit account that allows withdrawals and deposits. Widely known as the demand account or transactional accounts, this deposit form is exceptionally liquid and can be obtained through cheques, computerized teller machines, and electronic debit cards. This is a unique deposit considering that it continuously allows multiple withdrawals and unlimited deposits, while other accounts, especially saving accounts, limit both. They are mainly used and preferred by businesses because it facilitates multiple transactions daily, making it easier for businesses to transact with other businesses without the fear of reaching the limit. As a result, it is one of the main sources of income in an MFI. Considering that most businesses deal with checks than cash, this form of deposit creates the platform and the opportunity for these organizations to circulate as much money as possible without the fear of being locked out. This means that an organization that accepts this form of deposit and offers this kind of service is likely to enjoy higher earnings and revenues than those not offering, positively contributing to its financial performance.

Money market account

This is an interest-bearing account. This form of deposit has characteristics and attributes that are difficult to find in any other form of deposit. It pays a higher loan cost than standard deposits and works with and gives cheque writing and debit card rights. In any case, they accompany limitations that make them less adaptable than different types of deposits. Generally speaking, MFIs have a base deposit to open a money market account and often charge a fee if the balance falls below a specified bottom line. The fact that this deposit attracts a handsome interest rate is one of the advantages and features that attract investors and organizations. This, in turn, increases the money available for MFIs to create more loans. With a minimum deposit requirement, the MFIs are guaranteed to access a particular amount of money for running such an account (Díaz-Martín et al., 2021). This positively contributes to its financial performance by increasing loan float and improving the banks' economies of scale. Besides, the fee charged if the bank fails to maintain the account bottom line is also a source of income.

There is a positive and significant correlation and connection between the deposit composition of an MFI and its revenue and earnings. Marginal net rates of return on demand deposits (money deposited that can be withdrawn on demand at any time, such as savings account and check account) held by the MFIs are high considering that the circulation of funds is high, which provides an opportunity and platform of generating more income and earnings. However, the net rate of return on time and saving deposits (an interest-bearing account with a maturity date, such as a money market account) has an even better rate of return, considering that these accounts hold for approximately four years (Shah et al., 2018). This provides enough time and opportunity for the MFIs to invest money in other investments or loan out the funds and enjoy higher returns. The higher return of time deposits can be attributed to lower servicing costs, lower reserve necessities, and the propensity of MFIs to put a huge extent of these assets into high-procuring investments and assets, positively contributing to their earnings and financial performance. Therefore, the composition of deposits significantly influences an organization's capacity to generate more income and revenue. However, the rate of return on money market accounts and other time deposit accounts held by the government has higher returns and an effect on organizational financial performance than net returns of any other form of deposit. This shows that the number and composition of deposits significantly influence the sources of revenue for these institutions (Köhler, 2014). If the deposits have many components, they increase the chances of higher returns and better performance than those offering only one deposit component.

External Environment

The external environment, including economic, political, and social factors, can also influence MFIs’ financial performance. Economic factors like interest rates, inflation, and exchange rates can affect MFIs’ profitability and loan portfolio quality. Political factors, such as regulatory changes and instability, can affect MFIs’ operations and governance. Social factors, such as cultural norms and beliefs, can affect the demand for MFIs’ financial services. Several studies have discovered a strong connection between the external environment and the financial success of MFIs (Hermes & Lensink, 2011; Périlleux et al., 2018). MFIs’ financial performance is influenced by multiple factors, including governance and management, loan portfolio quality.

- Human resources are also an important internal factor that affects the financial performance of MFIs. The success of an MFI largely depends on the skills and motivation of its staff. Studies have shown that MFIs that invest in their staff tend to have better financial performance (Fadikpe et al., 2022; Joseph & Kibera, 2019).
- Capital structure is another important internal factor that affects the financial performance of MFIs. The capital structure of an MFI affects its ability to take on risk, its cost of capital, and its financial sustainability. Studies have shown that MFIs with a better capital structure tend to have better financial performance (Orichom & Omeke, 2021; Chauhan, Kumar & Verma, 2020; Mersland & Strom, 2009).

Loan Portfolio Quality

Loan portfolio quality is a critical factor that affects MFIs’ financial performance. It refers to the ability of the MFI’s borrowers to repay their loans on time and in full. High loan portfolio quality reduces credit risk and increases the MFI’s profitability. Conversely, poor loan portfolio quality can lead to loan defaults, write-offs, and loss of revenue. Several studies have found a positive relationship between loan portfolio quality and MFIs’ financial performance (Bashar et al., 2019; Blanco-Oliver & Irimia-Diéguez, 2021).

Financial Inclusion

Financial inclusion is the provision of accessible and reasonably priced financial services to people and organizations that are not currently a part of the official financial system. MFIs are essential in advancing financial inclusion, and the degree of financial inclusion they accomplish has a direct impact on their financial performance. The demand for MFIs' financial services may rise as financial inclusion levels rise, boosting their earnings and profitability. Financial inclusion and MFIs' financial performance are positively correlated, according to several research (Dorfleitner, Nguyen & Röhe, 2019; Rizk & Khalil, 2022).

Capital Adequacy

Capital adequacy refers to the MFI’s ability to absorb losses and maintain its financial stability. Adequate capitalization reduces the risk of insolvency and increases the MFI’s ability to lend and expand its operations. Several studies have found a positive relationship between capital adequacy and MFIs’ financial performance (Bhutta & Mirakhor, 2018; Ismail et al., 2017).

Efficiency

Efficiency refers to the MFI’s ability to use its resources effectively and efficiently to generate revenue and profits. Efficient operations reduce costs, increase productivity, and improve customer satisfaction. Several studies have found a positive relationship between efficiency and MFIs’ financial performance (Lam, Zhang, Ang & Jacob, 2020; Ham Gonzalez, 2017).

3.4 Liquidity

The determinants of the financial performance of MFIs offer an opportunity to identify and evaluate factors that significantly affect the earnings and profitability of these institutions. Based on the current writing, liquidity is one of the leading factors that affect the ability of MFIs to generate profits and earnings. Liquidity measures the cash and other assets MFIs have available to meet their short-term obligations and pay their bills. Liquidity defines an organization's ability to effectively and efficiently handle its short-term financial obligations without adversely affecting its long-term growth and development. Liquidity management involves the transformation of short-term credit into long-term credit that faces the risk of maturity mismatch (Köhler, 2014). Liquidity management is critical in MFIs to avoid insolvency challenges that often result from liquidity deficits.

On the other hand, liquid assets typically have lower returns resulting in high liquidity being characterized by lower profitability when a certain point is achieved, a concept known as diminishing marginal liquidity returns. So, the liquidity management of an MFI is a critical indicator of its performance as liquid deficits point to insolvency. In contrast, high liquidity shows minimal returns by the MFI from their assets. Resources are top-notch liquid resources on the off chance that they can be effectively and immediately changed over into cash at a practically no deficiency of significant worth. A brilliant illustration of liquid assets mainly and commonly held by MFIs includes central bank reserves and government bonds.

Central bank reserves are the minimum cash required by a financial institution to meet the central bank requirement. These reserves are kept to prevent the panic that is often attributed when customers discover that a financial institution does not have enough cash at hand to meet their demands. During difficult times, these institutions can access these reserves to meet any financial obligations and later replenish them when the economic situation improves. This facilitates the asset conversion into liquid cash without losing value while making it easier for an organization to effectively and efficiently access such to keep it operating. On the other hand, government bonds are financial security sold by the government and allow an organization to earn a fixed amount of interest on a yearly basis for the duration of the bond (Istan & Fahlevi, 2020). Depending on the financial obligation and responsibility of an MFI, the management can offer short-term government bonds, which helps these institutions generate interests that cover their financial obligations.

There are different ways through which MFIs can identify and measure liquidity. The most common and effective way to attain this objective is liquidity ratios. They can be described as a critical class of financial metrics that determines the ability of an organization to pay current obligations internally without raising external capital. They help determine the margin of safety, which is an indicator of the financial health of an institution. One such ratio is the current ratio which identifies the firm's capacity to cater to its current liabilities, paid within 12 months. The quick ratio is used to identify the capacity to meet momentary monetary commitments with its most liquid resources. At last, the working cash flow ratio recognizes and assesses how promptly current liabilities are covered by the incomes produced from the day-to-day tasks of an organization.

Microfinance may try to attain the two conflicting goals of high liquidity and better financial performance by adopting a diversified and balanced set of portfolios within a country's regulation system. Notably, liquidity and a firm's financial performance are critical issues that the management of MFIs should focus on in their daily roles and the responsibility of their institutions. Customers are attracted to financial institutions that can promptly meet their financial obligations, making it necessary for these institutions to have liquid assets that they can easily turn into cash. In most cases, an organization's ability to have enough cash or liquid assets implies that an organization is healthy financially, thus attracting many customers and investors (Hermes & Hudon, 2018). This makes liquidity status an important element of measuring the health of the firm, which in turn can be used to assess the future, assessing money management risk and return and the stock price on one hand and the meaning of tending to shortcomings and deformities of traditional liquidity files, particularly current and liquidity ratio on the other. Thus, the importance of liquidity to organizational performance is unmatched and can influence an institution's overall performance.

There is a close connection and correlation between a financial institution's liquidity and profitability. Microfinance institutions with high liquid assets have higher profitability than those with little or no liquid assets. However, this is only advantageous to a particular point. Beyond this point, high liquidity reduces the ability of an MFI to improve its profitability when all things are constant. High liquidity improves organizational earnings and revenue, and hence the profits realized. Having adequate or high liquidity means that an organization can easily and effectively meet financial obligations, which creates a conducive environment to increase productivity and overall performance. High liquid assets are particularly beneficial during the economic downtown, considering that this is the moment that most investors and businesses need loans to boost their businesses. In contrast, individual consumers neuy\;ed cash to enhance their financial health. Considering that the ultimate objective of an MFI is to increase profits and maximize financial performance, such quick reflexes are a competitive advantage for a financial institution, which is key to attracting and retaining customers in the long run.

Although liquidity is key to meeting obligations and swiftly meeting customers' demands, liquid assets can only be held up to the point that they cannot affect the benefits and profitability of an organization. At that point, the company is in the dilemma of what to prioritize over the other, organizational profits or liquidity. As a result, the management must facilitate and accept a trade-off between profitability and liquidity. Notably, having sufficient or high liquidity does not be guaranteed to imply that a business is beneficial. It intends to show that the MFIs have sufficient assets to effectively and efficiently cover expenses, which is key to enhancing productivity. Even if a business is profitable, it does not mean that it has higher liquid assets. Therefore, finding common ground where an organization can improve its profitability and liquidity can increase its financial performance. Besides, it offers greater flexibility which is key to exploiting niche markets that rise and fall with the changes in the market (Ghosh, 2020). For example, high liquid assets can allow an organization to invest in government bonds, which are not only limited but are only available within a short period of time. This is key to improved performance and enormously contributes to the financial performance of an organization.

3.5 Support of the Government

In the MFI sector, the support provided by the government is critical to determining the access that institutions have to resources. Government can support MFIs through funding research that will help improve the quality of products and services provided by these institutions. They can do this by providing grants, giving tax holidays for these institutions, and investing in technological advancement and growth that support these institutions' financial access and operations. Grants and tax holidays mean these institutions save a significant amount of their revenue that would have rather gone to the government (Shkodra, 2019). As a result, they can increase the capital and resources needed to lower the interest rate or increase loan availability, positively contributing to enhanced earnings and financial performance. Notably, the role of government in business includes protecting consumers and business by developing policies and regulations that create a conducive environment for service and product delivery. As much as it creates policies and regulations that govern the financial environment and industry, it is also responsible for improving infrastructure that enhances access to financial services while making it easier for these institutions to interact and reach the target customers.

The degree and nature of government involvement affect the level of competition between MFIs, structures regulations and laws within the sector, and decides the quality of the business environment. Notably, government policies and regulations address privacy, disclosure, fraud prevention, anti-money laundering, anti-terrorism, and cyber security, which can enormously and adversely affect the ability of MFIs to provide quality services. The increased involvement of MFIs often results in increased performance due to a more conducive competitive environment and regulatory reform. Their involvement in decision-making and policy development ensures that favorable policies are enacted and implemented that protect customers and protect businesses from unethical behavior of individual employees and the customers (Naz et al., 2019). Government support acts as a determinant of MFI performance as it determines the accessibility of resources.

Effective governance and management are crucial for MFIs' financial performance. Governance refers to the systems and processes that ensure the MFI's compliance with legal and regulatory requirements, transparency, and accountability to stakeholders. Management refers to the MFI's leadership and operational processes, including strategic planning, risk management, and performance management. Several studies have found a positive relationship between good governance and management practices and MFIs' financial performance (Ahmed & Arefin, 2019; Hartarska & Nadolnyak, 2012). Governance is a critical internal factor that affects the financial performance of MFIs. Effective governance helps to ensure the accountability of the MFI's management to its stakeholders and improves the overall performance of the institution. Management is another internal factor that plays an important role in MFIs' financial performance. Effective management ensures that the MFI is well-managed, has clear objectives, and implements effective policies and procedures. Studies have shown that MFIs with better management practices tend to have better financial performance (Adusei, Akomea & Poku, 2017; Mia, Dalla Pellegrina & Wong, 2022).

CHAPTER IV. THE ROLE AND SIGNIFICANCE OF THE MICROFINANCE IN REPUBLIC OF KOSOVO

4.1. Characteristics of the microfinance sector in Republic of Kosovo

Kosovo's financial sector, like that of many other nations in the area, has experienced significant structural and creative changes. Foreign institutions' entry into Kosovo's financial market in the post-war period (1999) resulted in the development and restructuring of the financial market by using international practices in the provision of services and a variety of financial products. From 2007 to 2016, the rise in the number of financial institutions resulted in an increase in financing of 40.5 % and a drop in interest rates of 63.8 % (Shkodra, 2019). This has also had an impact on the improvement of the competitive environment and the bids for financial products. A well-functioning financial system is critical for effectively directing capital into the economy as a guarantee of economic progress. Another aspect that assists in offering the finest services to clients is encouraging competition in the financial system, which includes enough funding, quality services, and reduced funding costs.

Kosovo's financial industry is rapidly developing thanks to the use of best practices and international standards. The banking industry, with foreign banks managing 89.2% (Sahiti, 2021) of total assets and a growing trend in lending operations, contributes to the modernization of the financial sector by suggesting that a higher percentage of loans flowed to SMEs. From June 2011 to June 2014, the number of regulated financial institutions in the Kosovo market rose. Furthermore, development actors have recognized that microcredit is a vital tool for poverty reduction, economic growth. However, significant financial barriers have been identified for Kosovo. In a market system, there are three major sets of activities that are carried out by various market participants, including the corporate sector, government, NGOs, community organizations, representative associations, and consumers (Greenwood et al., 2010).

Understanding the financial market system is critical for every organization participating in financial market development, including for-profit firms, NGOs, governments, investors, funders, and other development practitioners. The market systems approach helps stakeholders to overcome systemic obstacles and bring about large-scale, sustainable change, based on a deep understanding of market systems and a clear vision of the future of financial inclusion. Financial services will make a substantial impact on the lives of impoverished people and boost economic growth if inclusive and sustainable financial market systems are developed. The framework for financial market systems identifies how different actors fit into the system, including its major roles and interactions between them. Although the primary role of market systems is to offer a place for transactions, the character and efficiency of those transactions are influenced by formal and informal regulations as well as a variety of supporting services (Thornton et al., 2012; Hacioglu & Aksoy, 2021).

MFI in Kosovo, according to the current law, are a legal entity organized either as an NGO functioning under the Law on NGOs or as a joint-stock company under the Law on Commercial Companies, whose primary activity is the granting of loans and the provision of a limited number of financial services for micro and small entities legal, family economies with low incomes and persons with low incomes (LAW No. 04/L-093). The Central Bank of the Republic of Kosovo (CBK) has exclusive responsibility for granting licenses to all banks and registering all Microfinance Institutions. CBK approves the registration of the MFI when the business plan is based on an accurate analysis of reasonable assumptions. The organizational structure of the proposed MFI will allow the CBK to exercise effective and consolidated supervision. The MFI will act in compliance with all the provisions of this law and the qualifications, experience and integrity of its director or Senior Manager are suitable for the business plan of the proposed MFI and planned activities of also the main shareholders of the proposed MFI are capable and suitable as defined by the CBK in Article 35 and Article 37 of the law and if the MFI's ownership structure will not impede effective supervision.

Activities allowed for microfinance institutions are providing payment services related to loans granted to customers and obtaining funds through grants or loans for the purpose of lending or for their use. Borrowing from and placing funds in markets and institutions approved by the CBK in order to manage their liquidity and the benefit, possession, lease, rental, maintenance, transfer, sale, or disposal of any immovable or movable property that has been used for the realization of their business, providing financial, technical and professional assistance and training to their clients or providing assistance in providing them with services in such areas. Microfinance institutions can also engage in other financial activities, as may be determined by the CBK by regulation or ordinance and CBK may also prohibit or limit any registered microfinance institution from engaging in any of the permitted activities defined in this law. In this case, CBK will provide written reasons for its decision. The criteria for banking licensing are also applicable to the registration (licensing) of MFIs, while the licensing procedure is explained in the Manual for Registration of MFIs and IFJBs. Upon registration (licensing), MFIs have the right to offer all activities allowed for MFIs (CBK, 2017).

In Kosovo, MFI evolved from development banks and socially responsible investors, who support certain activities and sectors in developing economies that contribute to improving the standards of living of marginalized groups of society. Some of the renowned lenders to the MFIs in Kosovo are EBRD, FMO, EFSE, Blue Orchard, Symbiotics, OIKO Credit, Triple Jump, etc.

Ownership structures can range from stockholders in commercial banks to membership owners in credit unions, resulting in variances in regulatory monitoring. Some MFIs registered as commercial banks or rural banks, which are generally owned and managed by shareholders, are regulated as formal banking institutions with regulatory oversight provided by central banks. NGOs, on the other hand, are directed by funders, founders, or other stakeholders and are subject to limited government oversight. Furthermore, some microfinance institutions give financial and business education to their clients in order to best prepare them for beginning a small business or acting efficiently as an entrepreneur. Two models describe how microfinance works as relationship-based banking was the norm for individual entrepreneurs and small enterprises; or as services for a group, in which numerous persons create a group to apply for a loan collectively.

These distinctions in MFI kinds identify aspects linked to how they are handled and managed and raise overall comprehension of the flexibility with which management approaches decision-making. The classifications include structural differences in MFIs that represent the unique bundling of resources or the emergence of distinct legal statuses that drive long-term organizational strategic advantages and performance outcomes (Terziovski, 2010; Hung et al., 2010) to produce distinct management approaches. Thus, behavioral patterns that emerge from organizational forms allow for variations in lending, product development, and outreach efforts, influencing varying performance outcomes. Cull et al. also emphasize the contrast between for-profit and nonprofit organizations (2009). For-profit stresses a commercial logic focused on the investor, which is incompatible with most of the MFI development goals, which are realized through servicing the impoverished client. As a result, for-profits would reduce risk and the costs that could arise from expanding into newer ventures where such ventures could increase risk. Nonetheless, even as they compete with commercial banks for capital markets, they use their capabilities to reduce risks in order to maximize profits. Nonprofits, inspired by their goal, are more inclined to embark on new projects with higher risks (Shahriar et al., 2016).

The complex goals of the dual mission, particularly retaining the MFI's development mission in Kosovo, are to extend credit and provide financial services to poor households in accordance with the financial goals as MFIs strategize increased methods of financial and profit options that may fail to extend credit to the poor. Mission drift happens when financial considerations take precedence over social development goals from an institutional standpoint (Xu et al., 2016). While they provide a financial function, their position differs greatly from that of traditional financial institutions in terms of how they develop new products and engage with clients to discover and address their requirements while being financially self-sufficient. The root of such mission drift might be the organizational structure's intrinsic variance in management style.

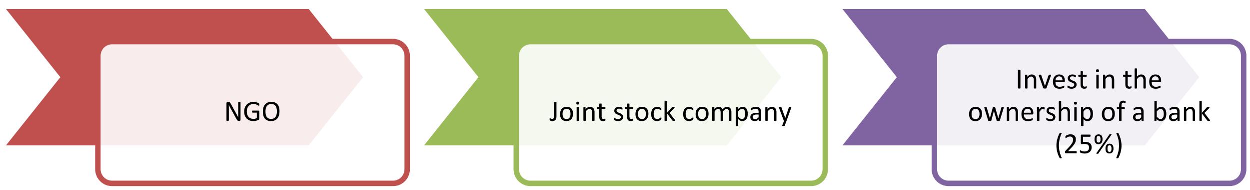
Therefore, as we can see MFIs in Kosovo have adopted novel financial services in order to be financially viable, resulting in lower costs and increased efficiency. However, because of the potential trade-off between financial performance and social outreach, there is considerable fear that MFIs may jeopardize their social outreach if they prioritize financial performance even though they do have a not-for-profit status (Rhyne & Otero, 2006). More specifically, this increased emphasis on efficiency and competitiveness may cause MFIs to lose sight of their core mission and shift toward wealthier borrowers. Several studies, however, have failed to identify large-scale mission drift among MFIs (Cull et al., 2007). Based on variances in organizational forms and the results of MFIs' dual performance, variations in organizational forms can contribute to unique strategic capabilities and variations in financial performance outcomes. Depth of outreach, an essential indicator of social outreach, is a measure of the borrowers' poverty.

The governance of microfinance institutions and non-banking financial institutions is also regulated by law. The activities of a microfinance institution are managed by and under the direction of its executive bodies, in accordance with this law and with the legal status of the institution. The microfinance institution must act in accordance with accepted principles of good governance to ensure that the institution's business is conducted in a safe and sound manner. The microfinance institution or non-banking financial institution must adhere to all applicable regulations and ordinances issued by the CBK. Microfinance institutions and non-banking financial institutions, unless otherwise determined by the CBK, are administered by the board of directors which is appointed by the founder, shareholders or owners and which consists of an odd number of not less than three members, from most of whom must be independent and non-executive (1). All members of the Board of Directors must be "fit and proper" and of good reputation, fulfilling the criteria set by the CBK regarding the qualifications, experience, and integrity of the members of the Board of Directors. Before taking office, the members of the board of directors of the microfinance institution must have written approval from the CBK (2). The management board and its members cannot delegate their responsibilities to others (3). The board of directors must appoint the chief executive officer or the general manager at regular annual meetings. The governing board must meet at least twice a year (4). Any change in the executive body or the general manager or in senior managers and members of the board of directors must be submitted to the CBK for approval (Article 96, 97, 98, 104, law no. 04/L-093).

The minimum amount of capital paid to establish and maintain a microfinance institution or non-banking financial institution is two hundred thousand (200,000.00) euros or any other amount that may be determined by a regulation issued by the CBK (CBK, 2017). The minimum amount of paid-in capital for a non-banking financial institution depends on the specific activities of the non-banking financial institution and is determined by the CBK with a separate regulation. All microfinance institutions and non-banking financial institutions are subject to examinations by CBK examiners or by agents designated by CBK. These examiners may include officials of the authority of another country that is responsible for the reasonable supervision of financial activities in that country when the institution is a branch or dependent entity of the microfinance institution or non-banking institution supervised by the regulator of the other country.

The NGO microfinance institution has the possibility to be registered in the Ministry of Trade and Industry and in the CBK as a joint stock company microfinance institution. Any utilization of donated capital or capital surplus is subject to taxation by the Tax Administration of Kosovo. Proof of compliance with the Kosovo Tax Administration must be submitted to the Ministry of Trade and Industry or its successor as part of the registration as a joint stock company and must also be submitted to the CBK. After the registration as a joint stock company in the Ministry of Trade and Industry, the registration of the NGO microfinance institution in the CBK must cease and the new registration of the microfinance institution as a company shareholder must be completed and submitted to CBK within two (2) weeks. Registration as an NGO microfinance institution remains in effect until its termination; however, it is the responsibility of the microfinance institution to submit to the CBK the request for registration of the microfinance institution as a joint stock company. The microfinance institution is also required to notify the Ministry of Public Administration in order to remove the tax exemption status as an NGO (Article 111, law no. 04/L-093).

Figure 5. Evolving structures and governance of MFIs according to the law



Source: Authors elaboration, data from: Law no. 04/L-093, "*For banks, microfinance institutions and non-banking financial institutions*" (December 2022)

A microfinance institution may also invest in the ownership of a bank up to a maximum of twenty-five percent (25%), of the share capital of that bank with the approval of the CBK (see Figure 5). All ownership shares must be paid in cash from the microfinance institution's surplus capital. The remaining seventy-five percent (75%) of the bank's ownership shares and share capital must be from qualified private sector investors who have become shareholders (Article 112, law no. 04/L-093).

The vast majority of MFIs in Kosovo have NGO status. They are licensed as microfinance institutions and are supervised by the regulations of the Central Bank of Kosovo (CBK). MFIs submit annual audited financial statements to CBK and annual reports to the NGO Office. Furthermore, MFI report on a monthly and quarterly basis to CBK (AMIK, 2022). The operating model in Kosovo is similar to the model in other developing countries, where interest rates are priced to cover financing costs, the risk of lending to small and informal businesses, and other operating costs, which are higher for small loans. In 2002, to enable MFIs to better support the needs of Kosovo's small and micro businesses sector, MFIs in Kosovo blended in order to create AMIK (Association of Microfinance Institutions of Kosovo), which today has seven MFI members: AFK (Agency for Finance in Kosovo), FINCA-Kosovo, KEP Trust, KGMAMF

(Kosovo Grameen Missione Arcobaleno Micro Credit Fund), KosInvest, KRK (Kosovo Rural Credit), QELIM Kosova, (AMIK, 2022).

In Kosovo, there are currently 11 MFIs from Central Bank of Kosovo (CBK), specifically: KEP Trust Kosovo Enterprise Program; Agjencioni për Financim në Kosovë (Agency for Financing in Kosovo); FINCA; KGMAMF Kosovo Grameen Missione Acrobaleno Micro Credit Fund; KosInvest World Vision; Kreditimi Rural i Kosovës; Start; Qelim Kosovë; Atlantic Capital Partners ACP and Iute Credit J.S.C (AMIK, 2016). The last one is currently in liquidation process (CBK, n/a). No microfinance institution can operate without following the approval and approval procedures at the CBK (LAW No. 04/L-093, Article 93).

The fundamental reason for gauging the Kosovo's economy in transition is poverty and microfinance institutions have similar goals of eliminating poverty, boosting employment, improving women's empowerment, increasing economic growth, enhancing social inclusion, and positively benefiting society as a whole (MFIs) (Agarwal & Vohra, 2012).

Microfinance may benefit by increasing self-employment and promoting microenterprises in Kosovo. Microfinance enables families to better care for their children by providing them with the financial flexibility to pursue new possibilities (Hermes & Lensink, 2007). If they have access to credit, it can help to eliminate poverty quickly by providing funds and financing potential business ventures. Families should save and invest in improved housing, healthcare, and education to help assure these long-term advantages. Microfinance allows entrepreneurs in developing nations and underprivileged areas to grow while also creating many job possibilities for others. Participation in a microfinance program is linked to higher consumption, improved nutritional status, more affluence, and expanding economies. Microfinance is utilized to assist the financially disadvantaged by providing them with a source of income and employment, so improving their general well-being and assisting others in need. Microfinance, such as microcredit, has been shown to boost the standard of life, increase income, and generate jobs for individuals who utilize it. Microfinance has also been shown in different developing nations to assist in calm spending patterns and improve citizens' overall quality of life. People with low incomes may use an increase in income to acquire assets and enhance their living circumstances, level of consumption, and overall health by placing money into investment portfolios (Adnan, 2021).

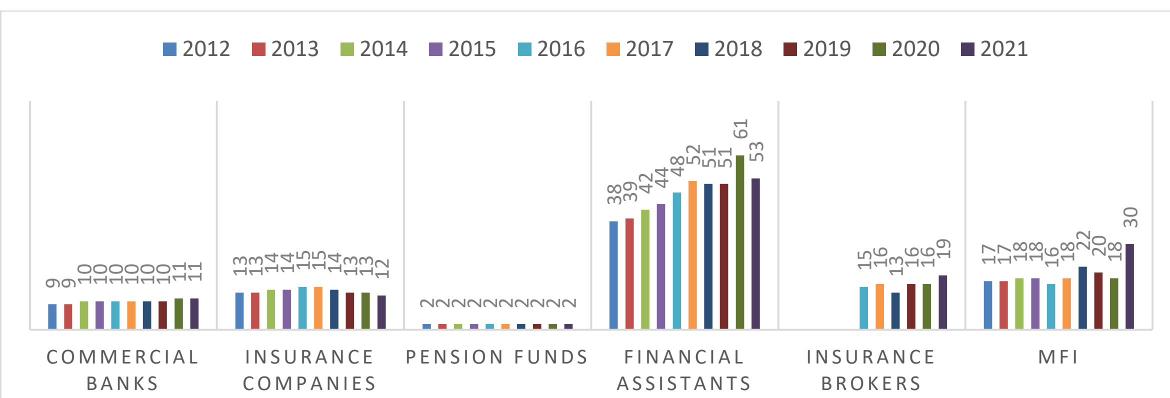
Microfinancing can be used as a way to combat poverty by providing loans to poor and economically vulnerable groups. However, the primary goal for which these institutions were established has yet to be realized, mainly in emerging economies such as Kosovo. The basic goal of microfinance is to increase financial inclusion in underserved segments of the economy. It is connected to poor empowerment through the provision of financial emancipation and a simple method of providing loans and other financial services to impoverished persons to increase their income-generating ability and encourage economic activity (Zamore, Beisland & Mersland, 2019; De Koker & Jentzsch, 2013; Torre & Chiappini, 2020).

4.2. Analysis of the trend of operation of the microfinance sector

In this section are analyzed different indicators of the MFIs in Kosovo such as the number of MFI, the employee number that each of them has, the annual growth of MFI sector assets, the annual growth of loans and the net profit. Also, the role of microfinance in Kosovo can be evaluated by comparing it with other important financial sectors of the economy. In the following, we are taken a look at the progress of the sector mostly during the period 2013-2021.

Below is presented the number of total MFIs and their number compared to other financial institutions in Kosovo during 2012-2021 year, as well as their employees and branches for period 2019-2022 year.

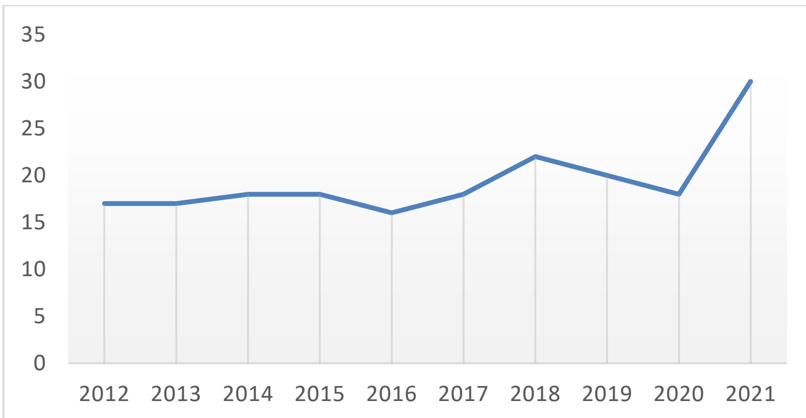
Graph 133. Micro-financial institutions compared with other financial institutions (2012-2021 year)



*Source: author's elaboration, data extracted from Central Bank of Kosovo (*https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed January 2023)

From Graph 13, we see that MFIs are positioning themselves well in the financial market in Kosovo as the second most important sector in the country. The trend of increasing the number of MFIs (see Graph 14) shows not only sustainability, but on the other hand, it shows an increasing demand for the services offered by this sector as an important pillar of the country's economic growth.

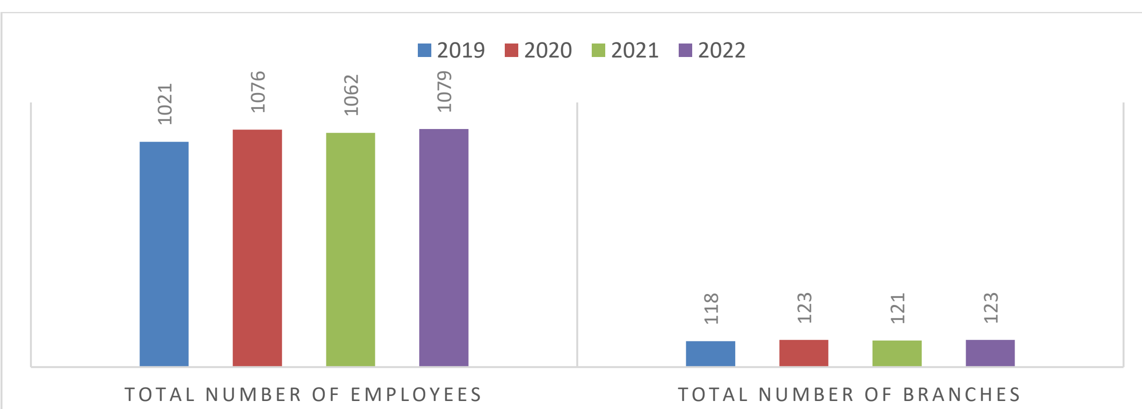
Graph 14. *Number of financial institutions in Kosovo during 2012-2021*



Source: *author's elaboration, data extracted from Central Bank of Kosovo (*https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed January 2023)

The year 2021 seems to have significantly increased the potential for the selection of financial institutions in the country, as their number has reached every year. Beyond the most visible fluctuations due to the pandemic, it seems that the sector has stability in demand and supply of products based on the increase in demand.

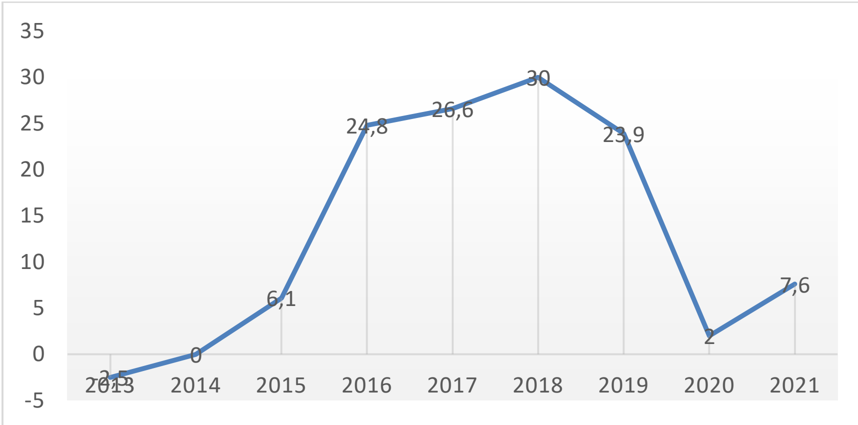
Graph 15. Employee and branch number in MFI's (2019-2022 year)



Source: author's elaboration, data extracted from AMIK (https://amik.org/sq/Sektori-Mikrofinanciar-n%C3%AB-Kosov%C3%AB/Raportet-Mujore/amik-raporti-mujor-i-an235tar235ve-tetor-2022) (January 2023)

About the employees and branches number, we can see that their number is the greatest in the 2022 year and lowest in 2019 year (see Graph 15).

Graph 16. *Annual growth of microfinance sector assets in % (2013-2021 year)*

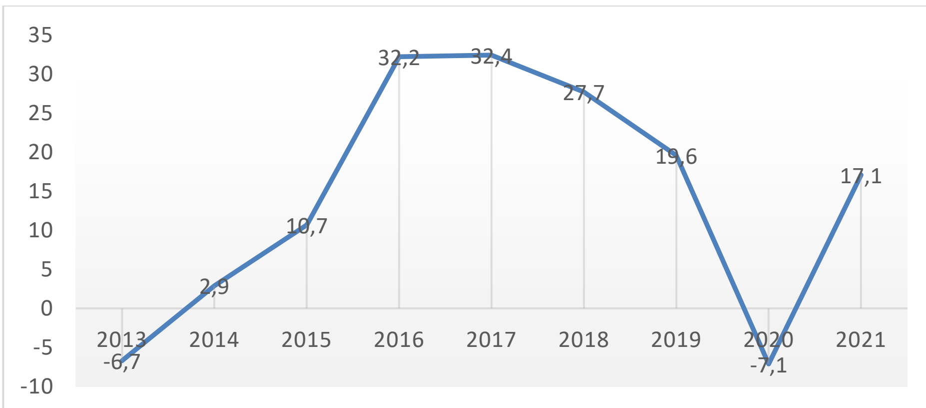


Source: author's elaboration, data extracted from Central Bank of Kosovo (https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed January, 2023)

Regarding the annual growth of the microfinance sector, a very important factor to consider regarding their financial performance, the increase in the assets of the microfinance sector in 2016 (CBK, 2016) is mainly attributed to the increase in gross loans, an activity that is mainly financed by borrowings in the external sector (see Graph 16). According to the World Bank's Global Financial Inclusion Database, as of 2018, the percentage of adults in Kosovo who had an account at a formal financial institution was around 21%, which was relatively low compared to other countries in the region. However, microfinance institutions have been playing an increasingly important role in expanding financial inclusion in Kosovo. The Central Bank of Kosovo has been working to develop the microfinance sector and promote financial inclusion. In 2018, the Central Bank of Kosovo issued a regulation on microfinance institutions, which aimed to enhance the stability and soundness of the sector, as well as to improve transparency and consumer protection. The regulation established a regulatory framework for microfinance institutions and set out requirements for their operations, capital adequacy, and reporting.

The structure of the assets of the microfinance sector continues to be dominated by gross loans (73.5%), followed by leasing (15.2%), which we will review in more detail below. Meanwhile, in 2017 (CBK, 2017), the assets of the microfinance sector reached 192.4 million euros, while in 2018, the assets of the microfinance sector reached 250.0 million euros. The accelerated growth of activity compared to the previous year was the result of the recovery of lending activity and the acceleration of leasing growth. The financing of the sector came mainly from loans from the external sector, own capital, as well as other loans within the country. It is also noted that during 2022 the balance sheet category with commercial banks decreased its participation in the total assets of the sector, compared to 2021. This came as a result of the recovery of lending activity and the accelerated growth of leasing compared to last year, so there was a reallocation of funds towards investments with a higher return.

Graph 17. *MFI's annual growth of loans in % (2013-2021 year)*

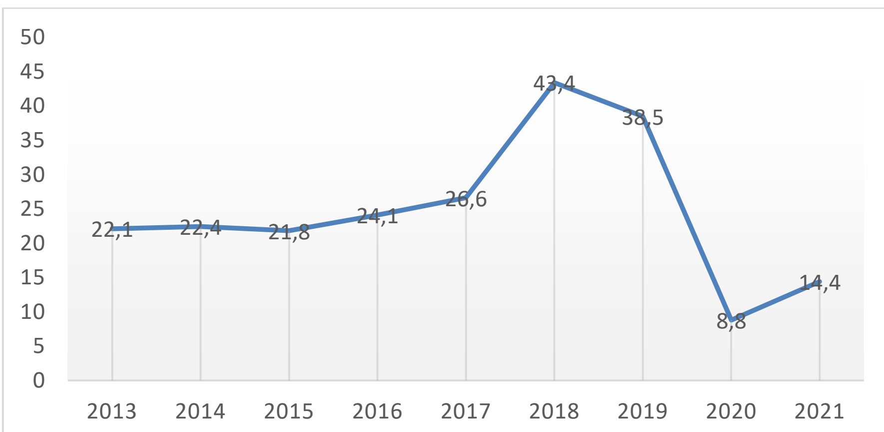


Source: author's elaboration, data extracted from Central Bank of Kosovo (https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed January 2023)

In Graph 17 is analyzed the annual growth of loans. It is noted that the credit activity of the microfinance sector during 2016 (CBK, 2016) marked a significant improvement. The largest contribution to the growth of loans was the category of loans to family economies. Loans to enterprises, which represent a smaller group of sector loans, although they reach 33%, significantly contributed to the increase in total loans. As for loans issued to economic sectors, agriculture was characterized by the highest annual growth, followed by construction and other sectors. Trade is the only sector that recorded a decline. Meanwhile, throughout 2017 (CBK, 2017), the loan marked improvement, where the value of loans reached 143.9 million euros. The largest contribution to the growth of loans was the category of loans to family economies (64%), whose value reached 92.1 million euros. Loans to enterprises, which represent for this year a lower weight of only 36% percent of the total loans of the sector, also significantly contributed to the increase of total loans, reaching the value of 51.8 million euros. Regarding loans issued to economic sectors, all sectors were characterized by growth. Loans dedicated to "Other Sectors" had the highest increase, followed by loans for the industry and construction sectors. Credits for trade, which decreased in 2021, were characterized by growth in 2022.

Finally, throughout the year 2021 (CBK, 2021), we see that the value of the stock of loans issued in 2021 reached 239.2 million euros, which represents an annual increase of 17.1 percent. The recovery of the growth of lending activity during the pre-pandemic periods was the result of the improvement of the global economic outlook influenced by the increase in the vaccination rate and the easing of restrictive measures against the spread of the pandemic. Lending to both households and non-financial corporations marked a significant increase in 2021 compared to the contraction during the previous year as a result of the COVID-19 pandemic and the revocation of the license of two MFIs/IFJBs. Lending to households increased, reaching a value of 156.5 million euros.

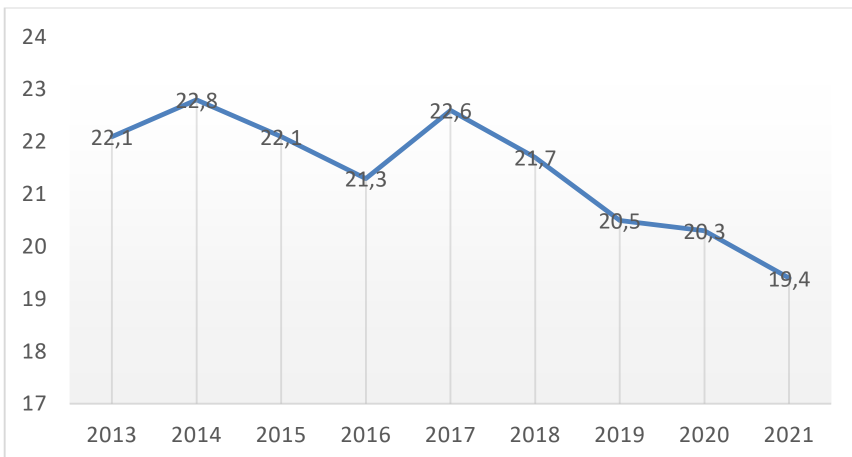
Graph 18. *Residential rental of the microfinance sector in % (2013-2021 year)*



Source: author's elaboration, data extracted from Central Bank of Kosovo (https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed December 2022)

Residential rental, after loans, is the second most important category in terms of weight in the asset structure of the microfinance sector. The trend of the residential rental is shown in Graph 18. We can see that the trend of leasing increase started from 2016 (CBK, 2016) and reached a value of 24.1 million euros. The increase in mortgage leasing and "other leasing" contributed to the increase in leasing. Leases also recorded annual growth in 2017 (CBK, 2017) and reached a value of 26.6 million euros. The growth of "other leases" and mortgage leases contributed to the growth of leasing, which recorded an increase of 7.1%. In 2018 (CBK, 2018), they reached a value of 38.1 million euros. The growth of "other leasing" and mortgage leasing contributed to the growth of leasing, which recorded annual growth of 39.3% and 25.8% each, and which also dominate the leasing structure of the sector. During 2020 (CBK, 2020), the rate of growth was significantly lower than in 2019. The slowdown in the growth of total leases was influenced by the performance of financial leases ('mortgage' and 'equipment') and other leases. Meanwhile, during the year 2021 (CBK, 2021) they are the second category in terms of weight in the structure of assets of the microfinance sector. Leases continued with stable trend of recent years, which was not even affected by pandemic developments in 2020. In the growth of leases, the main contribution was made by leases for non-financial corporations, while the contribution of leases for family economies was more limited.

Graph 19. *The average interest rate on microfinance sector loans in % (2013-2021 year)*

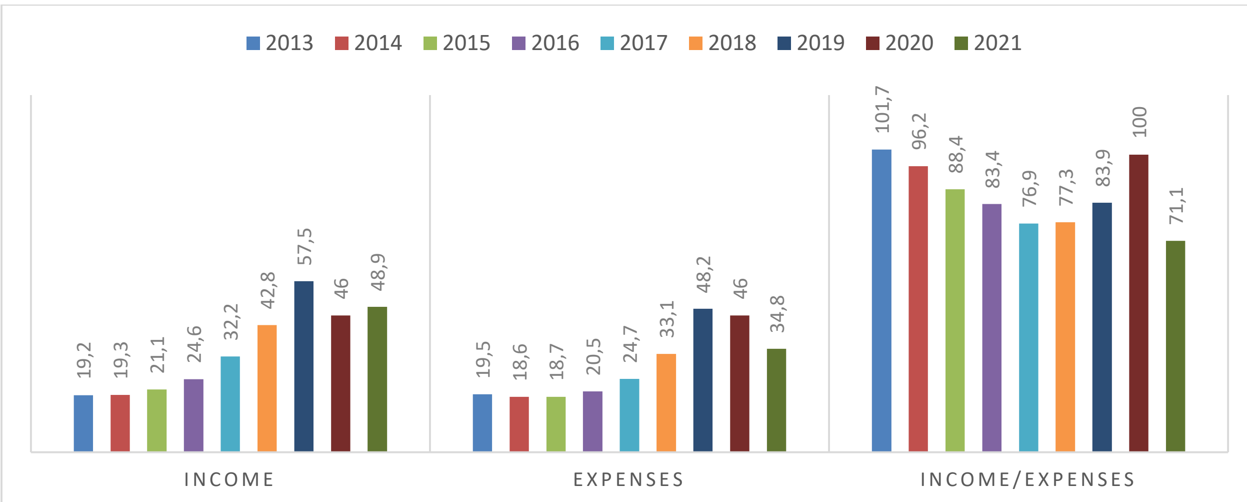


Source: author's elaboration, data extracted from Central Bank of Kosovo (https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed December 2022)

Regarding the average interest rate on microfinance sector loans in percentage, data from Graph 19 shows highest rate as we can see in the year 2014 at 22.8%, and year 2017 at 22.6 %. Throughout 2017 (CBK, 2017), we see that interest rates interrupted the downward trend of the past two years, increasing to 22.6 percent from 21.3 percent in December 2016. The interest rate for loans to households registered an increase of 1.6 percentage points, while the interest rate on loans to enterprises registered an increase of 1.3 percentage points. In terms of loans to enterprises, the services sector turned out to have the lowest interest rate on loans. Meanwhile, the industrial sector continues to have the highest interest rate on loans. In December 2018 (CBK, 2018), it decreased to 21.7 percent, and this trend continue to the 2021 reached 19,4 % interest rate. The interest rate on loans to households recorded a decrease, also as interest rate on loans to enterprises.

In terms of loans to companies, there was a decrease in the average interest rate for all sectors. The service sector turned out to have the lowest interest rate on loans, moreover, it recorded the biggest drop of 4.5 percentage points. Meanwhile, loans for the industry sector continue to have the highest interest rate on loans, even though it marked a decrease compared to 2021.

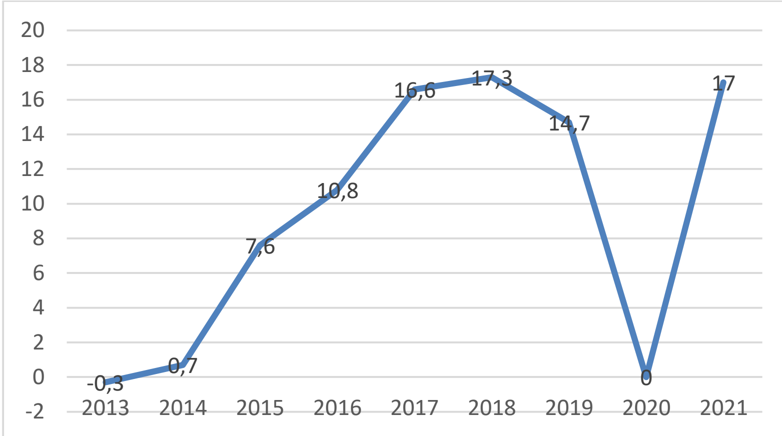
Graph 19. MFI's revenues and expenses (2013-2021 year)



Source: author's elaboration, data extracted from Central Bank of Kosovo (https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed December 2022)

The Graph 20 shows the incomes and expenses of the microfinance sector during the period from 2013 and 2021. Regarding the income comparing it with the expenses, we can see that the year 2019 has the highest incomes and the highest expenses. The reason it can be because it was the start of COVID-19 when all the people were working from home in general and spending a lot of time indoors can spend more money. Housing is one of the most stable expenditure categories it is by far the most expensive item for all age groups, accounting for more than 30% of total yearly spending for every generation. The lowest year with both income and expenses was the year 2014 with respective in % 19.3 % incomes and 18.6 expenses.

Graph 20. *MFI's net profit in % (2013-2021 year)*



*Source: author's elaboration, data extracted from Central Bank of Kosovo (*https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/) (accessed December 2022)

During the year 2017 (CBK, 2017), the microfinance sector made a profit in the amount of 7.4 million euros, which is a significant annual increase compared to the profit made in 2016. The main contributor to this increase was the higher growth of income from interest, similar to the previous year, of 28.8%, in addition to the increase in expenses of 17.9%. As a result of the positive financial result during 2017, profitability indicators improved. The level of non-performing loans in relation to total loans in 2017 decreased by 0.3%, this level was the lowest in recent years and decreased to 2.5%. Moreover, the coverage level of non-performing loans with provisions continued to be high with a ratio of 190.3 %. Meanwhile, in 2018 (CBK, 2018), the microfinance sector made a profit of 9.7 million euros, which represents an annual increase of 31% compared to the previous year. Interest also this year was the main contributor to the increase in profit of 2.3 million euros. Likewise, the acceleration of the growth of the sector's expenses, mainly the administrative and personnel expenses may have been influenced by the increase in the number of employees in this sector. As a result of the positive financial result during 2018, profitability indicators increased. The level of non-performing loans in relation to total loans in 2018 decreased by 0.6%, dropping to 2.2%, the lowest level until 2018 (see Graph 21).

The pandemic crisis significantly affected the increase in the sector's credit risk. The level of non-performing loans in relation to total loans increased by 0.4% compared to 2019, reaching 3%. The coverage level of non-performing loans with provisions also increased, to 142.2%. Finally, the data show us that for the microfinance sector, the year 2021 (CBK, 2021), achieved the highest annual profit since the beginning of their operation, in the amount of 14.1 million euros.

The marked decrease in expenses compared to the increase in the sector's revenues has influenced the sector to realize a high profit in 2021, as can be seen from the Graph 8 of revenues and expenditures. In terms of income, interest income, which represents the dominant category of income (89%), recorded an annual increase of 3%, as a result of the recovery of lending activity. The financial results during 2021 are also reflected in the profitability indicators of the sector, which marked a significant increase. The level of non-performing loans to total loans remains low and has further decreased by 0.6%, to 2.4%. Meanwhile, the coverage level of non-performing loans with provisions in December 2021 stood at 141.6%.

4.3. Impact of microfinance on the economy of Republic of Kosovo

Microfinance has a multiple impact on economy. In this part is analyzed its impact on poverty, small business, unemployment and women's entrepreneurship.

4.3.1. Impact on poverty

When discussing the impact of MFIs on Kosovo's poverty we should keep in mind that Kosovo is a very small country in the Balkan Region. Even before the developments in Central and Eastern Europe, it was far from regional standards. In 1988, Kosovo's per capita output was just 28% of Yugoslavia's average, and the economic crisis was exacerbated by the civil conflict in the 90s (Bhaumik, Gang & Yun, 2006). By the end of the conflict, about half of the population was living in poverty. Moreover, the war in Kosovo deepened further the crisis as it lowered the number of working-age people, harmed the housing stock and services like power and telecommunications, and hindered the business flow. Kosovo is a fascinating subject for an analysis of the incidence and depth of poverty, as well as its correlations, due to ethnic strife, civil war, the breakup of Yugoslavia, and the sweeping economic developments of the last previous 20 years (Bhaumik, Gang & Yun, 2006). Kosovo has had to deal with a horrific civil conflict as well as the more typical transition issues. It is scarcely remarkable, however, that almost half of all families had daily spending levels of less than US 3.499 per adult, at the beginning of the century (Badia-Miró, Tello, Valls & Garrabou, 2010). The most crucial component is that education, more than anything else, decreased both the likelihood of poverty and the gap between a poor home and the poverty line. Indeed, while the presence of household members with secondary, vocational, or university education reduces the likelihood of a home being poor, the deficiency is decreased even by the presence of household members with elementary education. In comparison to secondary and elementary education, tertiary education has a far bigger influence on both the likelihood of being poor and the distance from the poverty line (Dimova & Gang, 2004). According to Otero (1999), and many other authors, microfinance allows impoverished, self-employed individuals to develop productive capital, safeguard the capital they have, cope with risk, and avoid capital destruction. It aims to produce assets and riches among those who do not have them.

Microfinance becomes a liquidity tool for the very poor, helping to smooth their purchasing patterns and lessen their susceptibility. "Nearly 3 billion impoverished people in developing nations do not have access to the fundamental financial services they require to manage their precarious existence" (CGAP, 2009, p. 55). As Barr (2005) points out, microfinance organizations have a great track record of reducing poverty and advancing the economic demands of low-income households during the previous thirty years. Furthermore, microfinance firms supplement the banking system by giving loans to borrowers that banks consider too expensive or dangerous to reach. This providing of loans to the impoverished has shown to be an effective development instrument. Furthermore, financial services may assist the poor to leverage their initiative, speeding up the process of accumulating income, assets, and economic stability (Vetrivel & Kumar Mangalam, 2010). Microfinance is a tool that, given the correct conditions, may meet the requirements of a diverse population, including the poorest and the bottom half of individuals living below the poverty line. While some persons in this group will be unsuitable for microfinance due to mental illness, for example, the exclusion of this tiny percentage of the population will most likely not be a restricting operational issue for MFIs (Morduch, 2002). However, as previously stated, the microfinance model in the contemporary economy is far from perfect; however, with continued support from international organizations, the microfinance sector will be an increasingly powerful force in bringing about long-term and balanced improvements in the quality of life of the poor in developing countries (Roy, 2003).

As many studies has shown, when conflict and poverty rise, countries heavily rely on remittances, and this is also the case of Kosovo. Remittances to low- and middle-income nations such as Kosovo are a parameter which show poverty and low business operation opportunities (World Bank, 2018). As on the other hand, migration and remittances, without a question, have substantial ramifications for growth and poverty reduction. Despite a significant number of important papers examining the links between remittances and poverty and inequality, empirical findings are equivocal, and methodological difficulties continue. Kosovo is noted for its lengthy history of outmigration and migrant-sending towns plagued by poverty, high unemployment rates, and restricted work possibilities. Kosovo not only has Europe's lowest GDP per capita, around USD 3,957 (World Bank, 2017), moreover, GDP per Capita in Kosovo averaged 3058.61 USD from 2000 until 2021, reaching an all-time high of 4429.96 USD in 2021 (Trading Economics, 2022) but its economy is also heavily reliant on remittances. The country was ranked fourth among the top ten remittance-dependent transition economies in Europe and Central Asia in 2018, showing the heavy burden on remittances (World Bank, 2018). Despite recent high remittance inflows and a huge number of recipients, more than 25% of Kosovo citizens are poor or susceptible to poverty. While poverty has an annual cyclical pattern, inequality in Kosovo is considered steady and modest when compared to other transition nations. The Gini coefficient in 2015 was 0.23, while in 2022 increased to 29, making Kosovo ranked 145 in the world (IMF, 2018; Wisewoter, 2022). However, these data shows that MFIs can have potential growth and impact in lowering poverty.

4.3.2. Impact on small business

Microfinance institutions (MFIs) in Kosovo started operating immediately after the war, as financial aid and micro-credit programs in support of small business initiatives in Kosovo. Their main aim at that point was indeed to try and push the economy through credit to small and medium businesses in the country. Their contribution has been important to start economic growth in the post-war period when the financial sector was almost nonexistent. After the initial donor support, MFIs have been financed by commercial loans from international financial institutions with an interest rate between 6.5-9% per year (Kupina & Salko, 2015). In general, in Kososov these institutions have been a form of development banks and investors with social responsibility, which support certain activities and sectors of economies in development, and contribute to improving the living standards of marginalized groups of society.

In Kosovo, the cost of financing and limited access to finance inters rate is too high (average 12.3%), and the average repayment period is less than three years are estimated to be the main factors limiting SMEs’ future development (Zylfijaj & Nikoloski, 2016). The majority of SMEs are financed primarily through internal company resources, with bank loans and other external factors coming in second. Improvements to the microcredit program, particularly in the microfinance industry, have been critical for the establishment of a significant number of Small and medium-sized companies (SMEs) in Kosovo since the conflict ended in 1999. This is due to the banks' lack of faith that this level of business would create adequate income to repay the loan borrowed. Due to inadequate governance norms at most enterprises, SMEs have had limited access to funding, and banks levy very large risk premiums. According to the CBK (2014, p.1), "banks are anticipating an easier approach to bank financing for SMEs and families in terms of loan approval rate." On the other hand, it has been noted that the loan structure of MFIs has a development of enterprise lending, which can be influenced by the increase in credit requirements.

Today, MFIs continue to meet the needs of the Kosovo market, with credit for small businesses and individual entrepreneurs, including farmers. According to the Monthly Report of AMIK Members of December 2017, MFIs operate in 109 branches covering the entire territory of Kosovo, they serve about 70,000 active clients and employ about 883 people. And only from 2017 to 2022, these figures have risen largely, whereas the microfinance sector in Kosovo has continued to grow even during the month of November 2022, the amount of active loans reached the value of 250 million Euro distributed among 99 thousand clients (AMIK, 2022). These statistics demonstrate the contributions of MFIs to the economy of Kosovo, and more specifically in terms of alleviating poverty and helping business growth. Without the MFI sector, these clients would remain unserved, with no other potential way of generating funding. The banking sector typically shuns microloans because they are risky and banks prefer to exploit the economies of scale that result from larger loans. Credit cards are not a typical product to help micro or near-poverty customers. And when used, they are often more expensive than microcredits. Interest rates, although high, are approximately at the level of covering costs and are comparable to the region. Competition, the removal of restrictions on services, and the involvement of the private sector will significantly affect the reduction of interest rates. The operating model of MFIs in Kosovo is similar to other countries, where interest rates are at a level to cover financing costs, credit risk for small and informal businesses, and the administrative cost of credit.

Furthermore, Wang (2013:76) stated that "SMEs who have previously participated in and received microfinancing are extremely likely to apply for and obtain microfinancing again in the future." In most circumstances, microfinance is rationalized as fostering justice or fairness. The concept of microfinance is based on the belief that those with little or no money deserve financial services just as much as those with a lot. Everyone has the right to an equal opportunity to develop their skill. This approach is used in numerous nations throughout the world to reduce poverty and promote business growth (Igwenagu, Maduagwu & Oleka, 2014). Numerous studies have been conducted to examine the impact of microfinance on the economy, entrepreneurial performance, growth, and potential economic development, with the conclusion that credit availability stimulates growth and allows the SME sector to capitalize on its potential to power the economy (Adeniran et al., 2015; Chirkos, 2014; Marangu et al., 2013). According to studies, the supply of MFIs has a critical role in fostering growth by extending operational activities (sales, asset acquisition, and technology) and enhancing management and inclusive working capital, allowing enterprises to run in a viable way. Addressing the whole value of SMEs and the problems involved with developing a sustainable business is critical to ensuring and promoting sustainable development and economic progress, particularly in emerging markets. SMEs are the backbone of all economies globally, including both established and emerging countries, accounting for over 99% of all enterprises within any country and responsible for 80% of new employment creation. This is a major contribution, particularly in underdeveloped nations (Idowu, 2010; Ravi & Roy, 2014).

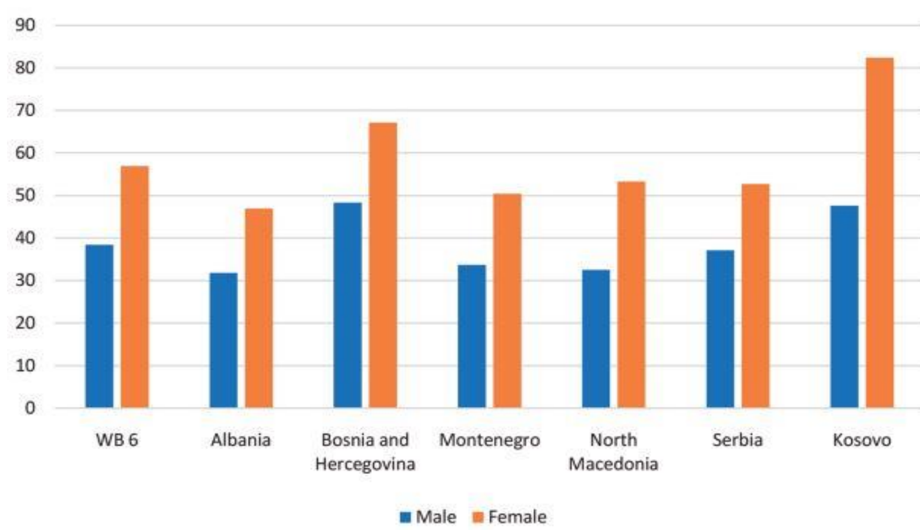
Researchers, politicians, and academics are all interested in small and medium-sized businesses because of their critical role in creating jobs and reducing poverty on a national scale. However, in developing nations, such as Kosovo, the majority of SMEs are unable to access financial resources, and they face significant challenges in acquiring financing from banks, capital markets, and other sources. This is especially troublesome in developing nations, because such sources are severely undeveloped, according to credit-sharing data (Havie, Narjoko & Oum, 2013). In the lack of a credit history or a good bank-client relationship, as well as a general inability to offer collateral, banks find it difficult to assess the borrower's profitability and capacity to repay. Incomplete financial records and unverifiable customer information raise the price of SME loans, preventing banks from lending to SMEs or making it impossible. Due to regulatory interest limitations, it is unquestionably poor business for banks to charge the borrower an interest rate that covers the costs connected with the money given (World Bank Group, 2017).

4.3.3. Impact on unemployment

Unemployment is regarded as one of Kosovo's most pressing economic issues. The country's fundamental economic concern is its extremely high unemployment rate. Despite continuous economic progress over the previous two decades, the rate of unemployment in Kosovo remains the lowest in the Western Balkans area, posing one of the country's most serious concerns. Less than one-third of Kosovo's adult population is employed, with over nine out of ten women unemployed and nearly half of the country's youth unemployed (Gollopeni, 2020). Employment prospects are scarce, and the quality of existing employment is poor, raising the danger of poverty, lowering labor productivity, and fueling discontent, particularly among the numerous young people who enter the labor force each year. To address this scenario, in recent years the World Bank has provided multifaceted assistance to Kosovo in the areas of the labor market and employment policy (Hapçiu & Osmani, 2018). Between 2017 and 2019, a number of initiatives were carried out as part of the Multi-Donor Rapid Social Response Trust Fund-funded Technical Assistance on Strengthening Kosovo's Social Protection and Labor System. Kosovo has a high unemployment rate (Hapçiu & Osmani, 2018). There are times when organizations post job openings but are unable to find qualified individuals. There is a significant disparity between the number of job seekers and the number of new positions listed. This problem is gaining traction in public conversation, and it mainly relates to the fact that businesses in the private sector are having difficulty locating competent workers with the requisite. The high unemployment rate in Kosovo is caused by a multitude of variables, including a lack of new jobs, family-related reasons, and other factors that are sometimes difficult to pinpoint (Cojocaru, 2017). Another problem is a mismatch between the education and skills that job seekers can offer and the education and skills that companies need at any particular moment. According to Hapçiu and Osmani (2018), it appears odd that Kosovo has a high unemployment rate while having double the number of people enrolled in higher education institutions as the EU. In 2019, the World Bank assessed 271 Kosovo-based businesses (Kosovo, 2021). According to recent studies, this is one of the most significant restrictions they face is skilled labor (Kosovo, 2021). This statistic is concerning for Kosovo's labor market. Inadequate education is cited as a barrier to recruiting by 43% of big enterprises with 100+ workers, 32% of medium-sized firms (20-99 employees), and 19% of small firms (5-19 employees) (Cojocaru, 2017). In addition to a lack of a clear vision and a countrywide plan, respondents cite a lack of business consultation in the design of curriculum and educational programs as one of the most significant factors for the labor market mismatch (Hapçiu & Osmani, 2018). The growth of Kosovo's education system in order to respond to the requirements of the labor market is a necessary condition for achieving optimum output. Given Kosovo's pre-accession status with the European Union, the workforce must ensure skill competitiveness with the European labor market (Hapçiu & Osmani, 2018). On the other hand, according to the European Commission's 2018 report on Kosovo, even though around 4.7% of Kosovo's GDP was spent on education in the previous year, no progress has been documented thus far (European Commission, 2018). Some of the European Commission's recommendations included the need for a higher education law with institutions that function with quality mechanisms, greater advancement of curricula for the pre-university period of education, and improved access to education for groups with unfavorable circumstances (European Commission, 2018).

According to the statistics, Kosovo's young unemployment rate remained stable between 2014 and 2020. Youth unemployment became a severe problem due to the restrictive structure of the labor market and the time required to alter the education and training system, and many jobless young people became long-term unemployed (Ramhorst, 2021). In March and April 2020, a Fiscal Emergency Package was passed, which included a monthly payout of €130 for persons who were jobless for the first time at the Employment Agency (Mansi et al., 2020). Companies that recruit new employees for one year or longer receive a salary subsidy of €130 per worker per month for the first two months of employment (Bartlett, 2021). Other private sector employees received a monthly pay subsidy of €170 (Bartlett & Uvalić, 2022). In Kosovo, the greatest percentage of young unemployment was recorded in 2015 (61%), while the lowest rate was recorded in 2020 (49.13%). As a result, they traveled to Europe in search of work and a better life (Avdullahi & Tmava, 2018).

Graph 22. The inactivity rate (15–64 years), in the Western Balkan (WB6) countries, in the second quarter of 2019 in %.



Source: *Jobs Gateway Database (Avdullahi et al., 2022) https://doi.org/10.3897/popecon.6.e76973 (Accessed, January 2023)*

While economic inactivity among women has decreased in other WB6 nations, the number of inactive women in the labor market remains high in Kosovo, while the number of female job searchers and employed remain low (Graph 13). Most Kosovan households rely on women to care for their children and elderly relatives. All of these tasks take time and might prohibit them from finding paid employment, especially if they are not supported by sociocultural attitudes and/or family-friendly laws and programs that allow them to combine work and family commitments.

Failure to offer economic, social, and political empowerment to more educated women in labor-exporting nations such as Kosovo is likely to accelerate the brain drain (Nejad & Young, 2014). In Kosovo, the incidence of female economic inactivity is relatively high, while the number of female job searchers is low. The Department of Labour and Employment, which is part of the Ministry of Labor, Finance, and Transfers, is the primary tool for resolving labor market structural problems, implementing employment policies and vocational training for job seekers, and fostering social discourse in Kosovo.

Kosovo's workforce must be as productive and skilled as that of wealthy countries, even to attract more foreign direct investments. Developing these talents is dependent on the quality of education, its focus on the labor market, working circumstances, and chances for skill acquisition through migration or brain gain from the diaspora (Office of the Prime Minister, 2016).

Kosovo faces several obstacles as it transitions from a centralized to a market economy, making it difficult to address the issue of high unemployment, since the state sector creates 20-30% of jobs, while the private sector carries the burden of producing the greatest number of jobs. Kosovo's entrepreneurship ecosystem is unstable and unpredictable. Startups face several hurdles that they must overcome. However, must be duly noted that most new businesses require outside assistance to grow, and one of the most pressing issues is indeed a lack of capital for start-ups to grow (Innovation Center Kosovo (ICK), 2021).

4.3.4. Impact on women's entrepreneurship

Entrepreneurship is seen as the driving factor behind economic progress and sustainability. Entrepreneurs generate jobs not only for themselves and their employees, but also for their investors, suppliers, and the communities in which they live. Entrepreneurs' inventions, inventive problem-solving, and identification of new sectors benefit entire civilizations on a bigger scale. When it comes to the beginning and maintaining a business in Kosovo, women face several hurdles. Slow economic development and an unfriendly business climate disproportionately harm women, but nothing is done to ameliorate the situation, and hurdles remain ignored. While women entrepreneurs contribute significantly to the economy, the majority of them work informally, thus their real contribution is often overlooked. In Kosovo, women-owned enterprises often use informal labor, use antiquated equipment, and mostly specialize in traditionally female tasks like aesthetics, tailoring, and food preparation (SHE-ERA, 2006).

Over the previous two decades, government institutions and donor organizations have invested both time and money in small company support, skill development, and technology innovation; nonetheless, women-owned firms have made very minor progress. The government still lacks a coherent long-term plan for integrating women into business and closing the gender participation gap. Furthermore, there are no incentives in place to encourage women to engage in entrepreneurial activities, which is why the number of women-owned businesses in the private sector remains so low (SHE-ERA, 2013).

As a result, according to data from SME surveys conducted by the Kosovo Agency of Statistics (KAS) and Riinvest over a number of years, women own less than 10% of businesses in Kosovo, face barriers beyond the normal challenges of doing business in the market, and operate in sectors that do not provide growth opportunities. More precisely, women's economic activity is concentrated in the service and commerce sectors, whereas males continue to dominate the industrial and information technology sectors. Women constituted 50.5% of the economy's population in 2019. In 2021, women entrepreneurs in Kosovo ran about 20% of enterprises in total (women-owned businesses account for 17% of all businesses); however, they represent approximately *30% of new enterprises registered every year*. The largest share of women in business in Kosovo was observed in the category of natural persons with 21%, followed by individual businesses with 17% in 2021. Data from the Business Registration Agency show that in 2021, almost 70% of women-led enterprises in Kosovo are micro businesses with up to 9 workers. Around 24% of women businesses are small businesses, with up to 49 workers, around 5% are medium-sized businesses, and less than 1% of women-owned enterprises are large businesses. In 2021, 32% of active enterprises with women owners/administrators focused on wholesale and retail trade, followed by other services at 20% and manufacturing with 11%. The sectors with the lowest representation of women are electricity, gas, steam, and air conditioning supply, and construction, which are largely dominated by men. Out of 130,436 farmers in 2022, only 6,388 or 5% were women. The share of registered women-owned enterprises working in agriculture increased to around 30% in 2019. 4.9 % is the total amount of self-employed women with employees, and 4.3% self-employed without employees (Kosovo Agency of Statistics, 2021).

Barriers to doing business for Kosovar women are prominent, and they are both external and internal in character, particularly family duties paired with a lack of financing. Most women entrepreneurs in Kosovo do not own property; instead, their husbands, fathers, or siblings do; as a result, they have no collateral to submit as a justification for their loan. Similarly, access to property and inheritance is regarded as a significant obstacle in and of itself, with just 8% of female entrepreneurs owning property. Due to a lack of proper information and training, a significant proportion of female entrepreneurs feel inexperienced in managing their enterprises, and as a result, suffer ongoing challenges in running their firms. Another evident barrier that is more related to the external environment is a lack of demand for the provided items and services, i.e., a lack of market. In addition to business-specific challenges, women in underdeveloped countries like Kosovo face cultural attitudes and preconceptions that are anti-women entrepreneurship, particularly in industries historically dominated by males. Such attitudes and preconceptions that women lack the required qualities to manage a profitable business while also caring for family responsibilities severely impair day-to-day business operations. This has begun to change, but only because women have stood up and shown themselves, not because their families and society support them so much (ILO, 2015).

Aside from the benefits they have during the transition era in their nations, female entrepreneurs encounter other obstacles. These are the difficulties that female entrepreneurs confront when doing business in Kosovo, which is in charge. Apart from economic issues, the problems experienced by female entrepreneurs in Kosovo are also cultural in nature. Given the importance of small enterprises in the country's economic development, a lot of these initiatives, also known as small businesses, are operated by women. In general, women in Kosovo are the least likely to complete their education, work in the private sector, own property and enterprises, or run for political office. Women's limited property ownership, a lack of financial resources, and a lack of government assistance are some of the major issues impeding the growth of more pronounced entrepreneurship among women. These factors, when combined, have resulted in a reduced knowledge of entrepreneurial opportunities among women, as well as a general lack of confidence, which is a vital ingredient for successful entrepreneurs. This tiny group of women had the good fortune to work in private enterprises and as teachers in basic and secondary schools.

A study conducted by Ramadani et al. (2015) aimed to focus on female entrepreneurs in Kosovo and treats the conditions and perspectives of female entrepreneurship development and an array of problems that female entrepreneurs are facing. The researchers discovered that the majority of female business owners in Kosovo run microbusinesses, are highly educated, primarily work in the trade sector, and make an average annual income of between €20,000 and €40,000; most of them have business experience of up six years; obtaining financing sources is the main problem, and good in financial management.

Another study analyzed the role of women in the development of rural areas in Kosovo and its agriculture (Sallahu, 2022). Despite the fact that women in agriculture in rural areas are highly influential and contribute to its economic development, gender equality in the area is not at the desired level. The results of this study show that the Government of the Republic of Kosovo gives priority to women farmers in its agricultural policies. The support could be seen as the offer of good employment opportunities since women are the most vulnerable part of society in Kosovo. Furthermore, the support given to the women engaged in agriculture will help the agricultural sector to improve productivity, efficiency, and efficacy through a better and faster connection of producers with the market. It will also help to promote a new way of monitoring and ensuring that agricultural products comply with the set standards.

According to Shkodra et al. (2021) study women entrepreneurs in Kosovo who started their business with the help of credit, but also entrepreneurs who had businesses but needed financial means and were forced to borrow. Currently there is an improvement in women businesses' fixed assets, income and household expenses before and after receiving lending. It could also be concluded that the women businesses can raise their assets, income and household expenses after receiving loans from the MFI. However, only minor improvements have occurred after obtaining the loan. This is in contrast with the maximum of household expenses, as the former shows that it has increased drastically after receiving the loan. It came after a number of women entrepreneurs stated that they use the business income for business needs while taking out loans to cover household expenses. Moreover, the study found out that the majority of women businesses are small in nature – a category that predominates in Kosovo. Although women's businesses have received loans, the loans have been small reflecting a larger impact on their business or even an increase in the number of employees. Loan targeting has been classified into three categories that have served women entrepreneurs: destination for fixed asset growth, destination for income growth and destination for family expenses. Given that the amounts financed by the MFI are small, this reflects a small 0.19% impact value on the growth of fixed assets, but this has not had an impact on revenue growth, as asset growth has a higher impact, with a value of 1.34%. Hairdressing businesses and food businesses have shown the greatest impact in the income category. The results of this study explain that loans from the MFI have a positive effect on the performance of women businesses through fixed assets, income and household expenses (Shkodra, Ymeri and Ibishi, 2021).

However, latest evidence suggests that in Kosovo the pandemic had a greater impact on women-led businesses since women are under-represented as entrepreneurs in Kosovo and so tend to operate smaller businesses, concentrated in sectors that were hit hardest during the pandemic (Balkan Insight, 2022). Suggesting therefore, more incentives regarding MFIs financing should be addressed to these issues in Kosovo.

CHAPTER V. FINANCIAL PERFORMANCE ANALYSIS OF THE MICROFINANCE INSTITUTIONS IN REPUBLIC OF KOSOVO

In this chapter is analyzed the financial performance of the microfinance institution in Kosovo. The analysis is based on the financial performance of MFIs, which are members of AMIK (Association of Microfinance Institutions of Kosovo). As we have also mentioned in the above chapters, AMIK was created in an effort to enable MFIs to better support the needs of Kosovo's small and micro businesses sector, and in order to facilitate growth in the industry, in 2002 several MFIs in Kosovo go together to form FRIEND (Foundation for the Rural and Economic Development of Kosovo). There are currently 7 MFI members of AMIK, and their financial data are all published and transparent for the public.

5.1. Financial performance analysis of the MFIs in Kosovo

In this section we will compare the financial statements of MFIs registered in AMIK and their published accounts. To analyze the financial performance of these MFIs properly, it is necessary to ensure that their financial statements are consistent with generally accepted accounting principles. Due to the structure of many microfinance institutions and their initial reliance on donor funding, adjustments to balance sheets and income statements are often needed before the financial performance can be analyzed.

Firstly, for 7 officially registered MFIs in AMIK (AMIK, 2022), we analysis state on the 31 October 2022 year in Table 2, from few key indicators. Also, separately to understand better it is illustrated in graphs.

Table 2. *Financial indicators for MFIs registered in AMIK (31 October 2022 year)*

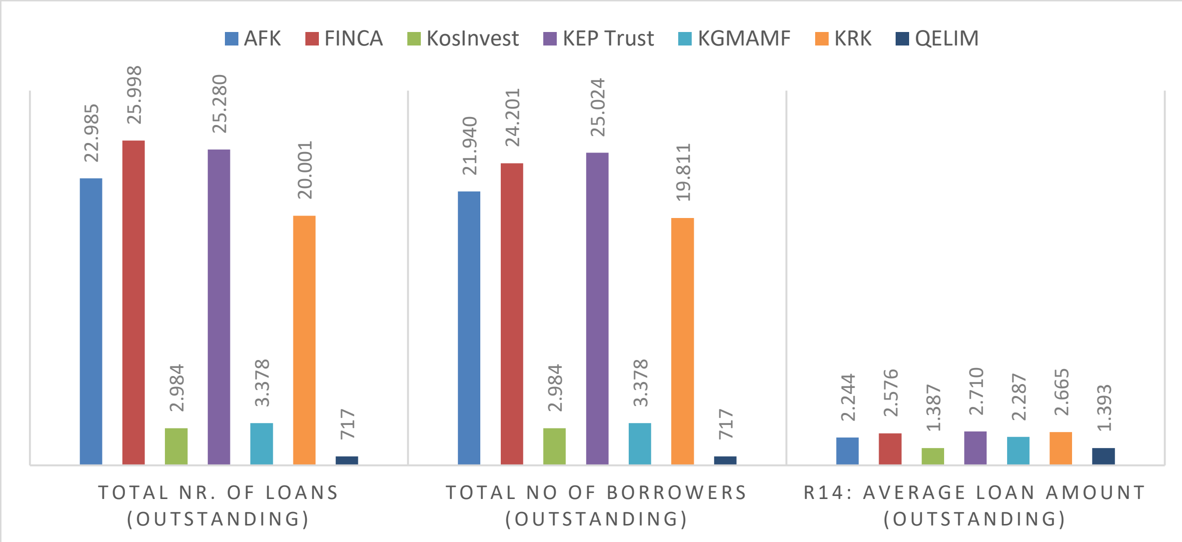
Metrics Compared	**Monthly Sector Comparison Report as of 31 October 2022**							
	AFK	**FINCA**	**KosInvest**	**KEP Trust**	**KGMAMF**	**KRK**	**QELIM**	**Total**
Total Amount of Loans (Outstanding)	49,242,932	62,349,809	4,140,299	67,818,259	7,725,100	52,792,312	999,074	245,067,785
Total nr. of loans (Outstanding)	22,985	25,998	2,984	25,280	3,378	20,001	717	101,343
Total no of borrowers (Outstanding)	21,940	24,201	2,984	25,024	3,378	19,811	717	98,055
R14: Average Loan Amount (Outstanding)	**2,244**	**2,576**	**1,387**	**2,710**	**2,287**	**2,665**	**1,393**	**2,499**
Value of Loans Disbursed	4,144,265	5,474,791	354,420	5,432,355	460,600	4,364,190	69,950	20,300,571
Number of Loans disbursed	1,697	1,898	182	1,622	150	1,313	33	6,895
R15: Average Loan Disbursed	**2,442**	**2,885**	**1,947**	**3,349**	**3,071**	**3,324**	**2,120**	**2,944**
Credit Risk: Standard 1-30 days	110,202	1,923,501	62,758	485,892.89	1,473,403	465,501	602,215	5,123,473
R8: Credit Risk Standard (PAR) ratio 1-30 days	**0.2%**	**3.1%**	**1.5%**	**0.7%**	**19.1%**	**0.9%**	**60.3%**	**2.1%**
Credit Risk 30-60 days	25226.32	416,638	10,173	195,378.43	350,107	134,178	73,533	1,205,234
Credit Risk 60-90 days	40,320	119,060	2,657	131,915.78	239,147	122,559	27,086	682,745

Credit Risk 90-180 days	32,479	295,216	8,575	161,964.57	302,302	121,961	49,475	971,973
Credit Risk +180 days	99,716	816,677	25,921	723,803.86	1,024,457	101,519	246,765	3,038,860
Credit Risk (PAR)>30	197,742	1,647,591	47,327	1,213,062.64	1,916,013	480,218	396,859	5,898,813
R8: Credit Exposure (PAR) ratio > 30 days	**0.40%**	**2.64%**	**1.14%**	**1.79%**	**24.80%**	**0.91%**	**39.72%**	**2.41%**
Value of loans written off	38,333	388,335	45,053	408,809.1	0	0	0.00	880,531
R9: Write-off ratio	**0.1%**	**0.6%**	**1.1%**	**0.6%**	**0.0%**	**0.0%**	**0.0%**	**0.4%**
Total no of Branches	28	30	4	31	4	27	3	127

Source: https://amik.org/sq/Sektori-Mikrofinanciar-ne-Kosove/Informata-aktuale-per-sektorin (accessed December 2022).

As we can see from the data of Table 2, FINCA is one of the largest MFIs operating in Kosovo followed by AFK. The smallest of them is QELIM. Based on the regular online annual reports of MFIs, which are currently members of the Association microfinance institution of Kosovo (AMIK) shows, the amount of loans for 2022 is 245 Mil. Euro. And the average loan amount (outstanding) is 2499 Eur, with a total number of borrowers of 98055 clients. Regarding the loans that are disbursed as we can see from the table are 6895 loans disbursed, with an average loan disbursed of 2944 and the value of Loans disbursed is 20,300,571 Euro. The credit risk standard (PAR) ratio in 30 days is 2.1% in comparison to the credit risk (PAR) > 30 days is 2.41%. The write-off ratio of the MFIs the biggest have FINCA with 0.6% and a total branch of 30, while QELIM has 3 branches the smallest regarding the number of branches with an average of write-off ratio 0.0%.

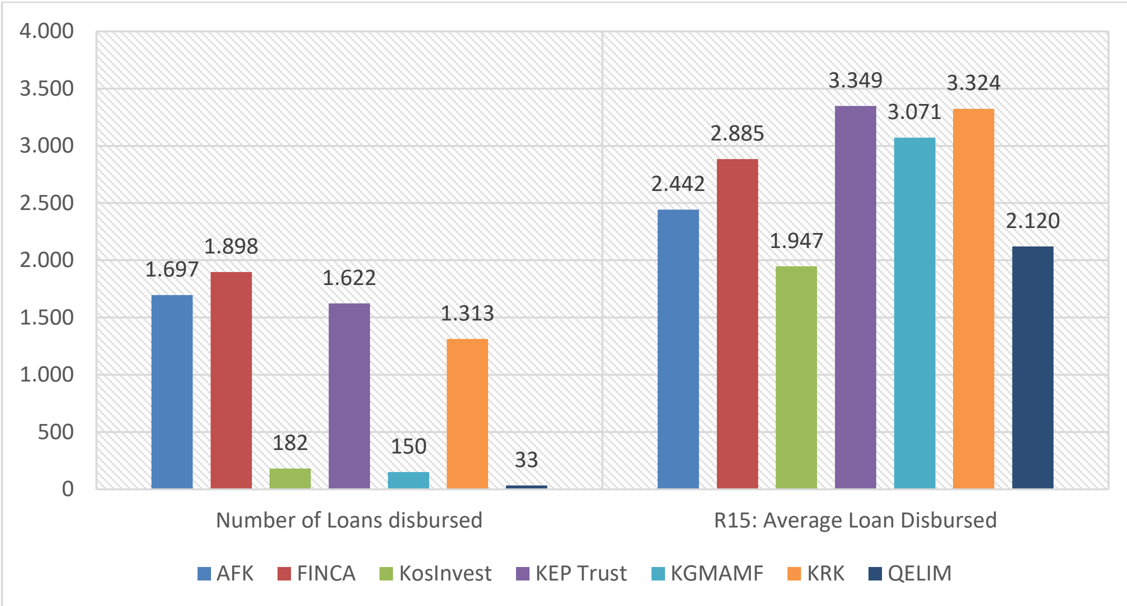
Graph 21. Loan Amount 31 October 2022 year



Source: *https://amik.org/sq/Sektori-Mikrofinanciar-ne-Kosove/Informata-aktuale-per-sektorin* (accessed December 2022).

As we can see from the Graph 23 for the loan amounts, the largest number for the loans (outstanding) in October 2022 is 25,998 loans from the microfinance institution FINCA and almost the same it is KEP Trust with 25,280 loans in October of 2022. And the smallest one it is QELIM with 717 loans. Regarding the numbers of borrowers (outstanding) the largest one is KEP Trust with 25, 024 borrowers and almost the same it is FINCA with 24,201 borrowers and the smallest one it is again QELIM. And for the average loan amount the largest one is the microfinance institution KEP Trust with an average of 2,710 loan amount, and almost the same amount with an average of 2,665 is KRK institution and the smallest one is KosInvest with an average of 1,387 loan. Loan Amount refers to the amount of money owed to us under this mortgage at any one moment. Unpaid principle, interest on underpaid principal, defaulted payments, interest on defaulted payments, other charges, and interest on other charges may all be included in the loan amount.

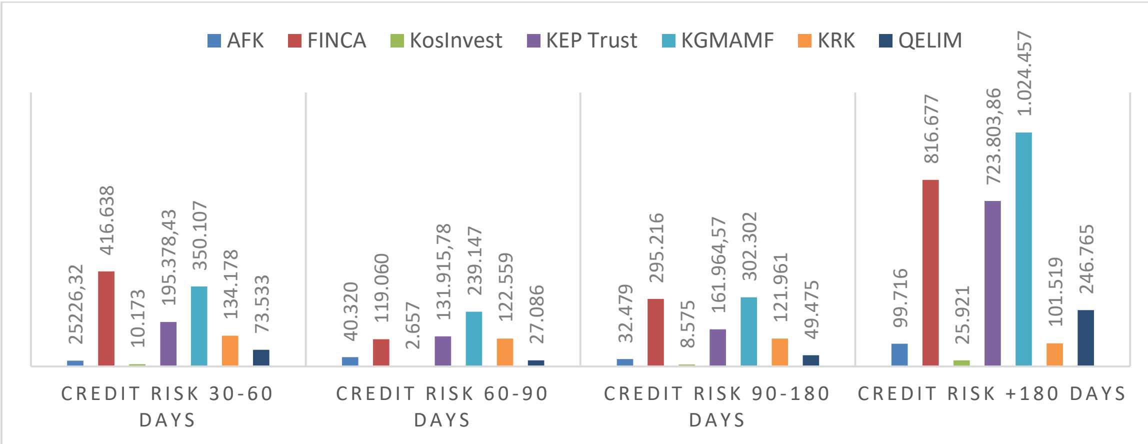
Graph 22. Loan Disbursed for 31 October 2022 year



Source: [*https://amik.org/sq/Sektori-Mikrofinanciar-ne-Kosove/Informata-aktuale-per-sektorin*](https://amik.org/sq/Sektori-Mikrofinanciar-ne-Kosove/Informata-aktuale-per-sektorin) (accessed December 2022)

The data for the loans disbursed is shown in Graph 24. Regarding the number of loans disbursed in October 2022 the largest number it has the micro finance institution FINCA with 1,898 loans disbursed and almost the same it is AFK institution with 1,697 loans disbursed and the smallest number of loans disbursed it has the QELIM institution with 33 loans. The average loans disbursed it has the KEP Trust institution with 3,349 average loans disbursed and the smallest one is the KosInvest institution with 1,947 loans disbursed in October 2022. To disburse money implies to pay it out, generally from a fund that has been set up for a specific reason. When the agreed-upon sum is placed into the borrower's account and is ready for use, the loan is disbursed. The money has been transferred from the lender's account to the borrower's account.

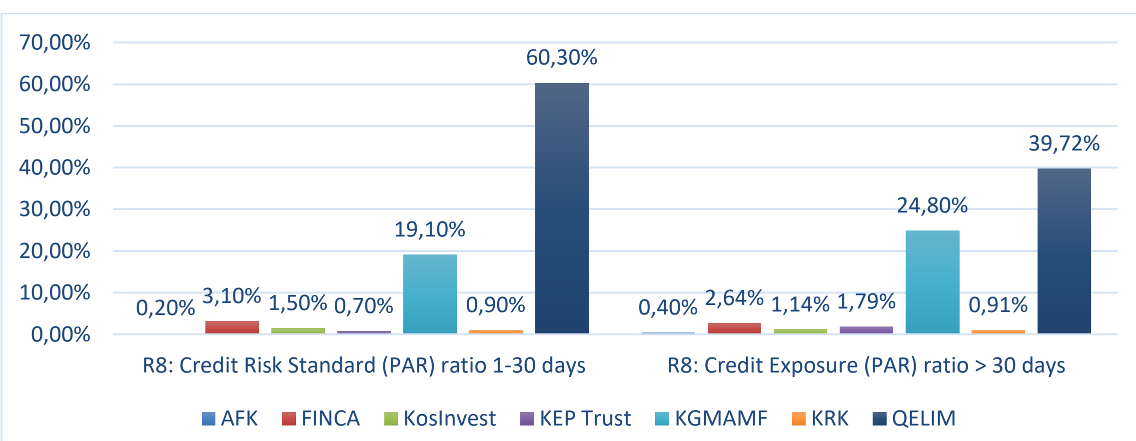
Graph 23. Credit Risk Standard (PAR) 31 October 2022 year



Source: https://amik.org/sq/Sektori-Mikrofinanciar-ne-Kosove/Informata-aktuale-per-sektorin (accessed December 2022)

In the Graph 25 we have put separately the credit risk for 30 days or more for all the Micro Finance Institutions in Kosovo. The credit risks for 30-60 days for 2022 the largest number it has the FINCA institution with 416,638 credit risk and almost the same it is KGMAMF institution with 350,107 credit risk and the smallest is KosInvest with 10,173 credit risk for 30-60 days. The credit risk for 60-90 days the largest one is 239,147 credit risk of KGMAMF and the smallest one is 8,575 credit risk for 60-90 days. Credit Risk 90-180 days the largest microfinance institution it is GKMAMF with 302,302 credit risk. And for the days more than 180 days the credit risk it has again the GKMAMF for the 31 October 2022. There are four metrics widely used to gauge loan portfolio quality in the microfinance industry: Portfolio at Risk (PAR), Write-off Ratio, Impairment Expense Ratio, and Risk Coverage Ratio. The PAR calculates the percentage of the loan portfolio that is delinquent as a percentage of the overall portfolio.

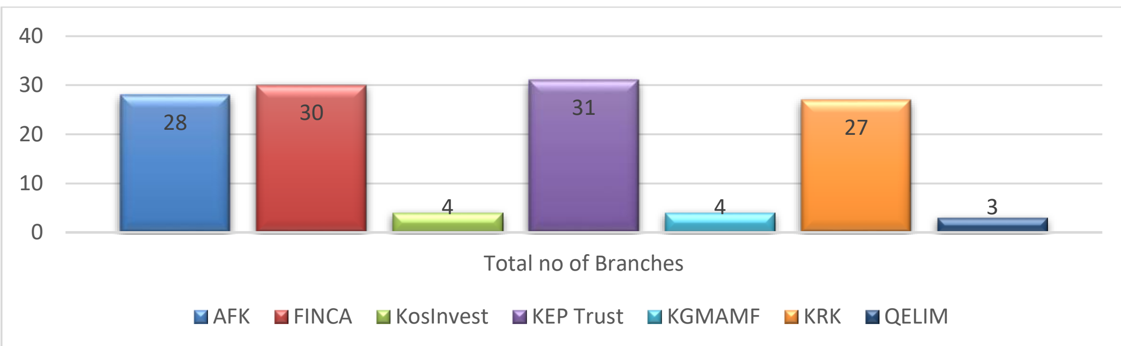
Graph 24. Credit Risk Standard (PAR) in %, 31 October 2022 year



Source: https://amik.org/sq/Sektori-Mikrofinanciar-ne-Kosove/Informata-aktuale-per-sektorin (accessed December 2022)

The credit risk standard in % for October 2022 the largest largest it has the QELIM institution with 60.30% and the smallest % it is the AFK institution with 0.20% credit risk standard. And the Credit exposure (PAR) ratio > 30 days it is again QELIM institution with 39.72% and the smallest risk standard ratio it has the AFK institution. There are four metrics widely used to gauge loan portfolio quality in the microfinance industry: Portfolio at Risk (PAR), Write-off Ratio, Impairment Expense Ratio, and Risk Coverage Ratio. The PAR calculates the percentage of the loan portfolio that is delinquent as a percentage of the overall portfolio (see Graph 26).

Graph 25. Total number of Branches, 31 October 2022



Source: https://amik.org/sq/Sektori-Mikrofinanciar-ne-Kosove/Informata-aktuale-per-sektorin (accessed December 2022)

The number of branches it has the KEP Trust the biggest one with a total number of branches of 31 ones and FINCA with 30 branches (see Graph 27).

MFIs are still meeting the demands of the Kosovo market today, with lending for small firms and individual entrepreneurs, including farmers. The above statistics demonstrate not only the financial performance of MFIs' but also their contributions to the Kosovo economy. These clients would go unserved if the MFI industry did not exist. Microloans are often avoided by the banking sector because they are hazardous, and banks prefer to capitalize on the economies of scale that occur from bigger loans. Credit cards are not typically used to assist micro or near-poverty customers. When they are used, they are frequently more expensive than microcredits. Although interest rates appear to be excessive, they are about at the level of paying costs and are comparable to the region. Competition, the elimination of service constraints, and the engagement of the private sector will all have a substantial impact on interest rate reductions. Microfinance non-governmental organizations (MFIs-NGOs) are common in various developing nations, including Kosovo.

It has been observed that there are differences in the offers of financial institutions in our market, though not always in interest rates, but in other equally important supply points, such as how financial services are provided, the speed with which services are delivered, the organization of service delivery, and so on. The outbreak of war in 1999 and the lack of money in circulation influenced banks as a group of financial institutions to develop more and become financial industry leaders, thereby directly influencing the development of other financial institutions, primarily MFIs, affecting their pricing and lender offers. Banks have a dual influence on MFIs in Kosovo. They are, first and foremost, sources of financing for microfinance institutions; nevertheless, they also compete with MFIs in terms of loan offerings. This has hampered the development of microfinance by forcing MFIs to be featured in deficit regions in lending bids due to their incapacity to compete with banks in the majority of loan offers. MFIs, on the other hand, continue to be highly significant participants in the local financial market, and they are more than vital for Kosovo's general economic growth. Many studies have found that microcredit recipients not only increased their incomes but also improved their company management skills, hence enhancing healthcare and education services.

Microfinance in Kosovo, provides minor financial services, mostly in the form of loans to farmers and small business owners. To provide financial services to low-income consumers, including self-employed individuals, the term microfinance makes sense. MFIs may supply farmers with detailed information on rural areas where the majority of the impoverished dwell. This process of financial institution alignment is taking on in Kosovo. *Despite the fact that MFIs have been present in Kosovo since 1999, no study has been conducted on their financial performance.* Studies on the financial success of MFIs may be found in other nations. Nasrin et al. (2017) and Wijesiri et al. (2017), Daher and Le Saout (2015), Kharti (2014), Janda and Turbat (2014) are a few research that investigates the drivers of MFI financial success (2013). In addition, numerous studies have shown that the interest rate charged, the size of the MFI, the maturity of the MFI, and the legal status of the MFI all have an impact on the financial success of MFIs. National background indicators like the inflation rate and GDP growth rate are also crucial when analyzing the financial performance of MFIs. Daher and Le Saout (2015) examined a worldwide dataset from 2005 to 2011 and found that MFIs with strong credit portfolio quality, substantial assets, a high capital-to-assets ratio, low-cost inefficiencies, large loans, and a high percentage of microcredit portfolios outperformed others financially. Unemployment in Kosovo has been significant, with roughly 40% of the active population, corresponding to lower-income households.

5.2. Financial performance analysis of Kosovo Funding Agency (AFK)

In this section, we will continue with a more in-depth analysis of the financial performance of one of the MFIs listed in the section above. The Kosovo Funding Agency (AFK) is a financial agency that began as a Mercy Corps Kosovo initiative in September 1999 and was re-registered as a Non-Governmental Organization (NGO) in February 2002. AFK operates throughout the territory of Kosovo: Pejë (Central Office), Prishtina, Prizren, Gjakovë, Mitrovica, Gjilan, Ferizaj, Fushë Kosovë, Lipjan, Istog, Klinë, Skenderaj, Malishevë, Theranë, Rahovec, Deçan, Drenas, Vushtrri, Viti, Podujevo, Shtime, Graçanica. AFK operates throughout the territory of Kosovo. Structurally, AFK is governed by a board of directors that consists of five board members, the executive director, the finance department leader, the human resources department leader, the operative department leader, credit risk department leader. The number of branches opened by the Financing Agency in Kosovo is 28.

AFK applies individual lending methodologies with an estimated first loan amount of €3,000 on average. Customers who repay the loan on time are encouraged to apply for additional loans that may be of a higher value. Customers must prove that they have collateral that guarantees the loan and must have two guarantors as well as witnesses from the family to sign the loan agreement. AFK supports education, health and safety, sports, natural resources, the arts, civic services, social services, and humanitarian aid programs that are vital to the health and well-being of the communities in which it operates. AFK currently provides the following 6 types of loans: loans for business, agriculture, family need, renovation, green loan, and vehicle registration loans (AMIK, 2022). In recent years, AFK added loans for women entrepreneurs. This makes it the reason why we are focusing on the financial analysis in this MFI. AFK has a staff of 217 people, and a total of 346 million Euros disbursed.

For the financial analysis of AFK are used the AFK's financial statements. Firstly, is presented balance sheets for 2018 and 2019 year, then the comparison of the main financial *indicators for the operation of the AFK for the period 2017-2022 year.*

Table 3. **AFK's Balance sheet for 2018 and 2019 year**

	31/12/2019 (EUR)	**31/12/2018 (EUR)**	**31/12/2020 (EUR**
Assets			
Cash and cash equivalents	2.978.867	2.062.170	3520672
Loans for customers	33.705.600	30.811.692	35,169361
Property, plant, and equipment	322.024	388.747	329570
Intangible assets	185.574	95.214	154160
Right to use assets	430.986		198528
Other assets	139.387	100.959	43885
Total assets	37.762.438	33.458.782	39416176
Obligations			
Borrowings	28.813.480	26.328.785	30231544
Lease obligations	463.767		201575
Other obligations	147.288	117.943	142199
Provisions	82.213	70.213	94213
Total liabilities	29.479.748	26.516.941	30669531
Fund balance			
Donated funds	2.093.605	2.093.605	2093605
Accumulated surplus	6.189.085	4.848.236	6653040
Total fund	**8.282.690**	**6.941.841**	**8746645**
Total liabilities and fund balance	**37.762.438**	**33.458.782**	**39416176**
Interest income	7.045.439	6.477.279	6496040
Interest expense	1.713.137	1.614.996	1746372
Net interest income	5.332.302	4.862.283	4749668
Other income	105.466	123.363	102140
Impairment loss on loans to customers	110.996	292.630	552353
Personnel expenses	2.368.931	2.153.076	2494556
Depreciation and amortization	171.387	147.451	209206
General and administrative expenses	1.101.152	1.124.297	779614
Depreciation and interest expense on leases	344.453		352124
Surplus for the year	1.340.849	1.268.192	463955

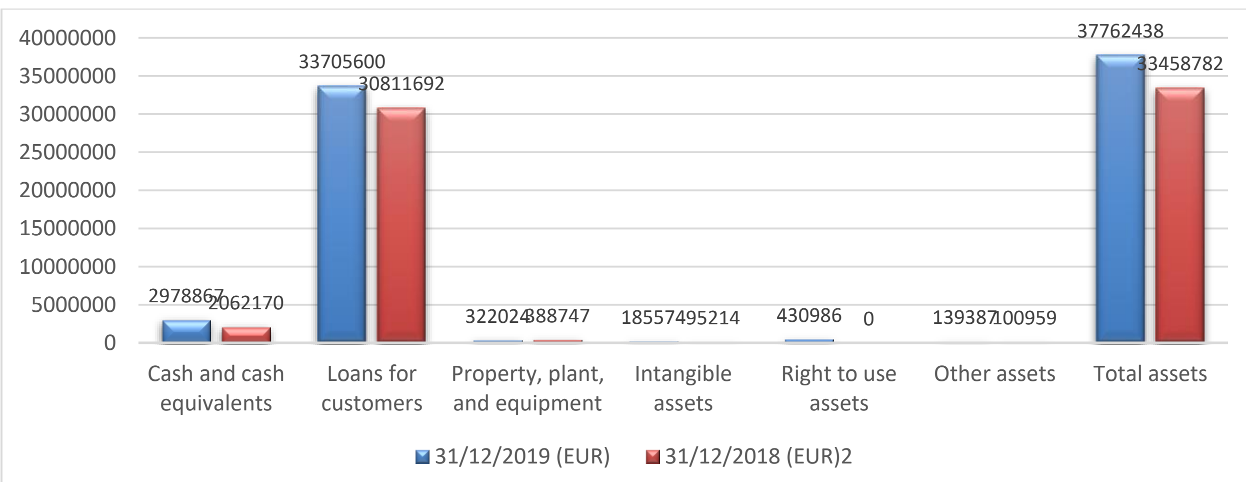
Other comprehensive income			
Total comprehensive surplus for the year	1.340.849	1.268.192	463955

Source: https://afkonline.org/wp-content/uploads/2021/08/AFK-Raporti-i-Auditorit-dhe-Pasqyrat-Financiare-31.12.2020-IFRS-Finale-16-04-2021-Nenshkruar.pdf (accessed December, 2022)

Regarding the balance sheet of the years 2018 and 2019 for AFK, the total assets for the year 2018 are 37.762.438-euro assets in a decrease of the year 2019 with 33.458.782-euro assets. The obligations for the 2018 are 29.479.748 euro and with a decrease in 2019 with 26.516.941 euro. The fund balance also it has a decrease from 2018 and 2019, with 8.282.690 euro in 2018 and 6.941.841 euro in 2019. And other comprehensive income in 2018 are 1.340.849 Eur while in 2019 1.268.192 Euros (Table 3).

In order to better understand we will separate in different graphs items of the balance sheet for the year 2018 and 2019 for AFK institution.

Graph 26. Assets (2018/2019 year)

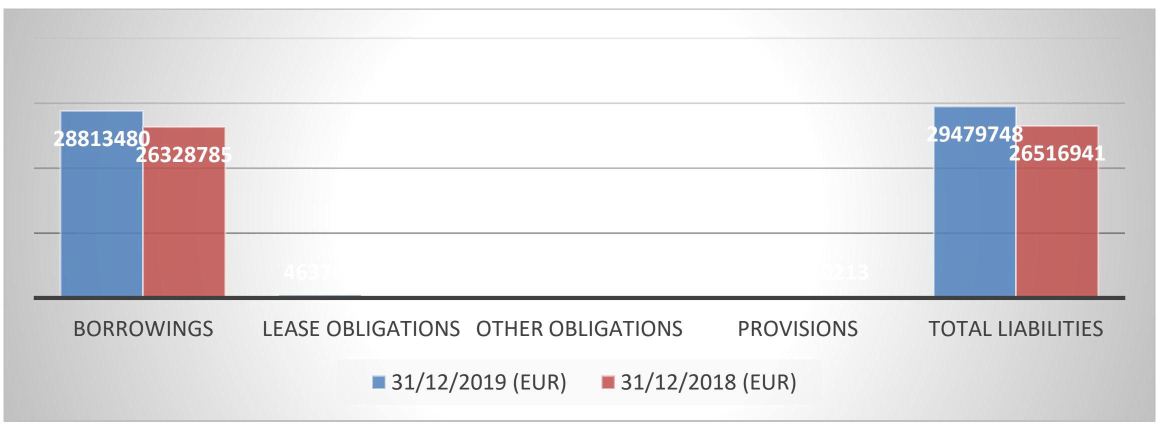


Source: https://afkonline.org/wp-content/uploads/2021/08/AFK-Raporti-i-Auditorit-dhe-Pasqyrat-Financiare-31.12.2020-IFRS-Finale-16-04-2021-Nenshkruar.pdf (accessed February, 2023)

The assets for the AFK institution for the years 2018 and 2019, we can see from the Graph 28 cash equivalents that it is for the year 2019 higher than in 2018, 2.978.867 Eur comparing with 2018 that is 2.062.170 Eur. Regarding the loans for costumers in 2019 as we can see from the graph it is higher than the previous year, 33.705.600 Eur and in 2018 it is 30.811.692 Eur loans for costumers. We can see also for this indicator that the company it is increasing its service towards the clients. Regarding the property, plant, and equipment in the 2018 were higher than in

2019, with 388.747 Eur and while the year 2019, with 322.024 Eur. The assets intangible for the year 2019 it is higher with 185.574 Eur while in 2018 it is 95.214 Eur. Intangible assets refer to non-physical assets that have no inherent physical value but still have significant value to a business or individual. Examples of intangible assets include patents, trademarks, copyrights, brand names, software, goodwill, and customer relationships. Unlike physical assets such as machinery or equipment, intangible assets are not easily quantifiable or tangible, and their value may fluctuate over time. Intangible assets are typically recorded on a company's balance sheet and are amortized over their useful lives. They are also subject to impairment testing to ensure that their recorded value accurately reflects their current worth. Regarding the right to use assets, we have the record for the year 2019 that is 430.986 Eur. Other assets the company used 139.387 Eur while in 2018 the AFK used 100.959 Eur for other assets. As we can see it was an increase with 38,428 Eur on other assets. And as we can see the total assets in 2019 are used more than in 2018, 37.762.438 Eur in 2019 and in 2018 with 33.458.782 Eur used, a difference with 4,303,656 Eur.

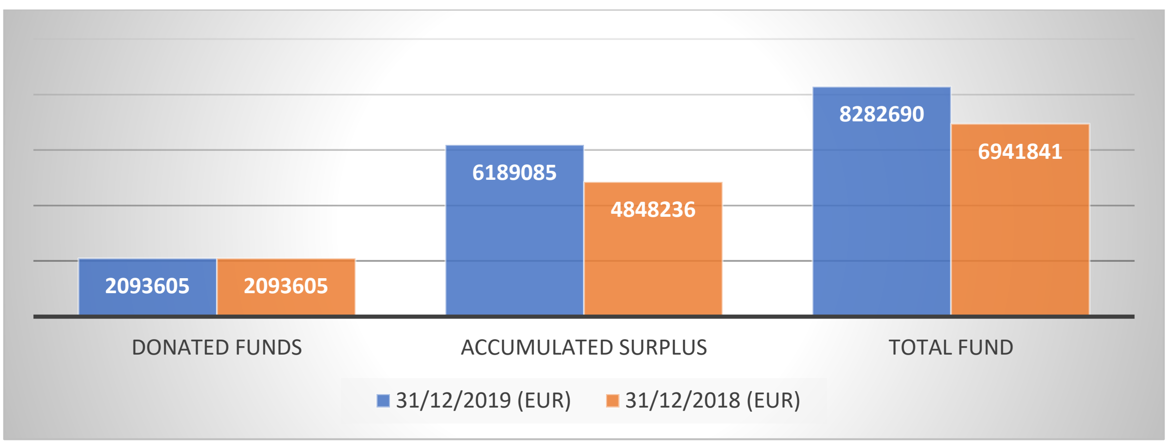
Graph 27. Obligations (2018/2019 year)



Source: *https://afkonline.org/wp-content/uploads/2021/08/AFK-Raporti-i-Auditorit-dhe-Pasqyrat-Financiare-31.12.2020-IFRS-Finale-16-04-2021-Nenshkruar.pdf (accessed February, 2023)*

Regarding the obligations such as borrowing the year is higher with 28.813.480 Eur and in the 2018 with 26.328.785 Eur borrowings, a difference of 2,484,695 Eur. Regarding the lease obligations in 2019 we can see from the graph that is 463.767 Eur, but we do not have a record for the year 2018. Lease obligations refer to the legally binding responsibilities that a lessee (the person or entity renting a property or asset) has to fulfill under the terms of a lease agreement with the lessor (the person or entity who owns or manages the property or asset). These obligations typically include paying rent on time, maintaining the property or asset in good condition, complying with any restrictions on its use, and returning the property or asset to the lessor in the same condition it was in at the start of the lease. Failure to fulfill lease obligations can result in penalties, legal action, and termination of the lease agreement. While for the other obligations we can see that in 2019, it is 147.288 Eur while in 2018 it is 117.943 Eur with a difference 29,345 Eur. Regarding the provisions in 2019 they were higher 82.213 Eur, while in 2018 it was 70.213 Eur. Provisions refer to the funds set aside by microfinance institutions (MFIs) to cover potential loan losses or other contingencies. MFIs often work with low-income clients who may not have access to traditional banking services or may have limited credit histories, making them potentially higher-risk borrowers. Provisions help mitigate this risk by providing a cushion for loan losses or unexpected events. Provisions are typically calculated as a percentage of the MFI's loan portfolio, and the amount may vary based on the level of risk associated with the portfolio. Provisions may also be adjusted based on ongoing assessments of the quality of the loan portfolio and the overall economic conditions in the area where the MFI operates. These provisions are recorded as an expense on the MFI's income statement and are subtracted from its profits to arrive at the net profit for the period. Ultimately, the goal of provisions is to help ensure the long-term sustainability of the MFI by minimizing the impact of loan losses or other adverse events. The total liabilities in 2019 were higher than in 2018 with 29.479.748 Eur, while in 2018 were 26.516.941 Eur.

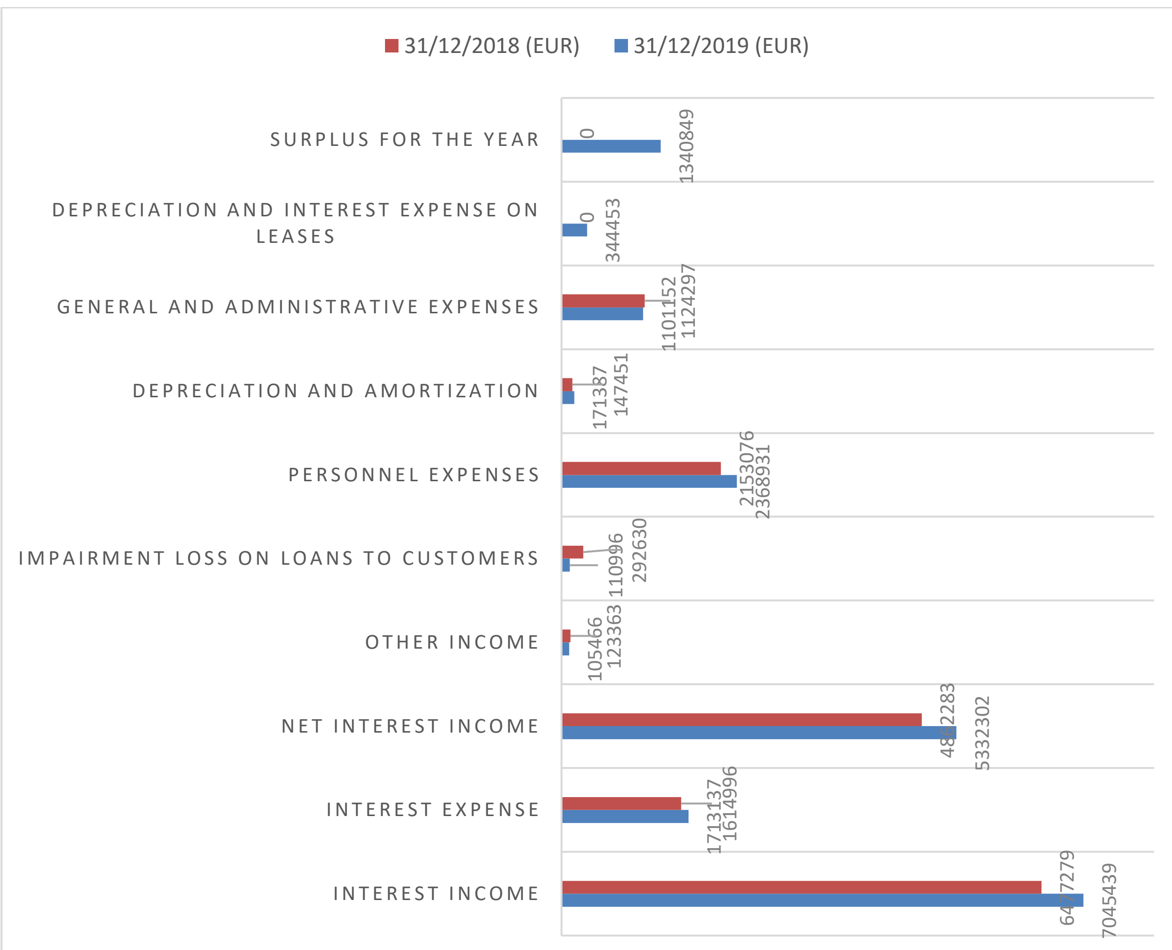
Graph 28. Fund Balance (2018/2019 year)



Source: *https://afkonline.org/wp-content/uploads/2021/08/AFK-Raporti-i-Auditorit-dhe-Pasqyrat-Financiare-31.12.2020-IFRS-Finale-16-04-2021-Nenshkruar.pdf (accessed February, 2023)*

As we can see from the Graph 30 regarding the fund balance are such as donated funds, accumulated surplus and total funds. Fund balance as reserves to cover future expenses, such as loan losses or unexpected costs. It is a key component of the MFI's financial stability and sustainability. The fund balance is typically calculated as the difference between the MFI's assets (such as loans outstanding, cash reserves, and investments) and its liabilities (such as outstanding debt or deposits from clients). A healthy fund balance is important because it allows the MFI to weather unexpected losses or expenses without having to rely on external funding sources. MFIs may establish different types of fund balances depending on their needs and regulatory requirements. For example, they may maintain separate reserves to cover loan losses, operational expenses, or investments in new products or services. The fund balance is an important measure of an MFI's financial health and is closely monitored by regulators and investors. Regarding the donated funds it is the same for the both years 2.093.605 Euros. The accumulated surplus in 2019 it is 6.189.085 Euros while in 2018 it is 4.848.236 Euros. As we can see the total funds are higher in 2019 with 8.282.690 Eur funds while in 2018 it is 6.941.841 Euros.

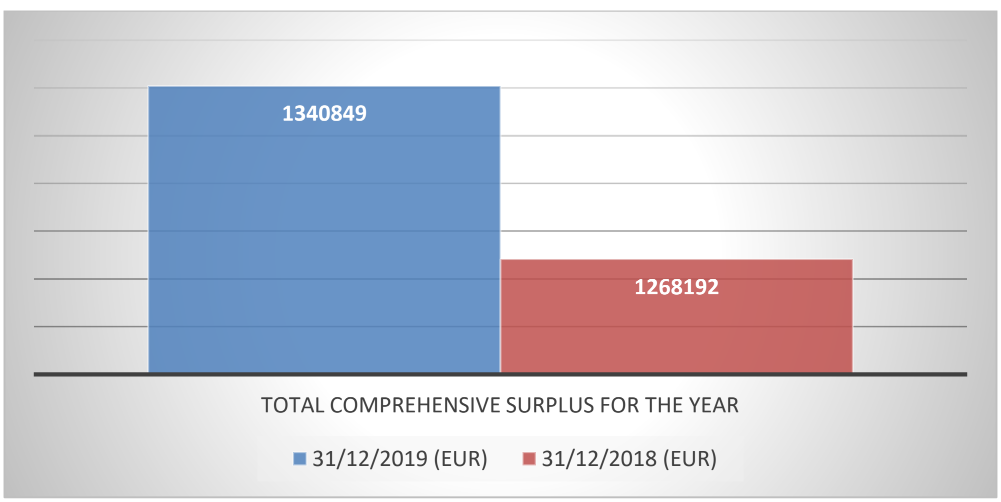
Graph 29. Incomes and expenses (2018/2019 year)



Source: *https://afkonline.org/wp-content/uploads/2021/08/AFK-Raporti-i-Auditorit-dhe-Pasqyrat-Financiare-31.12.2020-IFRS-Finale-16-04-2021-Nenshkruar.pdf (accessed February, 2023)*

Expenses in microfinance include operating costs such as salaries, rent, and other overhead expenses, as well as costs associated with loan loss provisions, investments in new products or services, and regulatory compliance. MFIs must balance their incomes and expenses to ensure that they are financially sustainable and can continue to provide services to their clients over the long term. Incomes and expenses are typically recorded on an MFI's income statement, which shows the MFI's revenues, expenses, and net income over a given period of time. The income statement is an important tool for assessing the financial health of an MFI and for making decisions about future investments or changes in strategy. MFIs must carefully manage their incomes and expenses to ensure that they can continue to provide financial services to those who need them most. As we can see from the Graph 31 the interest incomes are higher in 2019 with 7.045.439 Euros while in 2018 it is 6.477.279 Euros. For the Interest expenses in 2019 are higher with 1.713.137 Euros and in 2018 are lower with 1.614.996 Euros. Regarding the Net Interest Income in 2019 are higher with 5.332.302 Euros and in 2018 were 4.862.283 Euros. We can see from the graph that in 2019 for personnel expenses it is 2.368.931 Euros and in 2018 were lower with 2.153.076 Euros. The surplus of the year in 2019 it was 1.340.849 higher than in 2018 that is 1.268.192 Euros.

Graph 30. Other comprehensive income (2018/2019 year)



Source: https://afkonline.org/wp-content/uploads/2021/08/AFK-Raporti-i-Auditorit-dhe-Pasqyrat-Financiare-31.12.2020-IFRS-Finale-16-04-2021-Nenshkruar.pdf *(accessed February, 2023)*

Comprehensive income refers to the total change in a microfinance institution's (MFI) equity during a specified period, including all gains and losses that are not included in the regular income statement. Comprehensive income is intended to provide a more complete picture of the MFI's financial performance than the traditional income statement, which only includes revenue and expenses. Such income includes items such as changes in the market value of investments, foreign currency translation adjustments, gains or losses on available-for-sale securities, and other items that may affect the MFI's financial position but are not directly related to its core operations. It also includes any unrealized gains or losses on financial instruments that have not yet been sold or settled. Other comprehensive incomes in 2019 are much higher than in 2018 as we can see from the graph that is 1.340.849 Eur, while in 2018 it is 1.268.192 Eur, with a difference 72,657 Euros (see Graph 32). Also, in the analysis of the financial performance it is need to include the financial indicators. So, in part below are analyzed the financial indicators of AFK for the period 2017-2022 year.

Table 4. *Financial indicators for AFK during the period (2017-2022 year)*

	November 2017	**November 2018**	**February 2019**	**December 2020**	**December 2021**	**November2022**
Metrics Compared:	**AfK**	**AfK**	**AfK**	**AfK**	**AfK**	**AfK**
Total Amount of Loans (Outstanding)	23,382,130	30,847,253	32,061,703	35,987,863	40,026,107	50,095,277
Total nr. of loans (Outstanding)	15,246	19,099	19,656	20,898	20,733	23,209
Total no of borrowers (Outstanding)	14,410	17,975	18,512	19,240	19,620	22,158
R14: Average Loan Size (Outstanding)	**1,623**	**1,716**	**1,732**	**1,870**	**2,040**	**2,261**
Value of Loans Disbursed	2,543,415	2,699,287	2,684,270	3,147,440	3,639,305	4,567,127
Number of Loans disbursed	1,453	1,582	1,488	1,424	1,557	1,824
R15: Average Loan Disbursed	**1,750**	**1,706**	**1,804**	**2,210**	**2,337**	**2,504**
Credit Risk: Standard 1-30 days	54,177	167,717	259,252	151,472	99,116	117,752
R8: Credit Risk Standard (PAR) ratio 1-30 days	**0.2%**	**0.5%**	**0.8%**	**0.4%**	**0.2%**	**0.2%**
Credit Risk 30-60 days	14,687	32,553	69,802	93,741	36,469	23,692.41
Credit Risk 60-90 days	5,941	36,739	33,421	49,851	20,444	23,394
Credit Risk 90-180 days	19,743	65,691	60,982	97,558	57,302	46,623
Credit Risk +180 days	45,104	59,173	97,637	217,333	80,531	54,381
Credit Risk (PAR)>30	85,475	194,155	261,842	458,483	194,746	148,090
R8: Credit Exposure (PAR) ratio > 30 days	**0.4%**	**0.6%**	**0.8%**	**1.27%**	**0.49%**	**0.30%**

Value of loans written off	0	29,134	0	77,060	301,323	88,265
R9: Write-off ratio	**0.0%**	**0.1%**	**0.0%**	**0.2%**	**0.8%**	**0.2%**
Total no of Branches	20	22	22	24	24	28

Source: *https://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports (accessed December, 2022)*

As we can see from the Table 4 the year 2022 it has an increase of the other years about the Average Loan Size (Outstanding) with 2.261 while the lowest is in 2017 with 1.623. The average loan disbursed the highest is recorded in 2022 with 2.504 and the lowest is in 2018 with 1.706. The credit risk standard (PAR) ratio in 1-30 days is the lowest risk is in the years 2017-2021 and 2022 with 0.2% and the highest is in 2019 with 0.8%. The credit exposure (PAR) ratio >30days the lowest is in 2017 with 0.4% exposure and the highest is in 2020 with 1.27% exposure. The write off ratio the highest is in 2021 with 0.8% while the lowest is in 2017 with 0.0%. With total number of branches of 28 in 2022 which it has the most and the in 2017 it had 20 branches.

As described below, no other event or transaction has occurred since December 31, 2020, or is not expected to occur, which would have a material effect on the AFK financial statements on that date or for the period completed after, or that have significant importance related to the Organization's issues as to be described in a note to the financial statements.

Reaction of the AFK Organization to COVID-19 The Organization has been actively monitoring the situation on a local, European, and global scale since the outbreak of the COVID-19 pandemic. Furthermore, the Organization monitors and implements procedures provided by the Government of the Republic of Kosovo and its competent authorities, as well as other preventative measures to protect its workers, suppliers, and ongoing commercial operations. Regardless of the planned crisis scenarios and the Organization's continuity plans, the pandemic spread of COVID-19 could have a negative impact on the Organization's business, primarily in terms of closing certain business activities, employees affected by this business closure, free movement of people, and supplies, and government measures will have an impact on the economy as a whole, including the Organization's business. Given the nature of the pandemic's spread and the dynamic measures put in place to avoid and control it, we expect it to have an impact on business performance, but estimating the financial impact is presently difficult.

A general overview of the income statement that MFIs typically prepare:

- ***Revenue***: This includes the total income earned by the MFI from its operations, such as interest income on loans, fees and commissions from services, and investment income.

- ***Expenses***: This includes the costs incurred by the MFI in operating its business, such as salaries and benefits for staff, rent, utilities, and other operating expenses.

Net interest income: This represents the difference between the interest income earned on loans and the interest expense paid on deposits and borrowings.

- ***Provision for loan losses***: This represents the amount set aside by the MFI to cover potential losses on loans, based on an assessment of the creditworthiness of borrowers and the overall risk profile of the loan portfolio.

- ***Other income and expenses***: This include any other income or expenses that are not directly related to the MFI's core operations, such as gains or losses on investments or foreign exchange transactions.

Net income or loss: This represents the overall profitability of the MFI, calculated as the difference between total revenue and total expenses.

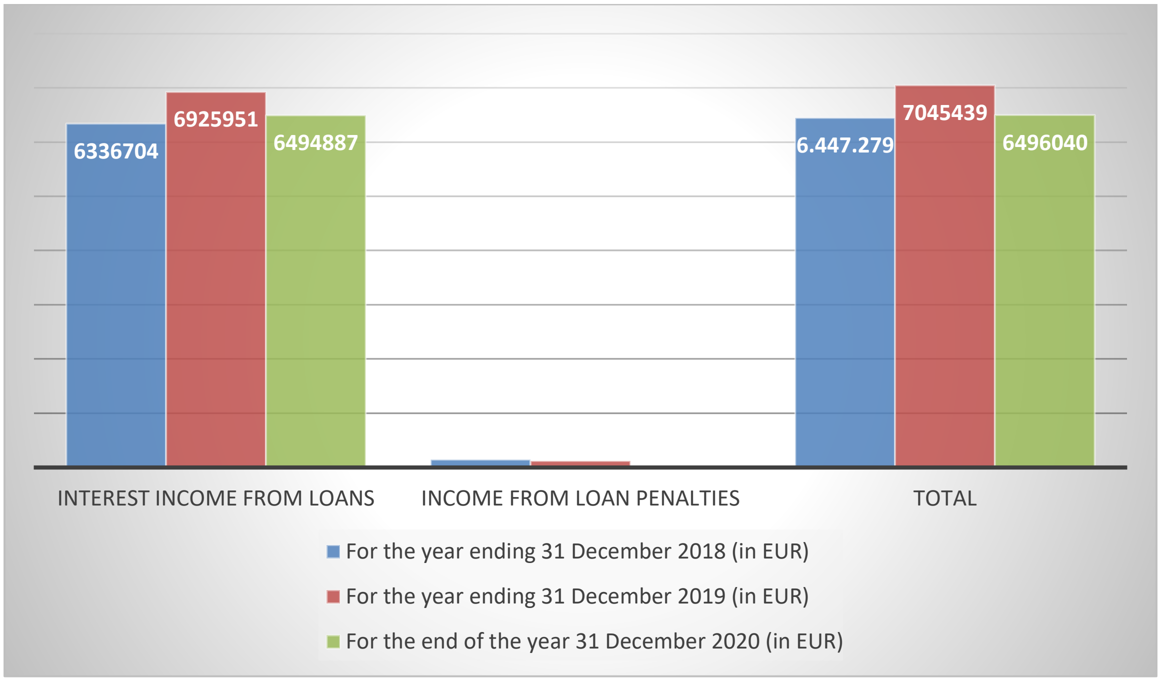
Table 5. Interest income of the AFK institution (2018-2020 year)

	For the year ending 31 December 2018 (in EUR)	**For the year ending 31 December 2019 (in EUR)**	**For the end of the year 31 December 2020 (in EUR)**
Interest income from loans	6.336.704	6.925.951	6.494.887
Income from loan penalties	140.569	119.488	1.153
Total	6.447.279	7.045.439	6.496.040

Source: *https://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports (accessed February, 2023)*

In order for us to see also make a financial analyze for the microfinance institution AFK it is important to analyze also the incomes that the company has. And as we can see in total the interest income is the largest in 2019, that is 7,045,439 Eur and the lowest it was in the year 2018, that is 6,447,279 Eur. The amount paid to an entity for lending its money or allowing another organization to utilize its cash is referred to as interest revenue. On a bigger scale, interest income is the amount earned by an investor's money invested in a project or venture. In the balance sheet, they are classified as current assets because the payments are expected within a year. Continue reading. Some businesses prefer to refer to this form of money as penalty income. The earnings created by a company's cash balance, often from interest-bearing bank accounts, are referred to as interest income.

Graph 31. Interest Income for the years 2018-2020



Source: https://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports (accessed February, 2023)

As shown in the graph the year 2019 it has the largest interest income from loans that is 6,925,951 Eur, the incomes from loan penalties in the same year it is 119.488 Eur and the total it is the largest regarding the interest income that is 7,045,439 Eur. The year 2018 regarding the interest incomes from loans it has the lowest 6,336,704 Eur and also the total regarding the total interest incomes with 6.447.279 Eur. The year 2020 regarding the interest income from loans it is 6.494.887 Eur, the incomes from loan penalties it is the lowest 1.153 Eur and the total interest incomes it is 6.496.040. Interest incomes is often expected to be paid within a year, classifying it as a current asset. It is the principal source of revenue for financial organizations and banks that lend money or sell mortgages. Lenders write prepayment penalties into loan contracts to compensate for prepayment risk, especially in poor economic times and when the temptation for a borrower to refinance a subprime loan is considerable. These penalties apply even if the borrower repays the whole debt.

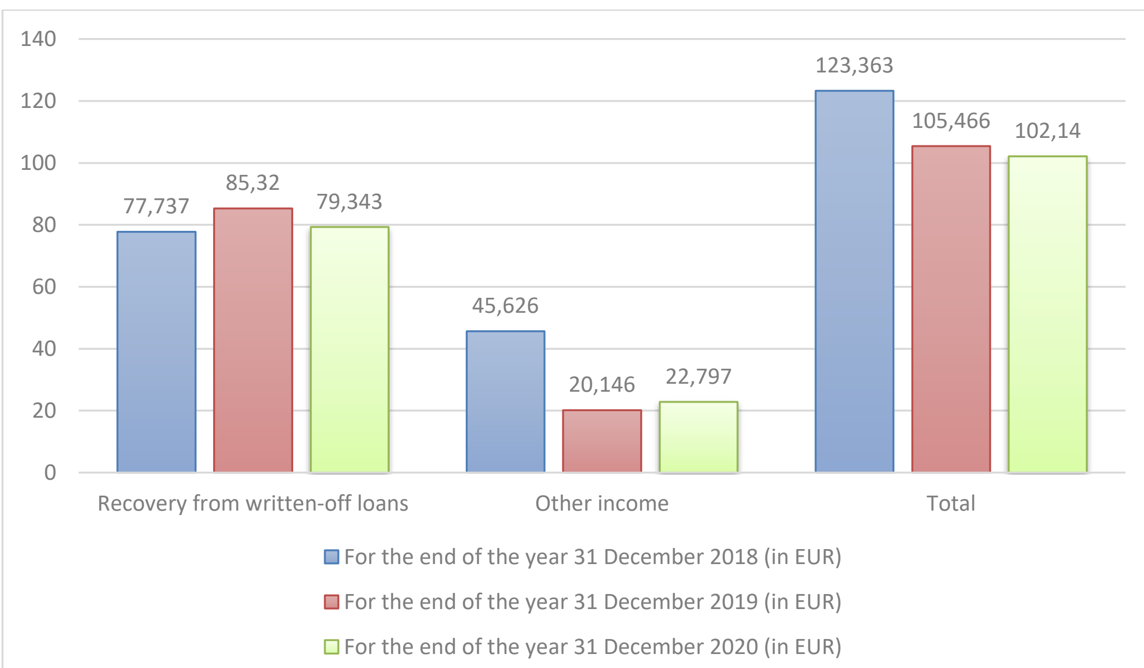
Table 6. Other Incomes of the AFK institution (2018-2020 year)

	For the end of the year 31 December 2018 (in EUR)	For the end of the year 31 December 2019 (in EUR)	For the end of the year 31 December 2020 (in EUR)
Recovery from written-off loans	77.737	85, 320	79, 343
Other income	45.626	20, 146	22.797
Total	123.363	105.466	102.140

Source: https://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports (accessed February, 2023)

As we can see from the table the total other incomes from the loans the highest it is in the year 2018 that is 123.363 Eur and the lowest is in the year 2020, 102.140 Eur, and in year 2019 the total of other incomes is 105.466 Eur. Written-off loans indicate that the borrower is debt-free. When a debt is written off, the lender may seek recovery with the assistance of a legal organization. They are able to do so since the loan is not yet closed. Lenders cannot pursue the loan amount once it has been waived.

Graph 32. Other incomes for the years 2018-2019-2020



Source: https://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports (accessed February, 2023)

Regarding the graph as we can see the total of the other incomes from the loans the AFK microfinance institution was the year 2018. And the lowest is the year 2020 that AFK institution had as incomes from other sources of incomes from loans. Specifically, other incomes it has the year 2018, 45.626 Eur and the lowest it is 2019 for other incomes, 20.146 Eur, while the year 2020 is 22.797 Eur. Regarding the recovery from written-off loans the highest one is in the year 2019 85.320 Eur and the year 2020, it is 79.343 Eur while the lowest with recovery from written-off loans it is the year 2018 with 77.737 Eur.

5.3. Obstacles in the development of microfinance in Kosovo

It was noticed during the analysis of the microfinance sector in Kosovo, that MFIs have not yet managed to play a significant role in the SME sector by financing them, therefore, they are still not a source of effort for the employment, entrepreneurship, and employment sector for women. Until today, the economy, even though it is growing, has managed to finance mostly only households and families. This shows us that the sector has grown to have a noticeable impact only on family economies, that is, on the reduction of poverty in Kosovo. However, this sector still has difficulty in penetrating to increase financing against SMEs and small businesses.

Microfinance, often known as microcredit, is a sort of banking service given to jobless or low-income individuals or organizations who would not otherwise have access to financial services. Finally, the purpose of microfinance is to enable impoverished individuals to become self-sufficient. Microfinance, which involves providing financial services to low-income individuals or small businesses, has faced several obstacles in Kosovo's development. Some of the main challenges include:

- *Lack of financial literacy*: Many people in Kosovo lack financial literacy, making it difficult for them to understand the terms and conditions of microfinance products.

- *Limited access to capital*: Kosovo's financial system is underdeveloped, and many people do not have access to capital to start or grow their businesses.

- *Weak legal framework*: The legal framework for microfinance is weak in Kosovo, which hinders the growth of the sector and increases the risk for both lenders and borrowers.

- *Limited human resources*: There is a shortage of skilled professionals in the microfinance sector in Kosovo, which makes it difficult to build and manage effective financial institutions.

- *Political instability*: Political instability in Kosovo has had a negative impact on the development of the microfinance sector, as it creates uncertainty and discourages investment.

Also, as obstacles in the development of microfinance in Kosovo, it could state these:

1. High cost of servicing small loan amounts for remote and sparsely populated regions

Since 2008, the ILO's Microinsurance Innovation Facility has assisted the Palmyrah Workers' Development Society (PWDS) in Tamil Nadu. PWDS works with informal rural families that lack access to social and health security and whose income is regularly compromised by health emergencies that force them into emergency loans and debt. PWDS recipients are self-help groups made up of over 350,000 families (Tunon & Rim, 2013). The program is putting a business approach for increasing access to insurance services in rural regions to the test. The method seeks for, strengthens, and makes use of existing trust-based relationships and channels. It evaluates the efficacy of existing self-help group federations as 'insurance service providers' by aiding them in forming an insurance team to act as a link between communities and insurers. To begin with, the health, the project will create an information and document flow inside the federation-community system to deliver low-cost premium collecting and claims services. The goal is to develop a self-sustaining retail distribution system that provides acceptable products to low-income communities. Improve the administration and governance of informal and semi-formal financial service providers like SACCOs, village banks, or informal savings organizations, for example, by providing community training on how to build and administer member-owned institutions. Bringing together informal service providers and institutional financial institutions. Local member-owned institutions have the freedom and obligation (which needs trust) to reach out to remote areas, but their potential is limited due to their isolation. They can increase the range of services offered when linked to the financial system. Form partnerships between various sorts of organizations, such as channeling life or health insurance via local hospitals or giving agricultural funding. Facilitate financial institutions' portfolio diversification in order to decrease risk from concentrated agriculture holdings. Consider the danger that climate change poses to financial holdings. Check on a regular basis to see if the supply of financial services fulfills the demand (Frankiewicz & Churchill, 2011).

2. Lack of scalability, microfinance systems often struggle to preserve performance and profitability for the different segments of the economy

Smaller microfinance systems generally struggle to sustain profitability and performance in these regions, whereas FIs enjoy rapid expansion as a consequence of excellent service delivery. Microfinance provides financial services to the extremely poor, who are not served by banks.

Microcredit, which provides small loans to the unbanked poor in order for them to build small local businesses, is at the heart of microfinance. Microfinance may help alleviate poverty since access to finance has a positive impact on economic growth. Scalability concerns may hamper your company's growth. The issue for a growing firm is the increasing number of transactions that necessitate more intricate financial administration. It's like turning on a fire hydrant without connecting the hose - no one knows what's going on, and it's flooding. Some of the ways finance departments impede a company's scalability are process inefficiencies, a lack of clear information, and weak controls (Mohan, Potnis & Alter, 2013). Sustainability best practices include: ensuring that their team has the appropriate skill sets for the many circumstances that may emerge; implementing efficient processes that incorporate best practices from their industry; capturing information in a fashion that allows for back-end reporting; and having systems that are interconnected and do not need human data manipulation or data maintenance across many systems.

3. Geographic factor, most MFIs face difficulty when attempting to communicate with clients from different regions

Geographic factors can also pose a challenge for microfinance institutions (MFIs) when attempting to communicate with clients from different regions. Kosovo is a small country, but it has a diverse population with different languages, customs, and cultural norms. For example, Albanian is the official language in Kosovo, but Serbian and other languages are also spoken. MFIs may face difficulties in communicating with clients who speak different languages, which can lead to misunderstandings and confusion. Moreover, different regions may have different economic conditions, which can affect the demand for microfinance products. For instance, rural areas may have different needs compared to urban areas, and microfinance products and services may need to be tailored to meet those needs. Additionally, physical distance can also pose a challenge, especially for MFIs that are based in urban areas and serve clients in rural areas. This can result in higher transaction costs, longer travel times, and logistical challenges that can impact the efficiency and effectiveness of the MFI's operations. Overall, geographic factors can make it difficult for MFIs to communicate with clients from different regions and can impact the demand for microfinance products and services. However, there are strategies that MFIs can use to overcome these challenges, such as partnering with local organizations and hiring staff who are familiar with the local language and culture.

Microfinance is a means of providing individuals with low-interest loans so they may invest in things that will help them make a living, such as a sewing machine, shoe repair equipment, or even a mobile phone. An MFI forms a group of borrowers and then provides a single loan to the group. These are frequently provided to the lowest-income borrowers. These microloans do not require any guarantee; instead, they rely on collective solidarity, which is a sort of social guarantee (Johnson & Arnold, 2012).

4. Limited budgets, a large number of MFIs have limited budgets which increases the struggle associated to provide capital (assets) for larger investments

Regarding the analysis from the study most of the MFIs are unable to make large upfront investments, their ability to obtain world-class banking technology that can help them fulfill their objectives and support their growth ambitions is limited. Almost every product and service offered by microfinance firms has a unique risk profile comprised of a variety of dangers. Most loan activities, for example, frequently incorporate at least four risk categories: credit risk, interest rate risk, liquidity risk, and operational risk. Microfinance is divisive. The concern is that large microfinance lenders may raise interest rates on their microloans, further burying low-income borrowers in debt since they will be unable to repay the loans plus interest. Limited budgets can be a significant challenge for microfinance institutions (MFIs) as they try to provide capital for larger investments. Many MFIs have limited funding sources and face constraints in raising additional capital, which can make it difficult for them to provide larger loans or finance larger investments.

This can be particularly challenging for MFIs that operate in rural or remote areas, where the demand for capital may be high, but the availability of funding sources is limited. In such cases, MFIs may struggle to provide loans that meet the needs of their clients, which can limit the growth and development of local businesses and economies. Moreover, limited budgets can also impact the operational capacity of the MFI itself. For example, limited funds may mean that the MFI cannot afford to hire enough staff or invest in technology and infrastructure, which can impact the quality and efficiency of their services. To overcome these challenges, MFIs may need to explore alternative sources of funding, such as grants or social impact investments. They may also need to develop innovative financing models, such as crowdfunding or peer-to-peer lending, that can help them leverage their limited resources and provide capital for larger investments.

In addition, MFIs may need to prioritize their investments based on the potential impact on their clients and the local community. By focusing on investments that have the highest potential for social and economic impact, MFIs can maximize the effectiveness of their limited resources and achieve greater outcomes for their clients and the local economy.

5.4. Recommendations and direction for the future development of the microfinance

Regarding the analysis, we conclude that microfinance services must be accessible to impoverished people, self-employed persons, farmers, and others in developing countries who are interested in the services and products offered by MFIs. According to some critics, as it matures, microfinance is abandoning its goal of assisting the poor, and it cannot be considered as a panacea for supporting post-conflict economic development. However, we witness microfinance's potential to bring value (income production) and happiness (poverty reduction) to disadvantaged individuals. Microfinance services will become more familiar to poor people, particularly those living in rural areas, by promoting a broader range, because it is assumed that these people have limited access to financial services, even if they do not see any possibility of generating income and being self-employed (as is the case with farmers with low living standards).

The extent and depth of this sector in Kosovo remain limited since it continues to be unable to serve a major portion of the economically excluded target population. MFIs and MFBs are doing well in their attempts to fulfill the objective of women's empowerment, but commercial banks still have a long way to go due to their variety of business. Because of its reliance on traditional sources of funding, the industry is financially vulnerable. A variety of endogenous and exogenous environmental challenges restrict the sector's expansion. The industry is not focusing on developing an effective policy framework for market entry. Cities are the primary locations for microfinance activities. This sector's refusal to adopt innovation in order to reach end customers is a barrier to growth.

Criticism that high interest rates are detrimental to MFI clients, as well as a modest decrease in loan volume in recent years, are the result of MFI development, which is continuing to improve. MFIs in Kosovo, however, still require more help from the state government, donors, and foreign investors.

Microfinance the provision of loans, savings, and insurance to small firms and entrepreneurs excluded from traditional capital markets has developed from a niche sector in Kosovo and a few other countries to a substantial worldwide source of funding during the last four decades.

Microfinance organizations today assist around 200 million individuals worldwide, with the majority of users living in poor countries. Initially, non-governmental groups operated much of the microfinance business, but today the bulk of these institutions are commercial and regulated by governments, and they provide secure locations for the poor to save as well as much-needed money and other financial services. The microfinance business, being out of its infancy, confronts significant hurdles, including its capacity to deal with mobile banking and other technologies, as well as worries that some markets are already over-saturated with microfinance. The industry's response to these and other difficulties will decide whether it continues to develop or is absorbed into the wider global financial system. Some aspects to take into consideration in terms of policy incentives are as below:

- Relaxing some aspects of the traditional microfinance model, targeting MFIs products better, and lending for activities beyond entrepreneurial activities can lead to substantial welfare gains.
- Some simple changes to the contract design for loans – in particular, products providing more flexible capital and loosening the credit constraint – can effectively boost the entrepreneurial capacity of poor clients.
- Policymakers should use existing economic links within communities to identify productive borrowers and better target microfinance products. Institutions could incentivize local intermediaries to cooperate while ensuring checks and balances to prevent them from exploiting the borrowers.
- Policymakers should encourage the use of MFIs for a broader variety of purposes, such as supporting borrowers to migrate, find jobs, or smooth consumption during lean seasons.
- Policymakers should encourage loan durations to be extended to match crop cycles and shift focus from group to individual liability. The savings in administrative costs eliminating meeting requirements would allow lenders to charge substantially lower interest rates.
- Some recommendations might be made to improve microcredit programs in connection with the development of MFI:
- Commercial banks have restricted lending to the SME sector in Kosovo as a result of the economic crisis that has affected it. Under these conditions, we believe it is critical to

establish the Guarantee Loan Fund. These monies will boost commercial bank security, which will increase SME borrowing.

- Commercial banks and microfinance institutions should enhance the number of loans for SMEs to assist SMEs that want to produce in the open market.
- Because microcredit is a subset of microfinance, the moment has come to transition from microcredit to microfinance for SMEs. This level of business requires the engagement of additional financial services in addition to microcredit.
- It is critical that fiscal policy incentives for SMEs in Kosovo be reflected in the 2023 budget during this period.
- Governments that want to alleviate poverty should concentrate on creating a stronger legislative framework to legalize and promote the inclusion and extension of microfinance operations, which would boost trust in the system and help to poverty reduction initiatives.

As a consequence, MFIs have had an influence by strengthening the confidence of microcredit borrowers in their entrepreneurial activities. This means that microfinance institutions are concentrating on increasing revenue-generating activities while reducing the risks and uncertainties faced by businesses.

CONCLUSION

Given the current economic climate and the fact that MFIs have sustainable economic development, this study has highlighted some of the variables that are necessary for the effective management of MFIs in reaching their success.

According to the literature review, empowering communities through the services that MFIs offers has a beneficial influence on the economy of the community and the national level of results and the performance of MFIs since it allows people and young entrepreneurs to make more flexible decisions. According to the research assessment, when poverty is assessed by the squared poverty gap, bank loans have no meaningful influence. MFI loans, on the other hand, do not appear to lower poverty appreciably across all three metrics of poverty. These findings hold up when financial development is assessed as a percentage of GDP by bank assets or MFI assets. More crucially, banks have a greater influence on poverty. According to our research findings, banking development can assist battle extreme poverty but may fail to reach the poorest, whereas microfinance development is still in its infancy and has a long way to go to alleviate poverty. Numerous studies have found that MFIs reduce poverty at the micro level, but these impacts have yet to be seen at the aggregate level.

Microfinance has become an indelible part of the financial landscape and poverty-reduction measures in underdeveloped nations. What started as a simple act of "it is possible-visionaries" has grown into a booming enterprise. Microfinance has proved its ability to involve the vast majority of people at the bottom of the economic pyramid in genuine poverty eradication without the humiliating aspects of charity. The benefits of microfinance, on the other hand, are contingent on the presence of specific success imperatives.

Globalization is a phenomenon that changes the way we act, behave, and manage new situations. The global economy creates challenges for managers, but it also creates opportunities for those managers who understand how to apply the knowledge and experience of successful managers from MFIs with a global reach, so this is a good opportunity for the exchange of experiences and for managers to be challenged even in MFIs with a global reach. Several MFIs in Kosovo have achieved consistent outcomes and achievements by responding to environmental changes, taking into consideration and investigating market expectations, and effectively addressing consumer requests and requirements. MFIs are not always to blame for customer failures in Kosovo, with some claiming that they have high-interest rates, but a huge number of clients and enterprises have achieved great results even under such conditions.

The experience of MFIs in Kosovo might provide some useful insights. The microfinance sector has discovered an appropriate environment for development and network expansion. It is the number of clients who use the services of microfinance organizations. When consumers take out loans from microfinance firms for the first time, there is no way to tell whether they are impoverished.

The majority of MFI clients in Kosovo are households who use services for a limited period (almost, all farmers are users every year). Furthermore, the microfinance industry in Kosovo has been steadily improving since its inception following the conclusion of the conflict in 1999. Kosovo, as a post-conflict country, was able to contribute positively to the country's broader financial system by developing the microfinance industry, which was centered on the financing of small enterprises and households. The legal element of microfinance operations has been much enhanced by bringing MFIs under the authority of the Central Bank of Kosovo, while there is still some sluggishness in the transition of MFIs from NGOs to new commercial organizations and mandatory taxes.

The usefulness of microfinance in further developing government aid for the poor and low-wage population has been explored in the literature. This restricted amount of loan provided by microfinance institutions or commercial banks does not require any insurance or authority archive, making it ideal for the poor who frequently lack this essential paperwork. Microfinance may also be an excellent tool in empowering women by getting them involved in social activities, especially if they have demonstrated their success in maintaining their business and their capacity to repay loans. According to the estimated results, the bigger the number of available microfinance institutions, the greater the number of gross loans given. The greater the proportion of loans to GDP, the lower the poverty rate. Microfinance banks have aided in the reduction of poverty and financial exclusion, and more progress might be accomplished if more efforts are made by everybody and at all levels. All stakeholders must work together more closely to enable human and institutional transformation, incentive provision, and a favorable operating environment for microfinance institutions.

Microfinance is utilized to assist the financially disadvantaged by providing them with a source of income and employment, so improving their general well-being and assisting others in need. Microfinance, such as microcredit, has been shown to boost the standard of life, increase income, and generate jobs for individuals who utilize it. Microfinance has also been shown in different developing nations to assist calm spending patterns and improve citizens' overall quality of life. Individuals with low incomes may use an increase in income to acquire assets and enhance their living circumstances, level of consumption, and overall health by placing money into investment portfolios. Moreover, microfinance is frequently regarded as a technique of empowering women by assisting them both psychologically and financially. In terms of how MFI revenue affects family finances, it boosts production, expands product offerings, offers insurance and marketing services, and encourages the most efficient use of available resources. Microfinance, in addition to providing financial assistance, assists individuals in pursuing the concepts of human rights and democracy, as well as assisting underprivileged people in taking control of their lives. Microfinance programs can be used in conjunction with other social programs, particularly instructional ones that have proven to be effective in low- and middle-income countries, such as group-based health education, marketing, and job skill training.

The microfinance sector in Kosovo has been performing relatively well in terms of financial performance. The sector has been expanding and contributing to the growth of the economy, while also promoting financial inclusion and supporting the development of small and medium-sized enterprises. As of September 2021, there were 32 licensed microfinance institutions operating in Kosovo, with total assets of around 853 million euros and a loan portfolio of around 712 million euros. The microfinance sector has been growing steadily over the past few years, with an average annual growth rate of around 12% between 2016 and 2020. The sector has also been relatively profitable, with a net profit of around 20 million euros in 2020, according to the Central Bank of Kosovo. The return on assets (ROA) and return on equity (ROE) for the microfinance sector in Kosovo were both around 2.4% in 2020, which is comparable to or higher than the average for the banking sector in the country.

The study's main application is that MFIs with higher interest rates are more profitable. The data show a strong link between MFI financial success and size, year, inflation, and GDP, but no meaningful relationship with membership. The unconnected membership relationship is assumed to be based on the fact that MFIs in Kosovo do not participate in organizations, as indicated by the fact that only seven of the eleven MFIs functioning in Kosovo are members of the Association of a Microfinance Institution in Kosovo (AMIK).

Microfinance research is critical for advancing its evolution, quantifying its effect, and exploring new horizons of development. Coupling this with an innovative strategy and introducing the most recent breakthroughs and new technology to practitioners would significantly enhance the area of microfinance.

According to the World Bank, microfinance is one of the most significant development strategies in the world and an effective method for organizations seeking to alleviate poverty globally. Microfinance institutions have the similar goals of eliminating poverty, boosting employment, improving women's empowerment, increasing economic growth, enhancing social inclusion, and positively benefiting society as a whole (MFIs). Microfinance may grow self-employment and encourage microenterprises in both developed and developing nations, benefiting both. Microfinance enables families to better care for their children by providing them with the financial flexibility to pursue new possibilities. If you have access to credit, you may help to alleviate poverty quickly by providing funds and financing viable business ventures. Families should save and invest in improved housing, healthcare, and education to help assure these long-term benefits.

Microfinance allows entrepreneurs in developing nations and underprivileged areas to grow while also creating many job possibilities for others. Participation in a microfinance program is linked to higher consumption, improved nutritional status, increasing affluence, and rising economies.

The application of this study to the financial sector in general, and microfinance in particular, has contributed to the revisiting of theoretical approaches, the production of knowledge regarding the processes of economic and social change within a neoliberal context, and the examination of forms of public and private involvement in funding. These studies take place at various levels (micro, meso, and macro) and help to highlight the multifaceted nature of the effects of microfinance, which leads to changes in income, liquidity requirements, capital accumulation, and so on, as well as having an impact on the status of women and marginalized populations, social cohesion at the village level, and so on. Impact studies may help to improve microfinance products and procedures by emphasizing the leverage effect that microfinance may have, as well as its limitations (persistent exclusion of the poorest populations, a process that may lead to debt, negative effects of the solidarity-based guarantee, and so on).

MFIs, particularly those in developing countries such as Kosovo, might utilize the guidelines to assess off-the-shelf technology in their search for a suitable solution. MFIs can use it to assess the quality of their current system (off-the-shelf or domestically developed) and find areas for improvement.

As a result, giving the right information for microfinance that plays an essential role at the economic level since it enables individuals with low incomes to get modest loans that allow them to participate successfully in the local economy and attain financial stability, giving them more autonomy.

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