

Effects of Micro Financing on Environmental Sustainability

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Abstract

Micro-finance is Identified as an effective instrument for mitigating poverty from the environment. Most non-governmental organisations are able to conduct micro-credit that is considered a “financially viable alternative” and works as the indicator of rural poverty. In this modern era, the environment becomes at the edge of risk and needs the strong support of financial management. In this regard, the microfinancing process is one of the effective instruments that is entirely dependent on the philosophy of the group and the pressure of the poor people. It has been observed based on several records that the concept of micro-finance is able to design financial products based on the requirements of poor people. In this paper, all the potential pros and cons of microfinance have been mentioned to identify its impact on the environment. In addition to that, by the identification of the key factors that affect the efficiency of microfinance, the measurement of environmental sustainability has been done. It needs effective and efficient strategies to enhance the positive effect of microfinance to sustain environmental growth. In order to analyse the environmental impact of microfinancing in enhancing sustainability all the guidelines have been followed by the researcher. In this regard, secondary data collection has helped the researcher to find out relevant and useful data and information about the research topic. The thematic analysis has been used to describe the findings in an understandable way.

Keywords

Environmental sustainability, micro-financing.

INTRODUCTION

Microfinancing is a banking service provided to unemployed or low-income people who have no other access to financial services. Micro Financing allows people to take on the responsibilities of small business loans safely and consistently with ethical practices to maintain the process. Microfinancing covers a wide range of business activities which have both positive and negative environmental impacts. These impacts vary from small-scale industries to big industrial businesses. Microfinance helps to improve businesses and provide sustainable strategies that promote businesses at an international level [1]. On the other hand, it has negative environmental impacts such as land pollution, degradation of agriculture and many others that also affect businesses.

There are different impacts of microfinancing on the environment as developing a business in a country affects the environment in both ways positively and negatively. Hence, governments of different countries all around the world are developing effective and efficient strategies to reduce the negative impact of microfinancing on the environment. The microfinance industry is growing every day, the main focus has been shifted towards the non-financial impacts that the microfinance industry can have which helps to improve the socio-economic status of countries from all around the world. In 2021, there are 316 sustainable micro-financing policies among 35 economies that have helped in increasing the global GDP rate by 93% and these policies were implemented in G20 member countries of the world [2].

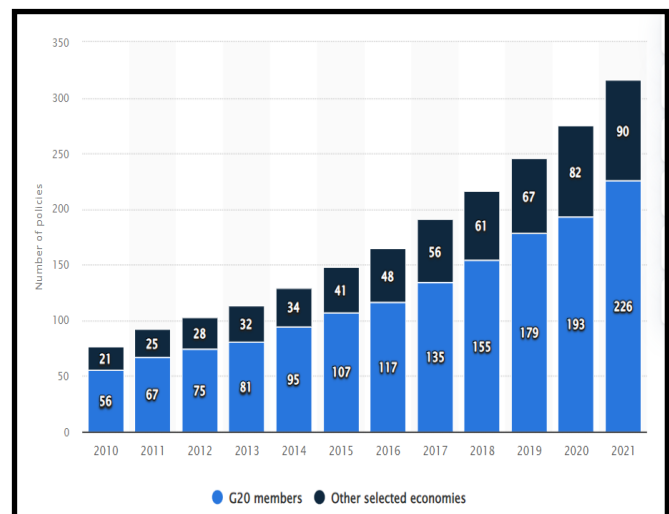


Figure 1: Micro-finance policy regulations in G20 countries of the world 2010-2021 [2]

AIM OF THE STUDY

The study aims to analyse the effects of microfinancing on environmental sustainability. The research objectives have been set by the researcher are:

- To evaluate the pros and cons of microfinance and its impact on the environment.
- To identify the key factors that affect the efficiency of microfinance.
- To understand the strategies to enhance the positive effect of microfinance.
- To recognise the environmental impact of microfinancing in enhancing sustainability.

RELEVANCE AND SCOPE OF THE STUDY

The microfinance industry is growing its position in the global market to provide sustainable strategies to improve its business position in the global market. Besides that, micro-finance provides a more efficient plan to improve business policies with effective strategies. However, these effective strategies help to improve businesses but it impacts the environment of the world and increases pollution in every country of the world. Hence, in this study, all the important aspects of micro-finance that impact the environmental sustainability of different countries of the world have been evaluated throughout the study in a detailed manner.

MATERIALS & METHODS

Research design

Research design is a framework that contains different research methods and research techniques that are taken by the researchers to conduct the research paper properly. There are different forms of research design among them the *exploratory* design helps to define the research problem in a detailed manner that has not been evaluated earlier and has not been studied in depth [3]. In this study, the exploratory research method has been followed throughout the study to conduct a proper research study about the phenomenon of the study to improve the outcomes of the study.

Research type

Research type helps to conduct the research paper systematically by observing and analysing the information that has been collected about the phenomenon of the study. The *qualitative* research type is a process of naturalistic enquiry that seeks a depth understanding of the social phenomenon of the study to improve the outcomes of the study [4]. In this study, the qualitative method has been followed to understand the depth of the phenomenon of the study from the collected information of the study and conduct a proper research study.

Inclusion and exclusion criteria

The *inclusion and exclusion criteria* help to strain the necessary data from the collected data of the study to conduct a people research study [5]. Through the inclusion criteria, all the necessary information about the research study has been collected from authentic and reliable sources such as newspaper articles, journals, trustable web sources and many others. Besides that, information has been gathered from those journals and articles which have been published after 2018. Apart from that, through the exclusion criteria, all the data that are in other languages than English have been excluded to conduct a proper research study.

Data collection and analysis

The data collection and data analysis method helps to gather data about the phenomenon of the study and analysed the gathered data in a detailed manner to conduct a proper outcome of the research study. The *secondary qualitative*

data collection method gathered information about the study from governmental records, reliable web sources and journals and the *thematic analysis* method helps analyse the gathered data and information by dividing them into different themes to analyse it in a descriptive manner [6]. In this study, the secondary qualitative data collection method and thematic analysis method have been adopted to gather data about the phenomenon of the study from authentic sources and analyse that information in a descriptive manner by dividing them into different themes to establish a better understanding of the research study.

Research duration

The research duration of a study defines as the number of follow-up time duration and date of conducting the research study after the index date by measuring the frequency of outcomes of the study. Besides that, the time duration of a research study also refers to the observation period of collecting information about the phenomenon of the study and the period it has taken to interpret the data by analysing it through different themes [7]. However, it has taken almost 30 days to collect information about the phenomenon of this research study and interpret the subject matter.

RESULTS

Concept of micro-financing

Microfinance is a type of lending process in which it provides capital to low-income business owners who have been excluded from the traditional credit and lending process. Microfinancing offers small loans such as microloans, micro-savings, microinsurance and many others to not only business owners but also individuals to improve their financial conditions. According to the microworld, microfinance has been evaluated in businesses around for centuries and provides much information about lending for the common people. In this modern generation, there are different microfinance institutions to provide more effective helps for the common people by providing them with lending money to establish their businesses and improve their financial conditions [8]. Various lenders offer microloans including non-profitable organisations, banks and many other associations as they are eligible in lending money from these microfinance institutes to improve their businesses in the market.

Microfinancing policies would not be rapidly developed over time if it does not provide beneficial facilities for the small businesses of different countries all around the whole world. Besides that, microfinance is associated with micro-credit which impactfully affects the small businesses of different countries of the whole world and improves the business positions in the global market. Small and medium-sized enterprises in different countries have improved their business position in the market and gained the attention of their business by implementing effective strategies of microfinancing [9]. Apart from that, the microfinance procedures include all the necessary effective

and efficient strategies to improve the productivity of the business and also help to maintain the business position in the global market.

pros and cons of microfinance and its impact on the environment

There are different pros and cons of microfinance that impact the environment and also affect the businesses of different countries all around the whole world. There are many advantages of pros of implementing microfinance in businesses which effectively improve the outcomes of the business - microfinance provides low-interest rates in lending money which increase the engagement of different business owners of small and large business enterprises in different countries. Another benefit of using microfinance in business is the simple fact that they require little or no collateral which is a big reason behind obtaining microfinance in businesses. Besides that, another beneficial facility of using microfinance in business it offers fast ways of financing with proper security than other traditional loan policies [10]. However, there are many other beneficial facilities provided by micro-financing which help to improve the business position in the global market and improve the growth of the businesses.

Apart from the beneficial facilities, there are some disadvantages or cons that negatively impact the business policies and business growth of different countries that reduce the effectiveness of the business in the global market. One of the biggest drawbacks is microloans are smaller than traditional loans and thus the business owners can lend small size money at a time which negatively impacts the businesses of different countries. Besides that, another drawback of using microfinance in business is the repayment terms are short such as it provides a repayment time of one year or less whereas the repayment terms of traditional loans are up to 5 years. Apart from that, there are many restrictions on using microfinance in business in comparison with traditional loan procedures which impacts businesses negatively [11]. Hence, the implementation of microfinance in a business impacts the growth of the business in both ways negative and positive.

identification of the key factors that affect the efficiency of microfinance

Millions of people in developing countries are now depending on microfinance policies to improve their business growth in the global market. However, there are different factors that impactfully affect the efficiency of microfinance in different sectors of business. In this digital era, people have more access to the internet and with the help of internet usage millions of people have vast access towards microfinancing. Besides that, the world is constantly evolving with new technologies and with the help of new technologies many microfinancing institutions have been developed over time in different countries of the whole world which impacts the policies and growth of the business [12]. However, there are many negative aspects associated with microfinancing which impact the efficiency of micro-financing in businesses of

different countries of the world such as *lack of financial stability, uncontrolled growth, cultural and value impede, systematic fraud* and many others.

Different businesses have different issues that need to be solved by the microfinance industry and thus it impacts the businesses in a negative way when there are cultural conflicts appear in a business. Apart from that, there are some other factors that impact the microfinance industry such as *over-indebtedness, higher interests compared to mainstream banks, inadequate investment validations, lack of enough awareness about financial services in the economy, regulatory issues* and many others that negatively affect the microfinancing industry of different countries. Microfinance deals with the marginalised business in a country and provides loans without collateral which increases the risk of bad debts. Besides that, the interest rates of microfinance are higher than mainstream banks and also the market activity of microfinancing is limited which affects the businesses negatively. Apart from that, different countries have less knowledge about financing and its impact on the economy which is another factor that affects the efficiency of microfinancing [13]. Hence, different factors affect the efficiency of microfinancing despite its impactful effectiveness in global businesses.

Environmental impacts of micro-financing in enhancing sustainability

There are three main areas in which microfinancing impacts the environment such as *sustainable use of natural resources, pollution and occupational health and safety*. The main environmental impact of microfinancing depends on several factors such as *production methods, productive inputs, inefficient production technologies, local political structure, wastage of elements* and many others. However, the microfinance industry and the business owners of small and large businesses both are agents and victims of the environmental degradation of the country. Microfinance industries are focused on the business sectors that involve destructive environmental impacts, waste of natural resources and occupational safety hazards [14]. In a geographical context, many environmental issues are similar in urban and rural areas of different countries but in urban areas, environmental degradation is more likely to take the form of pollution and poor sanitation whereas, in rural areas, environmental degradation is more likely to affect the sustainability of the natural resources such as soil quality, biodiversity, water quality and many others.

Apart from that, pollution in rural and urban areas includes environmental degradations such as deforestation, water, land and air pollution, desertification and many others which are caused by the microfinancing policies in different businesses of countries all around the whole world. Besides that, the health and safety issues of the microfinance industry are closely related to the environmental issues of microenterprises in different countries in the world. The different workforce of a developing country is associated with agriculture, services

and cottage industries which are characterised by heavy workloads and multiple tasks with various health risk factors such as poor sanitisation, poor hygiene and poor nutrition. However, a lack of knowledge about health and safety practices in different microenterprises impacts the health and safety of the businesses as well as impacts the microfinance industry [15]. Hence, these are the major factors associated with microfinancing and micro enterprises that affect the environmental sources negatively.

strategies to enhance the positive effect of microfinance

Despite all the negative factors of implementing microfinance in the business firms of different countries in the world still, there are many positive effects of microfinance that impact businesses in a positive way. Rural people have low incomes and have tiny businesses but they often starve for financial support to establish betterment in their businesses to construct a better position in the market. With the help of microfinance and microenterprises, many people have access to financial loans to improve their businesses at low-interest rates than any other transitional loans. However, to maintain the positive effect of microfinance the countries are developing different effective strategies associated with microfinancing. During the pandemic situation, people have faced a lot of challenges and problems and small businesses were rapidly affected by the lockdowns in a negative way. Besides that, many SMEs around the whole world are getting beneficial facilities from microfinance and in 2021, it was estimated that approximately 332.99 million SMEs were established around the whole world [16].

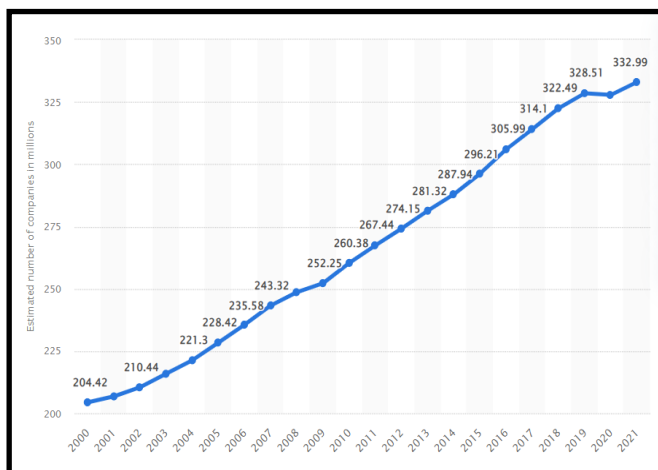


Figure 2: Total number of SMEs around the whole world 2000-2021 [16]

However, with the help of different digital penetration, the microfinance industry is maintaining its position in the global market. Digital penetration suggests giving knowledge about the financial structures and their impact on the economy of the country through digital media which helps to improve the knowledge of the common people. Besides that, digital penetration helps to provide effective strategies to maintain the business growth of different businesses through advanced

technologies to improve the business outcomes of enterprises. Besides that, encouraging people to associate with micro-financing to get beneficial facilities regarding their business and access their loans through online apps to access their loans fastly and with proper safety [17]. Thus, these strategies help to enhance the efficiency of microfinancing and help to maintain the positive impact of microfinance in different business firms of different countries in the world.

DISCUSSION

The overall concept of this study is to portray the concept of microfinance which can offer necessary insights regarding its several impacts of it on society. The rise of the pandemic in the modern era has created a negative impact on the economic structure of several countries which has made it necessary to adopt effective measurements for achieving sustainability [18]. The rapid growth of this virus has made it essential for government and non-government bodies to promote healthy practices that can mitigate its severe impact on human health [19]. An economic crisis in the whole world has been identified which can also denote the lack of sustainability in various organizations. The severe impact of the pandemic can also be observed in the manufacturing and production companies which are known to have faced severe difficulties in completing basic objectives. Apart from that several cases of job loss and bankruptcy surfaced during this period.

Incidents such as these have made the importance of microfinance institutions an important addition which can provide or cater for the needs relevant to financial needs. The result of this study is focused on aligning key aspects of microfinance that can create a significant impact on sustainable practices. According to the key findings it can be stated that microfinance is an approach which can help individuals or firms with monetary needs by providing adequate capital for improvement [20]. It can also be perceived as a weapon for achieving sustainable development that can be gained through providing monetary support in various stages of the production process. The current trend or inclination towards development and the importance of microfinance institutions in alleviating poverty can be considered as the reason behind its promotion in the modern era.

Furthermore, the concept of microfinance can also be denoted through the practices of providing loans to small business owners and individuals with lower income levels, which can create scope for improving current status. It can also be found that the World Bank is also promoting practices that are meant to encourage the financial practices of microfinance companies [20]. The role of microfinance organizations can also be connected to the improvement of developing countries which can create a significant positive impact on the economic structure. Mitigating poverty from the core of society along with improving the living standard of it can be considered as an overall objective of

microfinance industry. Apart from the beneficial factors, several negative factors have been also discussed that can cause unrest to occur among the beneficiaries of microfinance institutions.

As per the results, it can be stated that these impacts or negative side of microfinance organizations can create a minimalist impact on the decision-making process of small business owners. Key areas that can be considered as the negative aspects of micro-financing such as smaller amounts, short time for repaying the loan, and several restrictions can also make individuals with financial needs think twice before indulging in these programs [21]. It can also be perceived as an ideal approach which can minimize the disasters related to financial outcomes. Although the flexible repayment period can help individuals to pay as per their capabilities, the repayment period is considerably lower than regular financial loans. Apart from that several key factors are known to affect the efficiency level of the institutions that are known for providing financial backup.

The efficiency level of microfinance institutions can get influenced due to the presence of several social factors and interventions of the government bodies. According to the findings, several policies which are connected to the business procedure of microfinance can cause a significant impact on its ventures [22]. Apart from that the rate of competition in the market can also be counted as a key driver of financial needs which can make companies participate in these types of dealings. Green microfinance which is connected to the process of achieving sustainability along with social and financial performance has also been explained and can be identified as a direct impact of microfinancing [23]. Digital penetration such as using the internet or mobile banking apps during the transaction process has also been identified as an appropriate method in the modern era which can enhance the efficiency of microfinance organizations [24]. The overall result of this study also suggests that a company can achieve sustainability by making essential modifications and transformations in the internal business procedure which can be made possible through monetary support.

CONCLUSION

The overall idea of this study is based on highlighting the importance of the microfinance industry in achieving sustainable growth that can lead towards a prosperous future. This concept has been further denoted through the objective form which can help readers to identify its scope of it in the recent era. Apart from this brief overview regarding the selected method for this study has also been provided that can be used as a guideline for future researchers who are willing to conduct similar studies. Important aspects such as *exploratory* research design and *qualitative* approach have been explained and justified as per the requirement of this study. Apart from that the usage of *the secondary data* collection method and *thematic* approach for conducting further analysis has been explained thoroughly.

Environmental sustainability is a major concern in the modern era and has made it essential for respectable business owners to formulate or adopt proper methods that can provide the desired impact. There are many negative impacts of micro financing on the environment such as sometimes it causes pollution in air, land and water. Besides that, this pollution impacts the health and safety of the people who are associated with microenterprises as it causes poor sanitation, and poor safety which impacts the SMEs of different countries in the world. Despite these negative impacts and disadvantages, some effective positive impacts affect microfinancing such as it helps to improve the business models with advanced technologies in this digital era. The overall concept on which the entire article is based makes it a necessary contribution for the current business owners that can use this as a guideline of the knowledge base for understanding the importance of microfinance. Hence, in this research study, all the important aspects associated with microfinancing and its effects on environmental factors have been evaluated in a detailed manner to establish a betterment of the research study.

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