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**THE DARK SIDE OF MICROFINANCE IN DEVELOPING
COUNTRIES: A CASE OF INDIA**



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3. This dissertation is the result of my own independent work/investigation, except where otherwise stated.

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Abstract

The adverse effects of microfinance in developing nations are examined in this dissertation, with India as the primary case study. In the paper, recent advancements in the field as well as a brief history of microfinance in India are covered. While the research objectives are provided in bullet points, it emphasizes the necessity to investigate any potential detrimental effects of microfinance. There is also a description of the procedures for gathering and analyzing secondary data. In the analysis chapter of the dissertation, the research objectives were addressed, and the main findings were highlighted.

Acknowledgment

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Chapter 1: Introduction

Background and context

Brief History of Microfinance

Early on in the 1970s, a few non-governmental organizations (NGOs) in India began experimenting with giving small loans to underprivileged women in rural regions. This is when microfinance in India first emerged. By providing these women with access to credit and financial services that they had not previously had, the goal was to empower them. The Indian government began to recognise the potential of microfinance as a tool for reducing poverty in the 1980s and sponsored a number of programmes to support it. One of the most important was the National Bank for Agriculture and Development's (NABARD) foundation in 1982. In India, microfinance significantly increased in the 1990s thanks to the introduction of a new breed of MFIs that placed a strong emphasis on sustainability and commercial viability. These MFIs, including SKS Microfinance, Spandana Sphoorty Financial, and share Microfin Limited, reached out to underserved and marginalised groups using cutting-edge strategies like group lending, shared liability, and cashless distribution.

With millions of borrowers and investors involved by the early 2000s, microfinance has established itself as a major industry in India. But this quick expansion also raised issues with excessive debt, exorbitant interest rates, and aggressive loan recovery practises by some MFIs (Mushtaq, and Bruneau, 2019). The need for a more nuanced understanding of the impact of microfinance on poverty and development has been underscored by the strong debate and regulatory scrutiny these problems have since attracted in India. But Muhammad Yunus, a Bangladeshi economist and the founder of Grameen Bank, launched the contemporary microfinance movement in the 1970s. The bank invented the idea of microcredit, which offers little-to-no-collateral loans to the underprivileged and impoverished (Cull and Morduch, 2018). As a means of reducing poverty and fostering economic growth, microfinance has been widely accepted as a result of the success of Grameen Bank and other microfinance institutions. With over 200 million customers globally and a total loan portfolio of more than \$100 billion, microfinance has grown into a global sector today.

Recent Developments in Microfinance in India

In recent years, microfinance in India has witnessed changes in regulations, technology, and social impact.

The microfinance environment in India has been significantly shaped by regulatory changes. Following the Andhra Pradesh crisis in 2010, which was brought on by some MFIs' aggressive lending and collection tactics, a number of regulatory actions were made to promote consumer protection and responsible lending. To enhance the sector's governance and stability, the Reserve Bank of India (RBI) introduced a number of recommendations and rules, such as interest rate limitations, prohibitions on multiple lending, and requirements for credit bureau reporting. Microfinance delivery in India has also changed as a result of technology (Sharma and Rastogi, 2022). MFIs have been able to reach remote and underserved areas, lower transaction costs, and improve customer experience thanks to digital platforms including mobile banking, biometric verification, and online lending. For instance, the Jan Dhan Yojana, introduced by the Indian government in 2014, made it easier for low-income people to register millions of bank accounts and gave MFIs a platform to deliver digital financial services to their clients.

Last but not least, there has been much discussion and research done on the social effects of microfinance in India. While there is evidence to support the good effects of microfinance on eradicating poverty, promoting financial inclusion, and empowering women, there are also worries about the model's long-term viability and efficacy. According to some detractors, microfinance is overly concentrated on providing short-term financing and fails to address the structural problems at the root of poverty and exclusion (Vassallo et al. 2019). As a result, there is rising interest in alternative social finance models like impact investment, social entrepreneurship, and community-led development that seek to tackle these issues in a more comprehensive and inclusive way.

Research Rationale

In the 1970s, the idea of offering financial services to the underprivileged and marginalised communities in developing nations was originally proposed. Since then, microfinance organisations have grown to be an essential part of the development industry, working to reduce poverty and foster economic development. Nevertheless, despite the apparent advantages of microfinance, numerous studies have raised questions about its detrimental effects on borrowers, particularly in poor countries (Navin and Sinha, 2019). Debt traps have resulted from the high interest rates and aggressive loan recovery strategies, which have only made poverty and financial instability worse. Therefore, it is crucial to consider the negative impacts of microfinance in

developing nations and look at measures to lessen them. This study attempts to shed light on the detrimental effects of microfinance on borrowers in India, a nation that has recently seen a large increase in the microfinance sector. An urgent and intricate problem that needs more research is the detrimental effects of microfinance in developing nations, particularly in the context of India. Even though it's widely accepted that microfinance can be a potent tool for eradicating poverty and promoting financial inclusion, there is mounting evidence that it can also have unintended negative effects on borrowers, including excessive debt, high interest rates, and aggressive loan recovery tactics. Additionally, the rapid expansion of the microfinance industry in India has raised questions about its sustainability, ethics, and the social and economic repercussions of excessive debt and loan defaults (Widyaningrum et al. 2019). Therefore, a deeper comprehension of the difficulties and restrictions associated with microfinance in India is required.

Research aim

The study's main aim is to examine the negative impact of microfinance in developing countries like India.

Research Objectives

- To pinpoint the precise detrimental effects of microlending on individual borrowers in India
- To investigate the ethical and environmental issues raised by the booming microfinance industry in India.
- To investigate the broader detrimental social and economic effects of microfinance on Indian homes and communities
- To evaluate the contribution of microfinance organisations to borrowers' excessive debt and loan defaults
- **Research Methodology**

Data Collection

An detailed assessment of the academic literature, studies, and publications pertinent to microfinance and its effects in developing nations, with an emphasis on India, will be required for the secondary data gathering for this dissertation. The numerous electronic databases from Google Schguides will be used to undertake this review.

Studies examining the detrimental effects of microfinance on Indian communities and older people will be included in the review. To develop a thorough knowledge of the detrimental effects of microfinance in India, the data will be analysed and synthesised (Haldar and Stiglitz, 2019). The design and implementation of data gathering methods will be guided by the secondary data, which will also reveal gaps in the literature already in use.

Data Analysis

A thorough examination of the gathered secondary data will be part of the data analysis for this dissertation. To find patterns, themes, and trends pertaining to the detrimental effects of microfinance on Indian borrowers, the review will be undertaken utilising qualitative research techniques, such as thematic analysis and content analysis. The research objectives and questions will serve as a guide for the identification and analysis of the data, which will be done in an effort to provide a thorough understanding of the detrimental effects of microfinance in India. In order to improve comprehension and clarity, the results of the data analysis will be presented in the dissertation using the proper findings tables (Mohd, 2018).

Limitation of research

This dissertation contains a number of restrictions, just like any other research. The use of secondary data, which may have restrictions on breadth and relevance to the particular study objectives, is a significant drawback.

Additionally, the study is mainly concerned with the detrimental effects of microfinance in India. It might not give a full picture of how microfinance has affected the economy and society of the nation as a whole. The study may also be constrained by time constraints, a lack of resources, and potential bias in secondary data sources..

To ensure the validity and dependability of the research findings, it is crucial to recognise and resolve these issues. The dissertation will go through the restrictions as well as possible countermeasures to lessen their influence on the findings of the study.

Outline of dissertation structure

Each chapter of the dissertation will build on the one before it in a logical and consistent manner.

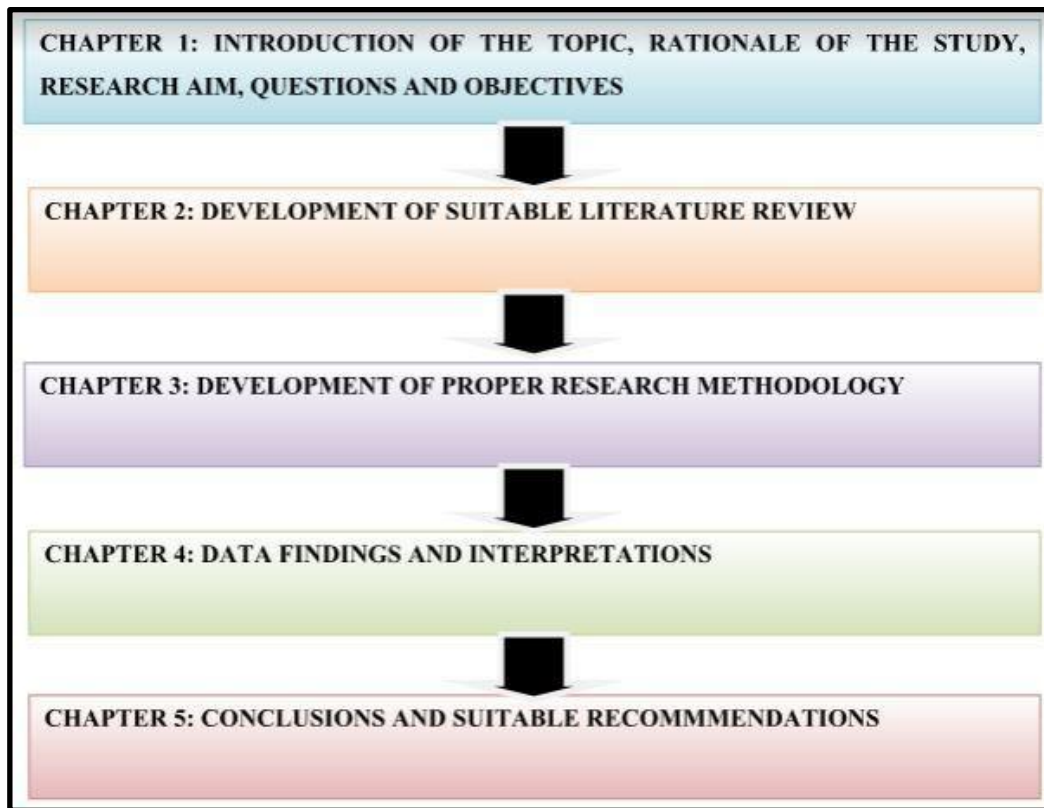


Figure 1: Structure of dissertation

(Source: Self-Created)

1. Chapter 1, the introduction, will give a quick overview of the past and current state of microfinance in India before outlining the purpose and goals of the study.
2. Chapter 2, will provide a thorough assessment of the research on the effects of microfinance and theoretical frameworks for understanding it.
3. Chapter 3 describe the research methodology, including the research design, data collection procedures, and data analysis approaches.
4. Chapter 4 will focus on data analysis and findings.
5. Chapter 5 will provide a discussion and interpretation of the results.
6. Finally, Chapter 6 ,wrap up the dissertation by outlining the major conclusions, going over their ramifications, and offering suggestions for future research.

Chapter 2: Literature Review

Microfinance is gaining popularity in developing countries like India. Micro-finance is the wheel that provides financial support to raise household income and lower the poverty level. Microfinance helps to provide financial viability and an 8.1% median return on equity (Sharma and Rastogi., 2022). Mainly people living in rural areas, Institutions like NBFC provide facilities to poor and low-income households to increase their income level which improves their standard of living. Inclusion of government policies in micro-financing help to support the self-help group, and women's empowerment and reduce the level of poverty in the country. Micro-finance provides various styles like lending, insurance and pension. A small amount of loan can be provided by the various micro-financial institutions like NBFC, MFI, MFI registered trusts and various non-profit organisations operating in the financial market. The self-employed Women Association (SEWA) in 1974 in Gujarat, started to provide financial services to the lower income group of the society. The NBFC-MFI provide loans from US\$1 billion but the margin set by the Malegam committee for business purpose is 10% and for an individual loan, capital is 24%. According to a survey on 31st March 2022, the micro-finance covers US\$ 140 million to families, and US\$11.9 million to the self-help group (Patel, Lenka and Parida., 2022). The e-shakti program was initiated by NABARD. It is the digitisation program of self-help groups and it has been implemented in 100 districts in India so far. The program helps to ease banks' credit linkage to self-help groups. Micro-finance helps in financial inclusion in the nation. Almost 50% of people lack in opening saving accounts in India. These institutions assist these groups of people in wealth accumulation and risk mitigation. But the high-interest rates make it more difficult for low-income groups to receive financial assistance. Microfinance can be provided by institutions such as NGOs, credit unions, government banks, and cooperative societies.

Over 1.4 billion people around the globe remained unbanked. Microfinance give loans to the poor, it specifically modifies customer liquidity, occupation choices and financial pliability. It helps customers to enhance their household income and helps in self-employment, Increases business profit, strengthens access to informal credit and improves and multiplies wages in a particular region and job retention and income. Microfinance provides immediate funds and helps to reduce poverty in households. The loan can provide help to the businessman to run and upscale their business purposes at the same time. It is the way to accumulate excess funds to provide financial

support to the business. When large banks did not provide loans to people with no assets, then micro-finance comes to the rescue, based on the ideology to provide small credit amounts to the poorer section to alleviate poverty. But women generally do not have ownership of houses thereby they do not have access to borrow small loans(chikwira, Vengesai and Mandude., 2022) Small financial institutions help to provide loans to women to empower them financially. 55% of the women show integrity and honesty in the repayment of loans. Microfinance institutions target women as credit borrowers. Probably women, people with disabilities and unnoticed sections of society receive micro finance products and services for their basic needs. Poor-income families, especially in rural areas from an agricultural background with the help of the loans provided by these institutions, help to enrol their children in schools. The loans provided by these institutions help to reduce the chances of a girl child getting married by four times and completing their education to get fair-paying jobs. Microfinance aims to break the cycle of poor living and reduce malnutrition and illness by developing sustainable living standards(Velivala, Abraham and Kotishwa.,2022). Chances of survival increased and possibilities of future investment enhanced as the possibility to meet better needs. Entrepreneurs borrow money from these small financial institutions to start their businesses, hence it creates more job opportunities and employment benefits the local economy and circulates the money to generate more profit from the market. Microfinance institutions create significant economic gain to ingress better nutrition and high consumption.

Microfinance institutions have a unique set of challenges that other commercial banks cannot handle. Compared to commercial banks MFI set a high rate of interest. Microfinance institutions set an interest rate of 8-12% whereas commercial banks set an interest rate of 12-30%. The RBI rule announced a 26% of interest rate reduction from MFI loans that enriched the institutions but created burdens for the customers(Huybrechs, Bastiaensen and Hecken., 2019). Microfinance institutions have fixed and weighty transaction volume that brings considerable problems for the customers. Overcharging is a huge problem for the weaker section who took loans for their businesses that impact their living standard. Microfinance provides loans without a guarantee which brings more risk of bad debts. The lack of sufficient infrastructure put a detrimental collision on the growth of the institutions, increasing the cost of surveillance. Most non-governmental organisations lend money to these institutions for stable funding. These institutions lend 80% of their funding from commercial institutions that provide shorter lending terms with high rates of

interest(Kalita and Biswas., 2022). The Indian microfinance industry deliberately relies on commercial bank renders.

In developing countries like India low literacy rates especially in rural areas, more than 76% of the rural population in India is oblivious to the basic principles of the financial market. It is a difficult phenomenon for the villagers to understand the financial norms of the Microfinance institutions and it is a difficult challenge for the MFI also to educate and trust people before selling their products. The Reserve Bank Of India is the governing body and grants permission to these MFIs in financing and guides them through the financial market rules and regulations. Previously microfinance institutions faced unprecedented regulatory challenges. Some of the MFI institutions through their structural and operational changes survive in the market. The institutions need a separate regulatory authorising body that helps to direct the institutions to perform better and produce more products and services to help the poorer section of society. The random expansion of the self-help groups' engagement and support puts these micro-finance institutions under stress and threatens negative long-term outcomes(Patilkale, Haque and Sathya., 2019). Micro-finance institutions are unable to reach remote and urban areas where logistical fields are more expensive to outreach. It lacks the prerequisite of digitisation and automation in those areas. According to the financial report, In India, 800 microfinance institutions only operate in urban areas.

Urban dwellers utilize the wealth of the rural economy to build monuments, buildings and towns. Ignoring the real problems faced by the people in rural areas and the actual poverty in the Indian economy. The saddest reality in rural India is suffering from the meagre percentage of the annual credit demand. But the Indian government has stepped up in lending micro-credits to the poor in eradicating poverty and regenerating agricultural credits. The government of India stated, that a mere increase in the money supply won't help in mitigating poverty. The small credits provided by the MFIs should be used by the farmers to divert their savings for consumption purposes (Dharmapal and U., 2020). To enhance production and productivity government needs to engage more labour to generate more capital. Two vital factors affect the credit for rural development-rural savings and technological advancement in providing credit to the poor. The new rural technologies should be executed for poverty and that necessarily needs additional credit. Rural credit agencies should encourage the relocation of substantial wealth and new investments by entrepreneurial investors and MFIs to increase the chances of the cumulation of wealth to provide

incentives, jobs and wealth for rural development. The low rate of return in agricultural funding doubled the high cost of funds]and make rural credit institutions infeasible.

The Association of Communities through various financing activities can be initiated. The communities engage youth, women and various associations to mitigate the political, religious and cultural issues and support rural structure. The association of legal bodies to collect fees, insurance and tax breaks and various protective measures.

Microfinance institutions supply loans from commercial banks to an individual or a group of people. The loans can be provided externally by the donor or government agencies or they can be provided internally by the individual's savings. The loans provided by the banks come under a capital guarantee scheme. The loans can be provided for various purposes, it can be as loan recovery or insurance claims(Pandey, Tripathi and Guhathakurta., 2022). But the biggest challenge is the United Nations guarantees that NGOs and other small financial institutions provide loans through various micro-credit programs. This small conventional institution dispensed the microfinance institutions. With substantial help provided by the NGOs and other organisations, community members relied on these community banks to provide loans at low rates of interest. These institutions have various community-based programs that persuade more financing support to these communities.

Cooperative societies are autonomous and people voluntarily engage with these associations to meet their financial needs for social, cultural and economical needs. Functional control, lack of awareness and not including the recent banking practices make the institutions weak as it is jointly owned and dramatically functioning enterprises in nature(NKONGE .2022),. Some cooperative societies incorporate member financing in their rules and regulations.

The credit union is a member-driven self-help financial institution. These institutions are run by some group of people who save their money to provide loans to the borrowers at a reasonable interest. The groups are generally formed from the same labour union, social fraternity, people working under the same employer, or a group of people working in the same community. The community has some challenges in providing loans such as there is huge possibility of maintaining daily transactions and customer ice requests, the manual process slowdown the operations, and members having to vote to select the committee representatives. These challenges are the reflection of the ever-changing financial landscape.

The Grameen model of the micro-financing grassroots institutions focused on eradicating poverty. The purpose and function of this model are to eradicate the problem of local populations. The model illustrates that the field managers and bank workers can form a group who will provide support to villages. The people of this group or community provided loans to the five people (Bello, Hasaan and Ahmad., 2020). In the first stage, if two people are eligible to repay the loan then they provide a loan to two other members of the group and if they successfully repay the loan with full interest within fifty weeks then the group is eligible for applying for future loans. The restrictions of this Grameen model put pressure on the substantial groups to clear previous records and maintain collective responsibility by the members of the group. The other challenges faced by these models are the NRB directives on government taxes, cost-related issues, the government in 5GB models, institutional capacity, subsidized programs, problems related to insurgency and other village conflicts on micro insurance and interest rate, and operational issues in product diversification. The shortcoming and weaknesses realise in the group itself in providing collective responsibility and security provided by the group members. Perception of the financial practices, the inclusion of government policies, bargaining power with the clients and peer pressure are the difficulties and challenges faced by this credit lending model that directly affect the mendicant. Inadequate investment validation, high-interest rates, widespread dependency on the banking system, and debts- the challenges rely on the groups disproportionately. But there are some positive aspects of these groups providing loans for skill development, education and training purposes.

Micro financial institutions abide by their actual rate of interest to the clients for their products and services. The intermediary model helps to maintain an inter-relationship between the lender and the borrower. Intermediaries played a crucial role in credit awareness programs to educate the borrowers such as savings programs. Intermediaries can be NGOs, micro-credit organizations, commercial banks, government agencies and lenders can be international donors also (Kromidha, Yadav and Ilavarasan., 2021) The intermediary groups also face challenges with proper regulation and poor focus on the reduction of poverty, lack technological advancement, different fund sources, field supervision and technological advancement are the key issues to run these organisations.

Non-government organisations like NGOs started playing a key role in various dimensions. NGOs are now actively participating in providing micro-credit loans and spreading awareness about micro-credit programs within the community (Gopal and Schnabl., 2022). These communities provided help with funding from various national and international donors. NGOs have developed various resources and tools to observe good practices within the organisation. NGOs provided opportunities for the communities to learn about the micro-credit programs via various workshops, seminars, and training programmes. Apart from their services, there are some other factors influencing the further development of the institutions. Lack of funding, lack of proper strategic planning, lack of maintenance and absence of networking are the major issues in micro-financing.

Small businesses are in the informal sector and these organisations struggled for survival, have low productivity and don't add any value to society. But in another hand, it helps to generate employment and income in rural areas. The Indian government supports these small and medium enterprises by providing technical advancement, management principles and providing services to the community which are required. Usually, banks resisting in providing loans to MSME businesses as the businesses need a small amount of capital and banks are suspicious of their repayment. So, micro-financing banks pose illiberal criteria to grant loans for business purposes (Govindasamy and Viswanathan., 2020). Small businesses abstain to provide sufficient security and are guaranteed to satisfy the banking protocols, which makes it harder for them to get a loan. For startup business owners, it is essential to recognise the financial market as it may lead to unnecessary costs without proper planning and the poor debt score helps the lender to increase the MSME interest rate. The MSME organisations shortage in providing modern financial solutions and face the disadvantages of long standing regulatory practices mainly in rural areas without getting the help of government schemes. The emergence of the evolution of the FinTech industry and government initiatives and outdated technologies restrict them from legal development.

Village banking is a community-based credit and savings alliance. Village banking technology brings changes to the environment. The Community contains 25-50 low-income individuals who create a group for self-employment activities (Banda and Nyirenda., 2019). The loans provided by these village banks comes from external sources and the members of this group select their own

officer and set their law to distribute loans and collect the repayment. The positive side of the village banking is trust, scalability and stability among members, easy monitoring activity, history of audit trail, ease of moving funds among peers, and decisions can be taken by discussing with all the group members. Challenges encountered by the village banking groups are: monitoring the payment, tracking collection, and members using different platforms to make payments and approving lending payments.

India faced a lot of cash crunch in the year 2016 when 500 and 1000 notes were banned by the Indian government and India headed towards the digitisation. The Micro financing institutions are headed towards digital transactions from cash to digital. 60% of the MFI endorsed cashless outlay models and ensured that all the members of the financing group have bank accounts but the main barrier to operating every member of the group is not aware of the digitisation process hence it limits the cash transactions(Palanivelu and Narmada., 2020). Small businesses such as traders, shopkeepers and retailers -these temporary sectors faced temporary liquidity crises. 86% of the currency was transferred into coloured paper overnight. The demonetisation has pushed these non-banking financial institutions rapidly provide micro-loans to all sectors. 60,000K industry almost carried out all the transactions in cash. MFI faced repayment issues due to a limited supply of currency and classified it as a damaged asset. The borrowers like small traders and farmers faced the hardest hit in the recompense of the loan. Micro financial institutions are the strongest tool to fight poverty and uplift the Indian economy(Pankaj, Farhad and Rzgar., 2019). Providing credit to the poor, especially to the population that depends on the agricultural sector for their livelihood in various geographical areas. But the discontinuity of the old currencies place a good impact on using liquid money. The denomination affected the economy with high intensity but the low-income groups have been able to survive with the help of micro-financing groups. The explosive withdrawal of money troubled the microfinance institutions and the institutions stopped providing loans as there is a delay in repayment from the borrowers and demands for alternative legal denominations(Prasad, Goswami and Gurtu., 2023). Microfinancing institutions only lend money to women entrepreneurs and tiny small startup businesses that can repay their loans. The institutions started to circumvent the loan defaults and became unproductive, the unfulfilled resources affected the transactional chain to generate income and become a big threat to the organisation. Due to the lack of available money low income groups faced trouble in the repayment of money and MFI's hesitant to lend loans as there is a lack of alternatives. It is observed that the

liquidity crisis on the MFI's cyclic, not structural as the organisation found a different collection cycle. The Micro Financial Institutional Network explains that the organisations upscaled their rate of interest by 0.2% in 2017 compared to 2016. Small MFI's outflow increased by 64% while large industries remain the same after the effects of demonetisation.

Microfinance is the practice of providing low-income people and small enterprises without access to traditional banking services with financial services such loans, savings accounts, insurance, and money transfers. Indian microfinance institutions (MFIs) seek to empower these disadvantaged groups by giving them access to capital so they may create valuable assets, grow lucrative businesses, and enhance their general standard of living (Srikanth and Srinivas, 2022).

Self-Help Groups (SHGs), Informal organizations with 10 to 20 members who pool their funds and make loan decisions together. The creation of SHGs is facilitated by NGOs or banks, who also provide financial and capacity-building help (Srikanth and Srinivas, 2022). SHGs are linked to conventional banking services under the SHG-Bank Linkage Program (SBLP). **Microfinance Institutions (MFIs)**, Specialized financial organizations that provide low-income people and small enterprises with microcredit and other financial services. MFIs may be organized as trusts, cooperative societies, non-profit organizations, non-banking financial companies, or NGOs. **Joint Liability Groups (JLGs)**, these are teams of four to ten people who borrow money from banks or MFIs and are responsible for paying it back together. This concept reduces the danger of default via collective responsibility and peer pressure. **Banking Correspondents (BCs)**, people or groups that serve as a bridge between banks and isolated or underserved communities. On behalf of banks, they enable transactions, account opening, and credit disbursement, improving access to financial services in remote regions.

The article emphasizes how crucial microfinance is to increasing financial inclusion, lowering poverty, advancing women's empowerment, supporting employment, boosting financial literacy, and having a positive social effect in India. By providing financial services that are suited to the requirements of low-income people and small companies, microfinance institutions help to create a more inclusive and equitable society. The essay also explores the difficulties and possibilities facing the Indian microfinance sector. A strong regulatory framework is required, as is guaranteeing the long-term viability of MFIs, reducing over-indebtedness, and promoting innovation in the industry (Srikanth and Srinivas, 2022). Utilizing technology, extending financial literacy initiatives, and encouraging collaborations between MFIs, banks, and various other

financial service companies are potential. The article's conclusion emphasizes the critical part microfinance has played in India's socioeconomic progress. Microfinance has the ability to reduce poverty, empower women, create jobs, and encourage financial inclusion via a variety of delivery mechanisms. The Indian microfinance sector may experience sustained development and advance the nation by resolving the issues and seizing the possibilities.

The Status of Microfinance in India for 2021–2022 provides current and thorough information on the Self Help Group (SHG) Bank Linkage Programme, Joint Liability Groups (JLGs), and credit linkages among industry actors with regional bifurcations. The SHG-BLP was first introduced in 1992 with the goal of promoting economic participation for wide segments of society, notably women and the rural poor who lack resources and access to the conventional banking system. By the end of March 2022, the initiative will have benefited 119 lakh SHG groups and 14 crore households, saving a total of INR 47,240.48 crore. Additionally, credit linkage has been excellent, with loans totaling INR 99,729.23 crore issued and 34 lakh SHGs credit-linked in FY 2021–22. As of March 31, 2022, there was INR 1,51,051.30 crore in credit outstanding for 67.40 lakh SHGs, or an average of INR 2.24 lakh per SHG (*Nabard*).

The publication's success stories demonstrate how the effect may be life-altering. As of 31 March 2022, 4.7 lakh SHG members had received training under Micro Enterprise Development Programmes (MEDPs) and 1.20 lakh SHGs had received end-to-end training under Livelihood Enterprise Development Programmes (LEDPs). Additionally, the Friends of Women's World Banking (FWWB) and Arth Impact Welfare Foundation received funding for two cutting-edge initiatives that will provide complete platforms for women entrepreneurs. To secure financial assistance for tenant farmers without formal land rights, 188 lakh JLGs have been established and credit-linked. The industry may be in for a big upheaval due to the RBI's policy directive, which calls for a switch to board-approved rules for microcredit loans starting in March 2022. Regional inequities and challenges like a 43% credit gap need to be regularly addressed. All parties may use this comprehensive book as a trustworthy source of information, and the government, banks, NRLM, MFIs, and CSOs are thanked for their important contributions to its creation.

Chapter 3: Research Methodology

Research Philosophy

This study has identified research philosophy since it directs the investigation process and establishes the researcher's viewpoint on the research subject. The research philosophy is focused on secondary methods in the case of looking into the dark aspects of microfinancing in the Indian economy. As a researcher, it is wise to use secondary data sources to get a thorough picture of the subject (Peel 2020). It is possible to learn more about the difficulties and detrimental effects of microfinance in India by examining the current literature, reports, and data. Furthermore, secondary data sources give a more comprehensive view of the research issue by incorporating historical background and pertinent laws and regulations. In order to evaluate the facts about the darker side of micro financing in India, this study used a deductive methodology, which allowed the structure that has already been developed to be recognised (Chun Tie *et al.* 2019).

Additionally, the researcher acknowledges the limitations of secondary data sources in my research philosophy. They have little authority over the data quality and the research context as they are not gathering primary data. In addition, there are information gaps or conflicts that need to be resolved. The researcher chose and examined the secondary data sources with great care in order to minimise these restrictions (Pathiranage *et al.* 2020). They relied on reliable sources, such as academic journals, official documents, and reports from international organisations, and critically assessed the information to make sure it was genuine and relevant. The research perspective is based on the conviction that examining existing literature, reports, and statistics is a useful way to get insight into the subject. The researcher explored the dark side of microfinancing in the Indian economy by utilising secondary techniques. This method analysed and evaluated the results using a descriptive study methodology. For the aim of the study, the secondary data-acquiring research approach has been adopted. Both time and money are effectively used. As a result, the secondary research strategy succeeds in assuring that the research assignment can be finished within the given time frame (Fathurahman 2022).

Research design

The research design featured a thorough literature evaluation, a plan for data analysis, and procedures to guarantee the validity and reliability of the research findings in order to examine the negative aspects of microfinancing in the Indian economy utilising secondary research methodologies (Trull *et al.* 2020). The research design also took ethical factors into account to

guarantee that the sources of the data were trustworthy and truthful. A thorough examination has been undertaken in this research study since it has allowed the study to better understand the body of literature, identify knowledge gaps, and accomplish many other things. Two types of design can be distinguished: exploratory and definitive. The exploratory methodology is used in this situation since its sole goal is to identify some aspects of the study issue. After doing a literature study, a plan for data analysis was created (Bag *et al.* 2020). The categories of data that were gathered and how this information was analysed were described in the data analysis plan. The data that was analysed was already available because the research methodology was based on secondary research techniques. The analysis required carefully going over the available data to find trends, patterns, and connections that were relevant to the research issue (Ferrari *et al.* 2019).

Research Approach

A secondary research strategy was used to conduct the investigation of the negative effects of microfinance on the Indian economy. In order to use this strategy, data had to be gathered and examined from academic studies, official publications, and other pertinent information sources. This research strategy's main benefit was that it made it possible to gather a wide variety of data, which gave an in-depth understanding of the study subject. Secondary data sources are also frequently affordable and accessible, which makes them a great option for research investigations that have limited funding (Ali *et al.* 2020). By doing this, the researcher has carried out a plan for how the data will be used.

The researcher applied a positive research technique since it is very well-organised and enables the utilisation of big samples. The key context for this study is a flawless performance, data gathering that allowed an examination of those collective concepts, and the successful completion of a brief inspection procedure. As a result, this process aids in the production of trustworthy and true data (Remeseiro and Bolon-Canedo 2019). This strategy also helps to establish the task's credibility because it requires time to draw out fresh information from the database of resources. The deductive method employed in this study approach shows the extensive discussion that is mostly related to it and that ultimately ends up in a qualitative element of the collected information from numerous sources of activity (Yin *et al.* 2019).

Data Collection Methods

In order to gather information for a study of the negative effects of microfinancing on the Indian economy, secondary research was used. Analysing existing data from scholarly publications,

official reports, and other pertinent information sources is known as secondary research. This approach was decided on because it made it possible to gather a variety of data that may give a thorough understanding of the issue being studied. Academic journals, official publications, and other appropriate sources of information were used as secondary data sources in this study (Huang *et al.* 2020). The information was gathered from Internet scholarly databases including JSTOR, Google Scholar, and others. Government reports were gathered from the websites of numerous government organisations and agencies, including the Ministry of Finance, the “Reserve Bank of India, and the National Bank for Agriculture and Rural Development (NABARD)”.

Taking advantage of secondary data sources offered a cost-effective technique of data collection, which was its main benefit. There is no requirement for performing primary research, which can be lengthy and costly, as there are frequently free secondary data sources available (Zhang and Zhang 2020). Furthermore, secondary data sources can offer a wealth of knowledge that can contribute to a thorough grasp of the study subject. Using secondary data sources could have a downside in that the information wasn't necessarily gathered to address the study issue. This can make the data not as relevant or less suitable for addressing the study issue. But by doing a thorough literature analysis to find trustworthy data sources, the limitation was reduced (Edwards 2019).

Sampling

Purposive sampling was the strategy used in this inquiry into the dark side of microfinance in the Indian economy. A non-probability sampling strategy called "purposeful sampling" includes picking particular participants or instances based on established parameters. On the basis of their participation in microfinancing operations in the Indian economy, a criterion for participants was selected. The goal of the study was to evaluate how microfinancing affected different parties, such as borrowers, lenders, and the general public (Kalu 2019). As a result, the participants were chosen based on their participation in microfinancing activities, such as microfinance organisations, borrowers, government representatives, and experts in the area.

Data Analysis

The data gathered about the damaging impacts of microfinance on the Indian economy were analysed using a thematic approach. A qualitative data analysis technique called thematic analysis involves finding patterns, topics, and groups in the data. This strategy was chosen because it enabled a thorough examination of the data, namely the discovery of underlying patterns and

meanings. Interviews with participants in microfinance activities as well as secondary data from scientific publications, government documents, and other appropriate sources were used to gather the data for this study (Al-shami *et al.* 2021). A coding system was used to transcribe and organise the data for analysis. To find important themes and patterns in the data, the coding technique required creating codes that were then applied to the data. Reviewing the data to find the most important thoughts and ideas was a step in the coding process. After that, codes were given for the concepts to convey the thoughts they expressed.

The data was then organised into topics and groups using the codes. The frequency and applicability to the study topic were used to determine the themes and categories. From the data analysis, several themes became clear. The absurd interest rates that microfinance organisations impose were the first theme (Kanyambu and WARUGURU 2023). The high-interest rates, according to participants, made it challenging for debtors to pay off their loans, creating an endless cycle of debt.

The second theme concerned the violent, coercive, and aggressive debt recovery methods employed by microfinance institutions. Data claimed that the debtors and their families experienced severe pain and damage as a result of these strategies. The third element was microfinance organisations' lack of accountability as well as openness, which made it challenging for borrowers to comprehend all aspects of the loans they received and generated concerns about money being misappropriated. The selection of an approach based on thematic analysis allowed for a thorough examination of the data and the discovery of important themes and trends that would have been challenging to find using different data analysis techniques (Sinha and Ghosh 2022).

Reliability and Validity

The entire research procedure was thoroughly documented to guarantee the validity of the study. This covered the methodologies used for data collecting and processing as well as the research design. To make sure the research design was acceptable for the purpose of the study and the data collected was credible and relevant, extensive planning was done (Khan *et al.* 2021). To guarantee that the data was reliable and accurate for the target demographic, the data collection techniques were also carefully chosen. In order to ensure uniformity throughout the analysis process, the data analysis processes were defined. The usage of numerous data sources was another step taken to guarantee the study's authenticity.

To guarantee that the findings were true to the experiences and points of view of the participants, the study gathered data from a variety of sources. The results were less likely to be distorted or impacted by just one source of data by using numerous sources of data. The data analysis procedure was thoroughly carried out to further guarantee the reliability of the study (Andalib and Halim 2019). Thematic analysis was used to analyse the data, which involves finding themes and patterns in the data. To guarantee that they correctly represented the data gathered, an independent researcher examined and confirmed the themes and categories that had been developed.

Ethical Consideration

The validity and credibility of the data sources used had to be confirmed. For this only reliable and trustworthy sources were chosen for the study and every measure was taken to ensure data accuracy. The data were carefully inspected to make sure there was no sensitive information. The original authors' and the intellectual property rights were taken into account and protected to the best of their knowledge. All the sources were properly cited and the trademarks and copyrights were fully acknowledged and respected (Qayyum *et al.* 2021). The study also considered any potential negative effects that might come from the research. In order to counteract this, the research project only used data from reliable sources, and its analysis placed more emphasis on finding trends and common themes in the data than it did on exposing particular people or organisations. The study was carried out according to the Belmont Report's recommendations for ethical research conduct. The study was conducted under the guiding principles of justice, beneficence, and respect for individuals (Siddiqui *et al.* 2021).

Research Limitation

The utilisation of secondary data sources was one of the study's limitations. Despite the fact that the sources were carefully chosen based on their dependability and applicability, it's possible that a few important details were overlooked. Additionally, because the information was not gathered especially for this study, the accuracy of the data gathered from these sources cannot be assured. The study's focus was mostly on the negative effects of microfinance on the Indian economy; it did not go into much detail about the benefits of microfinance (Baloch *et al.* 2019). As a result, the findings could not generalise well and might not accurately represent the experiences of all Indian microfinance borrowers or lenders. The study did not carry out primary research to get information from microfinance providers or borrowers directly. The study was carried out over a specified time period; thus, the statistics may not accurately reflect the situation

now or adjustments that have taken place since then. As microfinance practices and laws varied across various contexts, the findings might not be broadly applicable to other nations or areas.

Chapter 4: Data Analysis and Findings

Theme 1: The specific negative impacts of microfinance on individual borrowers in India

Articles	Findings
Puliyakot, (2020)	The article has derived practical information regarding The serious issues faced by the microfinance industry in a global aspect. The article has evaluated that the overindebtedness of borrowers is a serious issue that negatively impacts individual borrowers in India. The article has emphasized how the overindebtedness among microfinance borrowers For the purpose of helping the poverty line level income but they are some issues arising related to economic shocks, low household income, and borrowing from informal sources these are the effective fact that reflect upon the microfinance organizations and that eventually affect the individual borders of India from so many aspects.
Adbiet <i>al.</i> (2020)	The article has effectively emphasized how the firms serve markets for the purpose of community-mediated exchange strategies. This article has provided effective information regarding how demonetization was act as a collective phenomenon for the purpose of influencing the leading community-level microfinance centres and this is how the Indian borrowers have been highly affected by the microfinance centres to serve India.
Saha and Sangwan (2019),	The article has described how the empowerment of India has reflected upon microfinance. The article has highlighted that creditworthiness regarding women's empowerment has reflected upon the microfinance centres of India and eventually these effective Indian borrowers. The article has emphasized How the high amount of loan interest amount negatively reflects on the Indian borrower from microfinance organizations.

Datta and Sahu, (2021)	The article has purposely examined the responsibility of microfinance institutions towards the regular live practices of Individual borrowers. The article has emphasized how most of the businesses failed to produce a profit by paying high-interest rates and also focuses on how the rate of return on investment is shallow for investing for a longer period of time from the perspective of the world war and that has considered a big problem.
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Analysis

From the relevant findings, the researcher will analyze the practical negative impacts of microfinance organizations on the individual borders of India. From the article by Puliyakot, (2020), the researcher has derived adequate information regarding the overindebtedness of borrowers harms both the microfinance organizations and individual borrowers of India. The researcher has derived practical information regarding how the Indian borders have faced too much pressure for repayment of loans with the high-interest rate. The researcher has also analyzed that the last suicidal rate among Indian borrowers is getting high because of the severe debt levels fixed by the microfinance organization for their borrowers. The researcher has analyzed how Indian borrowers are bound to visit microfinance organizations because they do not get equal access from well-established banks to access loans and other financial services and for that reason, the microfinance organizations sometimes take advantage of this diverse situation. From the article by Adbi et al. (2020), from the compelling findings of these articles, the researcher has derived adequate information regarding the community-mediated exchange strategy and also discussed how this strategy of demonetization addresses the issue of how the individual borders of India get affected by it. From these compelling findings, the research has derived religious information regarding the types of sectors for which microfinance organizations provide loans or financial services. Education of children, poverty eradication, an initiative of new business ideas, promotion of women empowerment, etc, most of the Indian borders usually take loans to fulfill these types of purposes. From this article, the research has derived adequate information regarding how microfinance organizations impact the poor and women of developing countries because most of the time, rich people get more benefits from microfinance organizations and the poor could not take place. The main purpose of microfinance organizations should be to help the poor to resolve

their problems but in most cases, microfinance organizations target catering to rich clients for their organization to retail more profit and this is one of the major negative impacts of microfinance organizations on the individuals of India. According to Saha and Sangwan(2019), The researcher derived adequate information regarding how the high-interest amount of loans sometimes acts as a negative impact on Indian borrowers. microfinance organizations should have provided less interest rates than traditional interest rates regarding boring loans but in real life, the microfinance organization fixed a higher amount of interest rate for 1 particular loan for that reason it is very difficult for Indian borrowers to take loans from the with high interest rate. According to Datta and Sahu, (2021), the researcher has derived information regarding how the return on investment in the microfinance organization is very low which acts as a disadvantage from the perspective of the Indian customers who are willing to invest in the microfinance organization and this is one of the negative impacts of a microfinance organization in the Indian economy.

Authors opinion compare contrast

According to the statement of Puliyakot, (2020), Microfinance has actually grown in popularity in India as a means of reducing poverty and fostering economic development. It is used in giving small loans and financial services to low-income people and entrepreneurs. Although microfinance institutions (MFIs) are frequently praised for their good effects, it is crucial to understand that this strategy can also have unfavourable side effects. On individual borrowers, microfinance in India has a number of unique negative effects that might be seen. In most of the cases, Microfinance frequently keeps borrowers in a vicious circle of debt. When unable to use regular banking systems, most people turn to microfinance as a last alternative. However, some MFIs frequently charge interest rates that are substantially higher than those of conventional banks, sometimes to high levels. On the contrary, as per the viewpoint of Adbiet *al.* (2020), it is seen that Demonetization has played an important role in the abrupt removal of large-value currency notes, and has a profound effect on India's microfinance industry. It functioned as the main collective phenomena that affected local microfinance organisations, which in turn had an impact on Indian borrowers. Following demonetization, the economy experienced a severe cash constraint that caused difficulties in the microfinance sector. Most of the microloan borrowers, who mostly work in the unregulated industry, rely largely on cash transactions for their everyday operations. Due to a cash crisis brought on by demonetization, it was quite difficult for borrowers to repay their microloans. An unexpected disruption of cash flows caused financial hardship and raised the

likelihood that debtors would default. As per the viewpoint of Saha and Sangwan (2019), it is seen that the MFIs' operational expenses are one of the factors contributing to the high interest rates in microlending. Microfinance firms frequently engage with borrowers that have poor credit records and no collateral, in contrast to regular banks. There needs to be higher administrative costs resulting from this perceived risk and include thorough borrower appraisals, loan processing, and regular follow-ups for loan collections. On the contrary, as per the statement of Datta and Sahu, (2021), it is seen that MFIs typically charge higher interest rates on loans in order to meet these costs and assure sustainability. It is observed that Microfinance institutions frequently claim that their high interest rates are acceptable given the little loan amounts they offer. Small loan disbursement and collection costs are relatively significant, which makes it difficult for MFIs to function at lower interest rates. They are able to contend that in order to cover these expenses, higher interest rates are required.

Suggestions

The most important suggestion is in strengthening regulatory measures which has helped in order to prevent overcharging, the Reserve Bank of India (RBI) should keep an eye on and control microfinance interest rates. The RBI has the authority to impose strict limitations or limits on interest rates, ensuring that they are fair and affordable for borrowers. Encourage openness in interest rate disclosures to foster healthy competition among microfinance institutions. This can be able to assist borrowers in choosing MFIs with lower borrowing rates and enabling informed decision-making. MFIs should use responsible lending practices, which include thorough evaluations of borrowers' ability to repay.

Theme 2: The ethical and sustainability concerns associated with the rapid growth of the microfinance sector in India

Articles	Findings
Khan and Gulati (2022)	The article has purposely focused upon the TFP (Total Factor of Productivity) and described the two effective factors of TFP are efficiency change and technical change in the MFIs (Micro Finance Institutions) in India. The article has emphasized on how the microfinance institution are operating in India for over 15 years and how the productivity level across the distinct organizational form. The whole article was focusing on identifying the contextual factors to determine the TFP growth and technology innovations in MFIs of India by highlighting its rapid growth with respect to sustainability concerns.
Sinha and Pandey (2019)	The aim of the article is to analyze the robust data envelopment analysis to estimate the performance of microfinance organizations. The article has derived adequate information regarding how adopting the double bootstrap approach suggested by Simar and Wilson can help to measure the conditioner performance of microfinance institutions from the perspective of capital-to-asset ratio as an effective environment and variable. The article has also discussed the two stages of estimation of efficiency score by measuring how rapidly microfinance organizations have grown in India.

Navin and Sinha (2019)	The article has analyzed that microfinance organizations have experienced a drastic change from the perspective of structural ownership and Management. the article has also evaluated the adequate competition level of microfinance sectors of India from the specific period of 2005 to 2017. The article has utilized the data of MIX (Microfinance Information Exchange) and the dynamic question model by applying GMM (Generalized Methods of Moments). The article has also derived information regarding how the MFIs market power is growing for the purpose of exploiting the power of consumers.
Sangwan and Nayak (2020)	The article has focusing on how the rapid growth of MFIs in India has contributed towards the financial inclusion and also provides information regarding how MFI lending has increased the doubts about reaching poor people. the article has also focused on the financial inclusion from the Microfinance Institute does not provide an adequate guarantee regarding the poverty of India.

Analysis

From the compelling findings of this relief and articles, the researcher will derive adequate information regarding how the rapid growth of microfinance institutions has grown in India. According to Khan and Gulati (2022), the researcher has derived information regarding how the two effective factors of TFP (Total Factor of Productivity) efficiency change and technical change has reflected upon the microfinance institutions and also discussed how the microfinance organization has grown rapidly in past 15 years. From this article, the researcher has derived information regarding Identifying the sustainability factors which effectively influence microfinance institutions are repayment rate, the ratio of operating cost, rate of market interest, quality of the portfolio, and rural credit system which is demand driven. The research has analyzed that these are the ethical and sustainability factors by which microfinance institution has grown rapidly in India. According to Sinha and Pandey (2019), From this article, the researcher has that I have information regarding how the robust data envelopment analysis for the purpose of

estimating the performance of microfinance organizations and utilizing the double booster approach suggested by similar Wilson can help to measure the conditional performance of microfinance organization to evaluate how the microfinance organization has rapidly grown in a developing country like India. From this article, the researcher has also gained information regarding the adequate five dimensions of sustainability in the microfinance institutions of India. Five dimensions of sustainability in microfinance organizations are the policy of the environment, ecological footprints, and risk assessment regarding the environment, micro-credit regarding balancing green and nonfinancial services for the sustainability of the environment. According to Navin and Sinha (2019), In this article, the researcher evaluated how the microfinance organizations faced a drastic change from the perspective of structural ownership and Management and also analyze the utilization of data related to microfinance information exchange (MIX) by utilizing the dynamic question model through Generalise Methods of Moments (GMM). The research has analyzed that ethical and sustainability has also concerned with developing four factors those are human social environmental and economic. The researcher has realized that the four sustainability factor is very much available in developing country like India for that reason from the perspective of ethical and sustainability concern the microfinance organization has grown rapidly in India. According to Sangwan and Nayak (2020), From this article, the researcher has gained information regarding how the microfinance institutions of India have contributed towards financial inclusion and also discussed the practical doubt of reaching poor people because financial inclusion does not provide a guarantee regarding resolving the issue of property of India. From this, the researcher has realized that for the purpose of achieving the long-term and short-term goals by outreaching the poor borrows of India the microfinance organizations have grown in a rapid way.

Authors opinion compare contrast

According to the statement of Khan and Gulati (2022), it is seen that the main ethical and sustainability concern is TFP. Technical and efficiency changes are two significant elements that affect TFP in MFIs. Improvements in the use of inputs, such as capital, labour, and technology to produce outputs, are referred to as efficiency changes. This has helped in streamlining operational procedures, cutting waste, and allocating resources as efficiently as possible. Increasing efficiency results in better output and productivity levels without proportionally raising inputs. On the contrary, according to the opinion of Sinha and Pandey (2019), there must be technical changes

that describe developments in knowledge and technology that help to increase production. To improve the effectiveness and efficiency of MFI operations, new tools, processes, and systems must be adopted. The microfinance industry could undergo a transformation because of technological advancements including digital banking platforms, mobile payment systems, and data analytics, which would enable faster and more accurate loan disbursement, effective customer service, and better risk management. According to the statement of Navin and Sinha (2019), it is seen that Because of how microfinance activities affect society and the environment, different types of sustainability issues are raised. Although it is observed that in countries like India, microfinance has the ability to reduce poverty, it must be done so in a way that is sustainable. The evaluation of the MFIs' inputs and outputs is the first step in determining their technical efficacy. The second step compares the MFIs' growth rates over time to identify changes in productivity and gains in efficiency. The dynamic question model actually aims to properly comprehend how MFIs make use of the information offered via platforms for microfinance information sharing, such as MIX. The stated model mainly investigates the relationship between the use of MIX data and a number of elements, including MFI traits, management techniques, governance frameworks, and operational effectiveness. Whereas on the other hand, as per the statement of Sangwan and Nayak (2020), it is seen that by properly giving the unbanked and underserved communities access to financial services, microfinance institutions (MFIs) in India have in fact made considerable contributions to financial inclusion. They have aided in integrating people into the formal financial system, allowing them to manage their money and save and borrow. However, it is quite important to understand that financial inclusion alone does not ensure a solution to India's pervasive problem of poverty.

Suggestions

The most important suggestion which needs to be provided is in programmes that normally emphasise skill development will help people gain marketable talents, improving their employability and potential for revenue generation. Enhancement of marginalised populations' access to high-quality education to improve their long-term chances and end the cycle of poverty. A proper support and promote entrepreneurship by giving aspiring entrepreneurs access to finance, coaching, and training so they may launch and expand their firms.

Theme 3: The broader negative social and economic consequences of microfinance on households and communities in India

Articles	Findings
Saleh, and Ahmad, (2023)	According to the chosen article, microfinance can have a negative impact on the Indian community since it does not have a proper infrastructure to maintain the people's personal information records. Due to this, there can be a lack of privacy hampering the people of India. Not only this, it has been found that microfinance majorly focuses on the rural poor and does not give much importance to the urban households. Due to this, urban poor people get deprived of the benefits provided by microfinance.
Carswellet <i>al.</i> (2021)	The article has described the concept of microcredit and how the micro-credit can reflect upon the concept of debt or ethnographic material by illustrating a scenario of South India. The article has elaborately described how the indefinite among the labouring classes of rural India and also describes the releasing patterns and sources of borrowings, debt management, negotiations, and settlement of households, irrespective of gender caste, and class of India. The article has also described the concept of good debt and bad debt.
Imam and Khan (2021)	The article has derived information regarding how the micro financing institution has become a more powerful tool for poverty reduction and the high amount of microfinance programs were established in India for the purpose of empowering the promising entrepreneurs with new business ideas and helping the minority groups of India for the purpose of increasing the social balance. The article has derived information regarding how SHG programs have not provided enough services to women by helping them be self-sufficient and also improvisation of health, nutrition, education and hygiene level which reflect upon the social and economic consequences of India.

Ofori and Kashiwagi (2022)	The aim of the article is to derive information regarding the impact of microfinance on the local households of developing countries reflecting upon their social performance. The article has focusing on the implication of nonfinancial services a responsible for the delivery of effective change in the users of microfinance services in India and it highly impacted upon the social and economic consequences of Indian households.
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Analysis:

The above-chosen articles have been focused on critically evaluating the negative consequences of microfinance in Indian households and communities. From the first article developed by Saleh, and Ahmad, (2023) it was found that microfinance focuses only on the rural poor due to which urban poor people are deprived of the benefits provided by microfinance. This can further result in poverty among the urban poor population. In addition to this, since the microfinance sector provides loans without any set of collateral, it increases the risks of bad debt. There is no denying the fact that India has been growing consistently in terms of social infrastructure and business, however, the microfinance sector still lacks a proper infrastructure. This can impact the Indian community as they might not be able to generate profits for Indian consumers. Microfinance is known for consuming more and investing less in the future and both rural and urban poor people might have to face increased debt. According to Carswell et al. (2021), the researcher has derived information regarding how the rural areas of South India have experienced the impact of microcredit in their communities. The researcher has also derived information regarding debt management negotiation settlement of households etc. The researcher has also realized that most of the time, poor people have used this micro-credit for clearing their existing debts or running their lively good smoothly rather than investing in their business for the purpose of raising their standard of living high. According to Imam and Khan (2021), From the compelling finding, the researcher has derived information regarding how the microfinance institution as became more powerful as a tool for property reduction and how these organizations should have provided effective low rates loans to women for the purpose of women empowerment but in most of the situation the organizations has fixed a high amount of interest rate for women which consider as the negative impact on social growth. Ofori and Kashiwagi (2022), the researcher has analyzed

that the negative impact of microfinance organizations on local households in developing countries has highly reflected upon the social performances as well as economic performances. The researcher has some of the disadvantages of micro-credit loans are the penalty amounts are high, the need for additional monthly payments, the rise of the load of the debt, and an increase of potential credit damage. These are the practical disadvantages of Microfinance organizations in India which negatively reflect upon the social and economic consequences for Indian borrowers.

Authors opinion compare contrast

According to the statement of Saleh, and Ahmad, (2023), it is seen that there comes the lack of privacy that comes with microfinance is one drawback. Microfinance institutions (MFIs) sometimes demand joint liability or group lending, whereby borrowers from the same community are jointly liable for each other's loans. As personal financial information is made public within the community, this practice can eventually result in a lack of privacy and increase the risk of social pressure, gossip, and even exploitation. Another most important negative issue is how microfinance is solely oriented towards rural areas while ignoring the urban poor. As a result of the belief that rural populations are more economically disadvantaged, microfinance programmes in India tend to concentrate on them. Different urban families might not get enough attention or access to the advantages offered by microfinance projects as a result, especially those residing in slums and low-income areas. On the other hand, as per the viewpoint of Carswellet *al.* (2021), the loans may appear advantageous because they give quick access to money and prospects for making money. But over time, adverse effects can materialise. Borrowers could find it challenging to repay their loans because of the high interest rates and strict payback requirements. The overwhelming pressure to pay off the debt causes the debtors more stress and worry. As a result, the idea of debt penetrates every aspect of community life. If any borrowers are unable to pay back their debts, it may eventually cause social stigma or humiliation, which may lower their position in the society. There comes relationship tension, social marginalisation, and a loss of social cohesiveness might result from this. As per the viewpoint of Imam and Khan (2021), Microfinance may have negative financial effects. It is seen that in order to suit their financial demands, some borrowers take out many loans from various MFIs, which might lead to over-indebtedness. Borrowers may become caught in a never-ending cycle of debt due to the loop of taking out new loans to pay off their old debt. The overall detrimental social and economic effects go beyond just one home. There comes

high end competition for the few available economic options may rise in areas that mainly rely on microfinance. This can further deteriorate social cohesion by fostering unhealthy rivalries, disputes, and strained relationships among community members.

Suggestions

The most important suggestion is mainly to put in place strong laws and safeguards to protect borrowers' rights, such as clear loan conditions, reasonable interest rates, and efficient grievance procedures. Improve financial literacy programmes to train borrowers on the obligations and hazards related to microlending so they can make wise decisions and properly manage their finances. It is important to encourage MFIs to provide a wider range of financial services, such as savings accounts, insurance, and financial planning, in addition to credit. This can lessen overdependence on debt and advance overall financial wellbeing. All MFIs use responsible lending practices, such as thorough evaluations of borrowers' ability to make repayments, adaptable repayment alternatives, and there must be sensible loan sizing to avoid over-indebtedness.

Theme 4: The role of microfinance institutions in exacerbating over-indebtedness and loan defaults among borrowers

Findings

Articles	Findings
Kasoga, and Tegambwage, (2021)	As per the chosen source, the development of microfinance institutions is considered one of the best alternative financial service sources for people with low income. However, a number of empirical research has stated that microfinance institutions are “over-indebted”. It tends to have a negative impact on the people, creditors, etc.
Puliyakot, and Pradhan, (2017)	The microfinance industry has been seeing speedy growth worldwide and it is aided by a supportive institutional and policy environment. Researchers are of the view that the discussion about microfinance over-indebtedness is new, there are measures that are widely accepted measures that are still in the stage of evolving. People involved in microfinance tend to suffer from over-indebtedness and loan defaults due to the high-interest rates. Families which face low income pose a greater risk of falling into the trap of bad debt.
Hulme, (2017)	In the views of the researcher, most of the microfinance sectors focus on disbursing loads. Their savings are created in such a way that gives priority to offering low-cost capital and collateralizing loans. The researcher is of the view that the microfinance sector is not formed to meet the needs of the poor, rather it is focused on collecting money from the poor population and being sustainable.

Daas, (2019)	The researcher has stated that the microfinance sector in Andhra Pradesh recently experienced a number of mishaps and challenges. The result was loan defaults and over-indebtedness. In the state, microfinance institutions are chosen to involve in unethical activities to recover potential loans like property confiscation, shaming borrowers, etc.
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Analysis:

The paper developed by Kasoga, and Tegambwage, (2021) indicates that even though the intention of microfinance institutions is to help the poor who are often excluded from formal monetary institutions and lessen poverty, a large number of microfinance has been the reason for people suffering from loan default and over-indebtedness. The problem of debt has been increasing globally. Furthermore, it has been found that over-indebtedness tends to put the microfinance sector at risk of stability and poor quality. It is to be noted that Puliyakot, and Pradhan, (2017) research also states a similar kind of notion to the above statement. Researchers are of the view that the incidences of over-indebtedness in this sector have been spreading widely. Borrowers tend to be targeted by a number of lenders and often these borrowers are the ones who take the high credit risks. Hulme, (2017) on the other hand, has mentioned that micro debt can develop a considerable amount of opportunities for individuals to use money to enhance their incomes and lessen potential vulnerabilities. However, the researcher states that not all micro debts generate favorable outcomes, mainly for poor people who operate in activities that give them low returns. This can be due to uncontrollable situations such as poor health, theft, drought, etc. Lastly, Daas, (2019) has specifically focused on the challenges brought by microfinance in Andhra Pradesh. It was found that borrowers had to suffer a lot at the hands of loan collectors where people committed suicide and there was civil unrest in the daily lives of people.

As the amount of microfinance grew significantly, the loan appetite among the rural poor of Andhra Pradesh also grew consistently. There were instances where the borrowers demanded people's deeds and were seized as collateral. The majority of the rural poor did not have an idea about the outcome of critical borrowing. The increasing debt to the proportion of income left a

number of borrowers with the inability to continue paying the loans which directly resulted in increased loan defaults. As an outcome, a number of households had to face issues which ranged from property loss and in some cases, increased mental health issues.

Overall, all the articles chosen above depict that even though microfinance seems helpful for the poor population, it does have some negative consequences. A large number of poor people tend to borrow only to manage and develop their resources. Getting access to monetary services can help the poor in enhancing their livelihood. However, it is very important to know that microfinance often offers high-interest rates for the poor so that their business is sustainable.

In addition to this, microfinance is highly characterized by unsuccessful attempts of targeting society members who are in great need of help. Rather, the institution needs to target vulnerable people and burden them with increased loans.

Authors opinion compare contrast

As per the statement of Kasoga, and Tegambwage, (2021), it is seen that Microfinance institutions (MFIs) are an important alternative source of financial services since they play a vital role in facilitating access to financial services for those with low incomes. MFIs give these people access to credit and other financial products that they might not otherwise have through conventional banking channels. Majority of MFIs support financial inclusion and empowerment by providing small loans, savings accounts, and insurance services. This enables borrowers to finance income-generating activities, control consumption, and accumulate assets. The creation of MFIs has been acknowledged as an important strategy for reducing poverty and promoting economic empowerment since it gives people with low incomes a way to improve their financial situation and escape the cycle of poverty. On the contrary as per the viewpoint of Puliya Kot, and Pradhan, (2017) the microfinance sector has almost expanded quickly around the world and has been helped by supportive institutional and policy contexts, there are worries about how microfinance institutions (MFIs) may be contributing to borrowers' excessive debt and loan defaults. The overall aggressive lending practices used by some MFIs is one problem. It may be able to put loan disbursement first in the quest of expansion and financial sustainability without giving enough thought to borrowers' ability to repay loans. As a result, there is a higher chance that borrowers may take on more debt than they can handle. According to the opinion made by Hulme, (2017) it is seen that the majority of microfinance institutions (MFIs) concentrate largely on loan

disbursement. They are made to provide low-cost funding and collateralized loans so that people with low incomes and few assets can access them more easily. This emphasis on loan disbursement may lead to borrowers becoming too leveraged and experiencing loan defaults. On the contrary, according to the viewpoint of Daas, (2019), MFIs risk overlooking the value of encouraging saving habits among their clients by placing a higher priority on loan distribution. Borrowers could heavily rely on borrowing for various requirements and emergencies if they don't have suitable savings mechanisms in place, which would increase their debt load. Borrowers' capacity in order to develop their overall financial resilience and successfully manage their finances may also be constrained by the lack of available savings options and is an important point of concern .

Suggestions

The most important suggestion is in strengthening borrower assessment of MFI and it should thoroughly evaluate borrowers' ability to repay loans by taking into consideration their income, costs, and outstanding debt. This will help in lessening the overall risk of over-indebtedness by ensuring that loans are given based on actual repayment capacities. It ought to follow ethical lending principles that give borrowers' long-term financial security top priority. This includes reasonable interest rates, giving borrowers with various repayment options, and educating them about financial literacy to help them better comprehend loan conditions and money management. This can involve setting a budget, setting aside money, managing debt, and comprehending the effects of borrowing.

Chapter 5: Conclusions and Recommendations

Conclusions

Microfinance has led to the over-indebtedness of borrowers in India. This affected the microfinancing organizations as well as the borrowers who are basically people belonging to low-income groups or poor belonging from below the poverty line category. The microfinance organizations want to help these people but when these people are unable to pay back the loan amount, the borrowers try to be suicidal in order to waive off the amount of the loan. Although microfinance companies are founded with an aim to help women and poor people to get loans at a nominal rate of interest, it was found that the companies belonging to microfinance groups are

mostly supported by rich people and provide benefits to the rich people to earn extra profits for which exploitation takes place. It was found that the rate of loans at which the microfinance companies provide loans to Indian borrowers is almost similar to that of traditional loans that reduce the benefits provided to poor people by availing loans from these companies. Investors in India do not trust to invest in microfinance companies as these are much riskier than traditional institutions. It was found that the growth rate of microfinance companies in India has increased in the past 15 years. The demand-driven sustainability factors that are influencing the growth of MFIs in India are the ratio of operating cost, repayment rate, quality of the portfolio, rate of market interest, and rural credit system. It was found that MFIs have been successful in contributing towards financial inclusion of Indians but such success does not ensure that poverty has been removed from the industry. Poor people generally use micro-credit facilities to pay-offs existing loans rather than starting a business to generate income. Thus, this dissertation has successfully laid down the dark side of micro-financing in the Indian economy.

Linking with Objectives

Objective 1

Theme 1 of the fourth chapter of this dissertation aims to address the first objective of the research. The first objective is to find out the specific negative impacts of microfinance on individual borrowers in India. It was found that MFIs have led to the over-indebtedness of Indian borrowers for which they have become suicidal. The loans provided to the poor people are often used for the purpose of repayment of previous loans which has increased the chance of bad debt. Sometimes, microfinance companies charge a high rate of interest from the borrowers taking advantage of the situation that poor people will not get loans from traditional well-established banks. MFIs also provide loans to rich people to earn more profit which is not ethically right.

Objective 2

The second theme of the findings and analysis chapter of the dissertation has successfully addressed the second objective of the research. The main ethical and sustainability concerns associated with the rapid growth of the Indian microfinance sector have been identified in this section. It was found that the Total Factor of Productivity as well as technological advancements implemented in the microfinance industry has led to a boost in the rate of growth in the last fifteen years in India. Another essential measure that has been implemented by these sectors

associated with sustainability is the five dimensions approach of sustainability. These are the policy of the environment, risk assessment regarding the environment, ecological footprints, and micro-credit regarding balancing green and nonfinancial services for the betterment of the environment.

Objective 3

The third objective of the research is to find broader negative social and economic consequences of microfinance on households and communities in India have been addressed effectively by the discussion in Theme 3 of the fourth chapter. One of the major issues faced by the microfinance industry in India is the lack of proper infrastructure to maintain the personal record of the people with full security. Another issue is associated with a concentration on supporting the rural poor for which urban poor households are deprived. Microfinance companies are known for consuming more and investing less which creates a question for the long-term sustainability of the business which can impact the company as well as increase the debt of the poor. Another disadvantage of micro-credit is the high penalty amounts in case of default.

Objective 4

Theme 4 of Chapter Four discusses the role of microfinance institutions in exacerbating over-indebtedness and loan defaults among Indian borrowers. The companies operating in the microfinance sector tend to provide loans to the borrowers without consulting proper analysis of their repayment ability which increases the risk of over-indebtedness among Indian borrowers. It was found that the majority of the people living in rural areas do not have any idea regarding the consequences of critical borrowing. On the contrary, it was also found that microcredit has also helped the poor in the development of various income-generating opportunities that have helped to reduce the vulnerability and improve their standard of living.

Recommendations

- It is recommended that RBI should track the operations of the microfinance companies and regulate their interest rates in such a manner that they cannot charge any extra amount from the customers who are basically poor. RBI should also keep a track of the activities of microfinance organizations regarding whether they are providing loans to the rich people or big business organizations for earning any extra profit. This will help the people such as women and poor individuals to get just and fair treatment from the microfinance

organizations. MFIs should disclose their interest rates to the RBI and update them on a daily basis.

- It is recommended that MFIs should not only provide loans to the poor people but also develop awareness among them to encourage them to generate an income stream from the micro-credit facilities provided by the microfinance companies. Such an awareness would help in promotion of entrepreneurship among the poor people which will ultimately increase their standard of living to a great extent. Awareness among the poor people should also be developed regarding the importance of learning various skills and improving the chance of employability can help in increasing the chance of income generation among the people. This awareness will help in effective utilisation of funds taken as loan and reduces the chance of bad-debt for the microfinance companies.
- The risk of microfinance companies can be reduced to a great extent by improving the structure of law against the provision of bad debts of the loans provided to the poor people by the MFIs. It is recommended that the microfinance companies should increase their income streams by providing additional services such as insurance, savings accounts, and financial planning along with providing credit facilities to the poor. It is essential for the companies in the microfinance categories to follow all the crucial steps before providing financial assistance to the borrowers such as ability to repay, adaptable repayment alternatives, assessment of financial soundness, etc. The MFIs should also provide a sensible amount of loan to the poor borrowers in order to reduce the chances of over-indebtedness.
- The financial position of MFIs in India is not as sound as the traditional banks or financial institutions. Thus, in order to provide a loan to suitable borrowers all the essential terms should be cross-checked to ensure MFIs do not become insolvent in the long-run. The amount of loan provided by MFIs to the poor individuals should be sanctioned by analysing the use of such money. The various steps that can be taken by microfinance organizations such as providing loans at reasonable interest rates, offering borrowers various options for repayment, and educating about financial literacy to help them understand the loan conditions in a better way and improve money management. Such steps can ensure avoidance of over-indebtedness and ensure that the companies providing the loans will

receive such money on time. It is also recommended to the MFI that they should set-aside a budget of the total money that can be used for various purposes.

Future study scope

Microfinance forms an important part of the financial infrastructure of India that aims at providing loans at cheaper rates of interest to the poor people. But due to lack of proper monitoring regulations, this industry practices various unethical tasks that need to be regulated by a higher authority such as RBI in India. Due to these issues, poor people face various difficulties in availing and repayment of loans which sometimes leads to over-indebtedness and increases the chance of suicide among the poor. The research has found that poor people in the rural areas get the benefit of these schemes and the urban poor are mostly deprived. There is a huge scope for increasing the study in the area of the topic of the research as most of the research has been conducted where only the benefits of the microfinance sector have been discussed. There are only a few studies that focused on finding the dark side of micro financing in the Indian economy. Thus, this research can provide a valuable insight to the audiences regarding the disadvantages and unethical practices of the companies operating in the sector of microfinance.

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