



Microfinance Loan: Impact of Micro-Lending to Urban Households

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Abstract— Micro-lending has expanded significantly in recent years and is now an unquestionable factor for urban families. Due to this reason, the purpose of this study is to ascertain whether microfinance loans have a significant relationship and positive impact on reducing poverty, increasing income, expenditures, and savings, and reducing the percentage of families that have experienced hunger incidence and insufficient food consumption regardless of their experiences of using micro-lending. To investigate the experiences and impact of micro-lending to urban households' borrowers, a survey research design was employed. The data collected used in the study were selected urban households' borrowers from four different barangay of Pasig City. The Mann-Whitney-U test and Kruskal Wallis H-test demonstrated the significant differences based on sex, age, monthly income, education, work organization, and family size for the statement of poverty alleviation, over-indebtedness, threats and excessive pressure in repaying loan.

However, the Spearman rho Correlation relationship between the respondent's experiences in micro-lending in terms of poverty alleviation, over-indebtedness, threats, excessive pressure in repaying loan and its impact to their households in terms of income and expenditures, other loans and savings, human capital investments, hunger incidence and food consumption. Recommendations include careful financial assessment, financial education, loan comparison, flexible loan terms, and borrower education. Future research may consider broader factors and employ mixed methods approaches for allowing a more comprehensive understanding of the study.

Keywords— borrowers, loans, microfinance, micro-lending.

I. INTRODUCTION

Micro-lending has gained popularity in the Philippines in recent years as a tool for reducing poverty, promoting economic growth, and improving the standard of living of a household. Micro-lending was initially assumed to be a tool for eradicating poverty; household borrowers typically borrow from microloans when they cannot access financial institutions, have poor financial status, or need a microloan than the bank would not approve (Hayes, 2022). Microfinance institutions offer low-income households financial services that allow them to start or expand small businesses, improve their livelihoods, and reduce poverty. Furthermore, households can build their future by granting access to essential financial services such as loans, savings accounts, and insurance. As the number of borrowers assessing loans from micro-lending apps increased, it inaugurates to have a negative experience of using micro-lending to urban households (Mader, 2016).



Corporate Finance International or CFI Team (2022) stated that micro-lending has some drawbacks, which include excessive loan repayment pressure, a high suicide rate among borrowers, massive debt status, and high-interest rates on some microcredit. It happens to household borrowers such as low-income individuals and small business owners; they consider the micro-lending app as one of the solutions for the shortage of their financial income. Although there are certain disadvantages, microfinance is an efficient and innovative instrument for alleviating income inequality. The problem of poverty and income inequality has persisted in recent years as one of the key obstacles to the lives of urban households. Therefore, knowing the significance that microfinance helps in reducing poverty, income equality, and hunger incidence is important for every household, where granting low-income people and even business owners' access to financial services like microfinance tends to be a suitable approach for alleviating poverty, reducing the hunger incidence, improving the income, investments, and savings that increase the financial stability of the households in the present and in future (Lacalle-Caldero, 2019).

II. REVIEW OF RELATED LITERATURE

2.1 Microfinance in the Philippines

In the Philippines, Bangko Sentral ng Pilipinas (2013) states that the microfinance is intended to provide financial services to the underprivileged as well as low-income individuals by resolving the issues with a previous generation of directed lending and programs. The Grameen Bank Approach Replication Project, operated by local non-governmental organizations, recognizes the Philippines as one of the first countries to imitate Grameen Bank Project founded by Muhammed Yunus (Luy, 2020).

According to statistics reported by Bangko Sentral ng Pilipinas on the number of adults with outstanding loans, as of 2021, 23% of adults of the total population with outstanding loans in microfinance non-government organizations (formal sources), 12% of adults with outstanding loans in government institutions (formal sources), 8% of adults with outstanding loans in cooperatives (formal sources), 7% of adults in lending/financing institutions (formal sources) , 4% of adults with outstanding loans in banks (formal sources), 47% of adults who borrowed from family, friends, and relatives (informal sources), and 14% of adults who borrowed from informal loan providers (5-6). This indicates that when it comes to securing loans from formal sources, microfinance (NGOs) has a broader effect on families, however when it pertains to acquiring loans from informal sources, family friends and relatives has a broader influence on the household.

2.2 Microfinance influence on Urban households

Microfinance influence on urban households in the Philippines has been thoroughly studied in recent years. According to Asante, Kwakye, Wujangi & Yao Gakpo (2021), micro-lending has led to improved economic and social outcomes for borrowers in urban areas, such as increased earnings, improved living conditions, and stronger social connections. Moreover, Singh, Dutt & Adbi (2022) conducted a study that found that micro-lending has contributed to the growth of small businesses and entrepreneurship in urban areas, resulting in job creation and a rise in economic activity. Microfinance can empower its borrowers and their families stretching up to their community and enhancing their economic growth (Gabriel, Suyu, Fronda & Ramos, 2021). According to Kabeer (2015) research, microfinance loans have a positive effect on empowering women, it was found that microfinance



loans provided women with the opportunity to increase their income, improve their standard of living, exert more influence over their lives.

2.3 Challenges experienced in micro-lending

Duggan (2016) found the evidence of these mistreatments by, in which a few microfinance institutions committed data breaches, resulting in a massive recession and contributing to a massive decline in trust in the finance industry in general. By implementing simple laws that allow lending institutions to take money straight from borrowers or to continue collecting interest and penalties not specified in the credit agreement until it impacts individuals in other nations.

The study conducted by Akhter & Cheng (2020), the use of micro-lending is just like a method to explain the difference between the information access of microcredit by many poor, sparsely populated women and financially viable political and social progression, offering innovation towards the theory of "sustainable development of equality." and the poor coastal females were used to approximate the liberation effectiveness of microcredit applicants versus non-households borrower in a certain world economy as it refers to microcredit in rural Bangladesh.

III. METHODOLOGY

The research was conducted in Pasig City, specifically in the barangays of San Joaquin, Palatiw, Kalawaan, and Pinagbuhatan. The participants in the study were selected using a purposive sampling technique. A three-part survey consists of 32 items made by the researchers to comprehend the experiences and impact of micro-lending on urban households in Pasig City. The responses varied from strongly disagree (1) disagree (2) agree (3) to strongly agree (4). A statistical software SPSS were utilized to evaluate the data. A Kruskal-Wallis H / Mann-Whitney U Test was used to determine whether the borrowers' experiences after using micro-lending differed from their demographic profile. Spearman's rank-order correlation was used to identify the relationship between the respondent's experiences in micro-lending and its impact on their households.

3.1 Participants

The study investigated 240 randomly selected participants and categorized them according to their demographic profile, including gender, age, monthly income, highest educational attainment, work organization, and family size. The proportion of male respondents was 22.5%, while the proportion of female respondents was 77.55%. In addition, 12.5% of all borrowers are between the ages of 21 to 30. The age groups of 31 to 40 and 41 to 50 have the same percentage of 39.6%, while the age group of 51 and older has the lowest percentage of 8.3%. Moreover, 35% have an income below ₱8,420, the 48.3% have an income between ₱8,421 to ₱18,824. The borrowers are those with monthly incomes between ₱18,825 to ₱25,519 have 15% of percentage, and the smallest group, consisting borrowers with monthly income between ₱25,520 to ₱45,423 only make up 1.7% of the total borrowers, the college graduate makes up 4.2% (10 out of 240), followed by the largest group with an elementary education, making up 42.9% (103 out of 240), and then high school has 35.8% (86 out of 240). Senior high school has 2.5% (6 out of 240), while undergraduates have only 14.6% (35 out of 240).

Furthermore, the urban household borrowers have been analysed: 20.4% are employed in the private sector, 40.8% are employed in the public sector, and 38.8% are unemployed. Finally, six-member families comprise the largest group of borrowers, making up 17.9% (43 out of 240) of all urban households with loans. Families with five and seven people comprise the largest groups of borrowers, accounting for 16.7% (40 out of 240) and 14.2% (34 out of 240) of all urban household borrowers, respectively. Less than 1% of all borrowers belong to the smallest group, including families with 2, 11, and 12 individuals.

IV. RESULTS AND DISCUSSION

4.1 *The borrowers' experiences after using micro-lending relative to Poverty Alleviation, Over-indebtedness, Threats, and Excessive pressure in repaying loans.*

Table 1: Borrowers' experiences after using micro-lending when grouped according to their Demographic Characteristics

Experiences	Mean	Standard Deviation	Interpretation
Poverty alleviation	1.81	0.71	Disagree
Over-indebtedness	2.16	0.81	Disagree
Threats	1.80	0.68	Disagree
Excessive pressure in repaying loans	3.05	0.80	Agree

4.2 *Impact of microfinance loans on urban households in terms of Income and Expenditures, Other Loans and Savings, Human Capital Investments, and Hunger Incidence and Food Consumptions*

Table 2: Impact of microfinance loans to urban households when borrowers are grouped according their Demographic Characteristics

Impact	Mean	Standard Deviation	Interpretation
Income and Expenditures	1.92	0.70	Disagree
Other Loans and Savings	2.21	0.75	Disagree
Human Capital Investments	2.19	0.84	Disagree
Hunger Incidence and Food Consumption	2.41	0.81	Disagree

This table shows the borrowers' experiences after using micro-lending in relation to poverty alleviation, over-indebtedness, threats, and excessive pressure in repaying loans, regardless of their demographic characteristics. In terms of poverty alleviation with a mean score of ($\bar{x} = 1.81$; $SD = 0.71$), followed by the over-indebtedness with a mean score of ($\bar{x} = 2.16$; $SD = 0.81$), and the threats with a mean score of ($\bar{x} = 1.80$; $SD = 0.68$), the borrowers disagree that they experience poverty alleviation, and does not experience over-indebtedness and threats after using micro-lending. In terms of excessive pressure in repaying loans with a mean score of ($\bar{x} = 1.80$; $SD = 0.68$), this implies that the borrowers experience excessive pressure when it come in repaying loans. The Bangko Sentral ng Pilipinas (2013) states that microfinance aims to provide financial services to underprivileged and low-income individuals by solving the problems of a previous generation of targeted loans and programs. However, borrowers



generally do not experience significant changes after availing micro-lending, nevertheless the borrowers' experience excessive pressure when they get close to paying off their debts because of high interest rates, short repayment terms (Thomson, Cylus, & Evetovits, 2019).

This table demonstrates the impact of microfinance loans on urban households in terms of income and expenditures, other loans and savings, human capital investments, and hunger incidence and food consumption, regardless of their demographic characteristics. In terms of income and expenditures with a mean score of (\bar{x} = 1.92; SD = 0.70); Other loans and savings with a mean score of (\bar{x} = 2.21; SD = 0.75); Human capital investments with a mean score of (\bar{x} = 2.19; SD = 0.84); and Hunger incidence and food consumption with a mean score of (\bar{x} = 2.41; SD = 0.81), the borrowers' disagreed that micro-lending has an impact on their households. This shows that that micro-lending does not have a significant impact on the borrowers' households in terms of their income and expenditures, other loans and savings, human capital investments, and hunger incidence and food consumption.

4.3 Borrowers' experiences after using micro-lending differ significantly by their demographic characteristics

Table 3: Differences in the borrower's experiences after using micro-lending relative to poverty alleviation, over-indebtedness, threats, and excessive pressure in repaying loans.

Poverty Alleviation				
Demographic Characteristics	Test used	P- value	Decision	Interpretation
Sex	Mann-Whitney U-Test	.979	Accept Ho1	Not Significantly Different
Age	Kruskal Wallis H-Test	.127	Accept Ho1	Not Significantly Different
Monthly Income	Kruskal Wallis H-Test	.389	Accept Ho1	Not Significantly Different
Highest Educational Attainment	Kruskal Wallis H-Test	.678	Accept Ho1	Not Significantly Different
Work Organization	Kruskal Wallis H-Test	.337	Accept Ho1	Not Significantly Different
Family Size	Kruskal Wallis H-Test	<.001	Reject Ho1	Significantly Different
Over-indebtedness				
Demographic Characteristics	Test used	P- value	Decision	Interpretation
Sex	Mann-Whitney U-Test	.649	Accept Ho1	Not Significantly Different



Age	Kruskal Wallis H-Test	.782	Accept Ho1	Not Significantly Different
Monthly Income	Kruskal Wallis H-Test	.390	Accept Ho1	Not Significantly Different
Highest Educational Attainment	Kruskal Wallis H-Test	.881	Accept Ho1	Not Significantly Different
Work Organization	Kruskal Wallis H-Test	.981	Accept Ho1	Not Significantly Different
Family Size	Kruskal Wallis H-Test	<.001	Reject Ho1	Significantly Different
Threats				
Demographic Characteristics	Test used	P- value	Decision	Interpretation
Sex	Mann-Whitney U-Test	.594	Accept Ho1	Not Significantly Different
Age	Kruskal Wallis H-Test	.722	Accept Ho1	Not Significantly Different
Monthly Income	Kruskal Wallis H-Test	.386	Accept Ho1	Not Significantly Different
Highest Educational Attainment	Kruskal Wallis H-Test	.098	Accept Ho1	Not Significantly Different
Work Organization	Kruskal Wallis H-Test	.977	Accept Ho1	Not Significantly Different
Family Size	Kruskal Wallis H-Test	<.001	Reject Ho1	Significantly Different
Excessive pressure in repaying loans				
Demographic Characteristics	Test used	P- value	Decision	Interpretation
Sex	Mann-Whitney U-Test	.284	Accept Ho1	Not Significantly Different
Age	Kruskal Wallis H-Test	.857	Accept Ho1	Not Significantly Different
Monthly Income	Kruskal Wallis H-Test	.635	Accept Ho1	Not Significantly Different
Highest Educational Attainment	Kruskal Wallis H-Test	.978	Accept Ho1	Not Significantly Different
Work Organization	Kruskal Wallis	.544	Accept Ho1	Not Significantly Different



	H-Test			
Family Size	Kruskal Wallis	<.001	Reject Ho1	Significantly Different
	H-Test			

This tables shows the differences in the borrower’s experiences after using micro-lending relative to poverty alleviation, over-indebtedness, threats, and excessive pressure in repaying loans.

In poverty alleviation, regarding with their demographic characteristics; in terms of sex (p-value = .979); age (p-value = .127); monthly income (p-value = .389); highest education attainment with a p-value of .678; work organization (p-value = .33), and last the family size (p-value = <.001). This implies, that some variables—like family size—showed statistically significant differences in the borrowers' experiences following their use of microlending for poverty alleviation, while other variables—like sex, age, monthly income, education, and work organization—did not. The results indicate that family size has a more significant impact on the borrowers' experiences, maybe due to the particular financial dynamics and difficulties that come with larger families.

In over-indebtedness, regarding with their demographic characteristics; in terms of sex (p-value = .649); age (p-value = .782); monthly income (p-value = .390); highest education attainment (p-value = .881); work organization (p-value = .981), and last the family size (p-value = <.001). The analysis showed that family size was the only variable that significantly influenced the borrowers' experiences with excessive debt. However, no statistically significant differences were found for variables including sex, age, monthly income, education, and work organization. These findings suggest that the borrower's family size had a more significant influence on how they experienced life, probably because larger families have different financial dynamics and challenges.

In threats, regarding with their demographic characteristics; in terms of sex (p-value = .549); age (p-value = .722); monthly income (p-value = .386); highest education attainment (p-value = .098); work organization (p-value = .977), and last the family size (p-value = <.001). In summary, family size significantly influenced the borrowers' encounters with threats, but other factors such as sex, age, monthly income, education, and work organization did not reveal statistically significant differences. According to these results, the borrowers' experiences were more significantly shaped by family size, maybe due to the unique risks and challenges of larger families or those with more family members.

Moreover, in excessive pressure in repaying loans, regarding with their demographic characteristics; nn terms of sex (p-value = .284); age (p-value = .857); monthly income (p-value = .635); highest education attainment (p-value = .978); work organization (p-value = .544), and last the family size (p-value = <.001). This implies that the family size differed significantly from other variables in borrowers' experiences with excessive pressure to repay loans but not statistically significantly from other variables like sex, age, monthly income, education, or work organization. These results imply that the borrowers' experiences were more greatly influenced by family size due to the financial dynamics and difficulties of larger family units regarding loan repayment pressure.

4.4 Relationship between the respondent's experiences in micro-lending relative to poverty alleviation, over-indebtedness, threats, excessive pressure in repaying loan and its impact to their households in terms of income and expenditures, other loans and savings, human capital investments, hunger incidence and food consumption

Table 4: Relationship between the respondent's experiences in micro-lending and its impact to their households

Impact	Experiences	Poverty Alleviation	Over-indebtedness	Threats	Excessive pressure in repaying loans
Income and expenditures	correlation coefficient	.016	-.056	.263	-.395
	Sig. (2-tailed)	.807	.391	<.001	<.001
	N	240	240	240	240
Other loans and savings	correlation coefficient	.086	-.010	.035	-.032
	Sig. (2-tailed)	.186	.876	.591	.624
	N	240	240	240	240
Human Capital Investments	correlation coefficient	-.157	.004	.128	-.386
	Sig. (2-tailed)	.015	.949	.048	<.001
	N	240	240	240	240
Hunger Incidence and Food Consumption	correlation coefficient	.353	.121	-.037	.177
	Sig. (2-tailed)	<.001	.062	.565	.006
	N	240	240	240	240

In these findings, a Spearman rho Correlation was employed to test the data. A substantial negative association (correlation coefficient: -0.386) was found between excessive pressure during loan repayment experiences and investments in human capital, suggesting that excessive pressure could hinder such expenditures. Regarding consumption of food and hunger incidence, there was a significant positive correlation (correlation coefficient: 0.177) between the experiences of being under a lot of pressure to repay loans and these two variables. Considering poverty alleviation, no statistically significant relationship was observed between expenditures and income (p-value =.807) or between savings and other loans (p-value =.186) (correlation coefficient: 0.016, p-value =.807).

As Fischer & Ghatak (2011) discovered, there are better solutions than Microlending for reducing poverty and raising one's income. Chikwira, Vengesai, and Mandude (2022) also conceptually demonstrated that alleviating poverty includes improving the standard of living situations of individuals who are already impoverished.



Nevertheless, a significant negative association was observed between experiences of alleviating poverty and investments in human capital (correlation coefficient: -0.157, p-value = .015). Additionally, a significant positive relationship was discovered between experiences with poverty alleviation and the incidence of hunger and food consumption (correlation coefficient: 0.353, p-value = <.001), indicating that initiatives to reduce poverty may also enhance food security. No significant relationships existed between over-indebtedness and savings or other loans (correlation coefficient: -0.010, p-value = .876) or between income and expenditures (correlation coefficient: -0.056, p-value = .392).

Furthermore, no significant correlations were found between consumption of food and hunger incidence (correlation coefficient: 0.121, p-value=.062) or with expenditures in human capital (correlation coefficient: 0.004, p-value = .949). Threats had a significant positive correlation with income and expenses (correlation coefficient: 0.263, p-value = <.001), suggesting that facing threats could negatively impact household income and spending. Nevertheless, no significant correlations were discovered between the incidence of hunger and food consumption (correlation coefficient: -0.037, p-value = .565) or between other loans and savings (correlation coefficient: 0.035, p-value = .591). Akotey and Adjasi (2016) found that borrowers from microlending frequently had large debt loads and unstable and insecure finances. Threats may have negligible effects on fewer human capital investments, as evidenced by the marginally significant positive correlation (correlation coefficient: 0.128, p-value = .048) with investments in human capital.

V. CONCLUSIONS AND RECOMMENDATIONS

Based on the findings, borrowers generally do not experience significant changes after using micro-lending. It implies that most households choose to disagree with micro-lending after using it. Households that deal with microlending could affect their families differently. Households may have better food security when poverty is reduced, but they might spend less on human capital. Furthermore, there was no significant relationship between the experiences of over-indebtedness and the elements affecting their households regarding debt. Finally, threats and undue pressure to repay loans may pose challenges to the prosperity and stability of households' finances.

The empirical evidence suggests that borrowers should assess their financial situation carefully and only take out loans they can afford to repay to avoid putting them under undue strain or psychological distress. Before applying for loans from lenders, people should thoroughly consider various elements and prospective outcomes. However, it is crucial to realize that microloans may not be enough to eradicate poverty or considerably raise borrowers' living standards. Business owners should also be conscious of the variables that affect the results of microloans and work to customize their lending procedures to each borrower's particular requirements and situation.

Based on the findings, it is advised that future researchers employ a mixed-methods approach to acquire a broader understanding of the subject and consider a more comprehensive range of factors that could affect the impact of micro-lending. The study discovered that several variables might significantly impact microlending, including work organization, educational attainment, and monthly income. Future studies can build on this by looking into additional variables that might be important, like sex, family dynamics, and community characteristics.



However, a mixed-methods approach that integrates both qualitative and quantitative data can aid researchers in developing a more thorough grasp of the subject and enable a more in-depth examination of how microlending affects urban households. Furthermore, it is recommended that they enhance or maintain a sufficient sample size for each classification to avoid a high probability of Type 1 error or rejection of the correct null hypothesis, which could result in erroneous decisions and conclusions.

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