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GROWTH AND SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN INDIA AND BANGLADESH-A COMPARATIVE REVIEW STUDY

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ABSTRACT

Microfinance is important because it provides loans to people at the bottom of the economic pyramid. The study is to examine the growth and sustainability of microfinance institutions, as well as to conduct a comparative analysis of Indian and Bangladeshi MFIs. This study also attempts to assess the long-term viability of microfinance in both nations. According to prior studies, both countries are doing well in terms of microfinance growth and sustainability. According to the literature analyzed by the author, Indian MFIs are more profitable and run more efficiently than those in Bangladesh. Moreover, according to several articles, microfinance may fail to reduce poverty in Bangladesh. According to other articles, the results are not favorable in the context of India.

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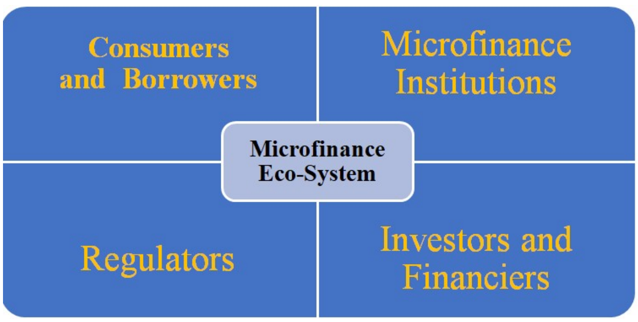
INTRODUCTION

The concept of microfinance was introduced to access credit for low-income people who intend to start up new businesses (Mani, 2021) or to borrow from local moneylenders at higher rates of interest.MFIs have proved that the poor are bankable and that small loans can make a huge difference in poor households' lives (Haq *et al*., n.d.). India and Bangladesh are one of the developing countries in the world (Rai & Rai, 2011). The GDP per capita of India is $2389 as of the year 2022 and the GDP per capita of Bangladesh is$2688 as of the year 2022. Poverty is a major problem in these countries. In these economies, it is argued that among others absence of access to credit is presumed to be the cause of the failure of the poor to come out of poverty (Etefa, 2018). Micro-finance is one of the ways of building the capacities of the poor who are largely ignored by commercial banks and other lending institutions and graduating (Rai & Rai, 2011). They are encouraged to engage in long-term self-employment activities by providing financial services such as credit, savings, and insurance. The goal of microfinance is not to fuel personal consumption, but to initiate a self-sustaining cycle of business growth. Its practitioners often seek both a development purpose and market principles, indicating that a changing institutional context might lead to a shift in microfinance institutions' rationale. MFIs have twin goals: social outreach and financial sustainability. Outreach refers to how many people are served by MFIs while the capacity of MFIs to serve longer is financial sustainability (Chauhan, 2021). First, MFIs must be able to provide their services to the poor over an extended period of time. The global microfinance market is expected to increase by USD 122.46 billion between 2021 and 2026, at a compound annual growth rate (CAGR) of 11.61%.11 Rapid technological adoption has been a major contributor to the growth of the microfinance sector. The combined efforts of global organizations such as the World Bank, the United Nations, and various governments throughout the world to alleviate poverty and offer inexpensive credit to the financially excluded have resulted in the creation of the microfinance business. With the increase in efficiency, Indian MFIs displayed resilience with the rise in the bottom line and better sustainability (N. Kumar & Sensarma, 2017a).



Components of Microfinance Eco-system

MFIs in India have played a significant role in the provision of small credit, particularly to the poor. They are making significant contributions to the cause of financial inclusion in the country. MFIs currently cover all 28 states and 5 Union Territories through roughly 650 districts. There are, however, regions that MFIs have been unable to reach. One possible path ahead is to guarantee that MFIs cover all geographies and meet the needs of the poor.

Objectives:

A) To explore the growth and sustainability of microfinance.
B) To compare the growth journey of microfinance in India and Bangladesh.

LITERATURE REVIEW

The primary goal of this article is to conduct a thorough examination of the growth of microfinance in India and around the world, with a focus on comparisons between India and Bangladesh. As a result, the author conducted a thorough review of the literature from various sources, such as previously published research papers, articles, books, and so on. Previous research had showed that Bangladeshi MFIs fared better financially than Indian MFIs till 2007, however this study has demonstrated that in the recent five years, Indian MFIs have performed better in most financial indices (Rai & Rai, 2011). Tiwari (2012) did a comparative study on the operation of microfinance in Bangladesh and India, examining whether MFIs are serving their intended purpose or becoming commercial centers. When compared to Bangladesh, MFIs in India have been discovered to be transitioning from the status of social institutions to more profitable ventures, but it has also been revealed that Indian MFIs are producing good returns to maintain a sustainable business model (Rupa, 2017). In their comparative study on microfinance for Bangladesh and India, Kumar *et al*. (2012) analyze if the institutions are performing their purpose of existence or are these becoming profit-making centers. They conducted a comparative analysis of loans made by institutes to consumers, clientele, and the financial viability of MFIs in India and Bangladesh. They discovered that Indian MFIs are more profitable and efficient than Bangladeshi MFIs (Rupa, 2017), (Gupta & Sharma, 2023) presented a systematic literature review on microfinance institutions' (MFIs) effect on poverty and how they can ensure their sustainability, and their findings indicate that microfinance has a positive effect on poverty, but to varying degrees on different categories of poor, and the relationship between poverty and microfinance is, however, dependent on the nation under scrutiny. While sustainability and outreach coexist, their trade-off remains unknown (Gupta & Sharma, 2023) (Moin & Kraiwanit, 2023) investigated digital improvements to microfinance in Bangladesh and found that digital technology has the potential to significantly improve Bangladesh's microfinance sector, with benefits such as increased transaction efficiency and speed, lower operational costs, improved access to financial services for rural and underbanked populations, better loan portfolio management and lower default rates, and increased transparency and accountability.

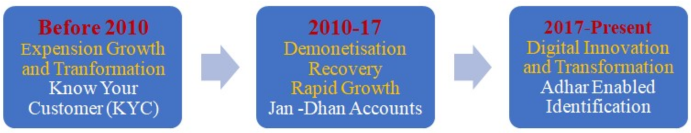
(Rai & Rai, 2011) investigated the issue from a sustainability standpoint, concentrating solely on microfinance institutions in India and Bangladesh. The research aims to analyze the performance of Indian MFIs and compare it to the performance of Bangladesh MFIs, as well as to establish the relationship between sustainability and other financial indicators and to develop a more comprehensive model for financial sustainability. It has been demonstrated that over the last five years, Indian MFIs have performed better in most financial indicators. (Dr.Puspa Raj Sharma, 2020) compared micro-finance-GB Model practices in Nepal and Bangladesh by including observations, a general overview of micro-finance in Bangladesh and Nepal, a comparison of the key indicators of micro-finance services, major micro-finance strategy in Bangladesh, and lessons from Bangladesh, and discovered that the overall productivity of Nepalese MFI appears to be low when compared to Bangladesh. (Rupa, 2017) focused on the goal of analyzing and comparing the MFIs in India and Bangladesh based on their age, and for the age-wise comparison of the performance of MFIs in India and Bangladesh has been done by using the Kruskal Wallis test, findings show that mature MFIs have shown better performance in terms of breadth of outreach, return on assets, operational self-sufficiency, profit margin, total expense to assets, financial expen. (Haq *et al*., n.d.) compare the regulatory frameworks of microfinance institutions (MFIs) in Asia and discovered that formal MFIs are generally regulated under banking legislation and supervised by central banks and suggested that the regulator should also remember the cost of over-regulation and that this regulation is a joint and separate responsibility of governments, central banks, donors, and private sectors, although their regulators require sufficient competition. (N. Kumar & Sensarma, 2017b) attempted to examine the financial efficiency of microfinance institutions in India and analyze their efficiency in reaching women and the poorest of the poor and discovered that, on average, the financial efficiency of Indian MFIs is much higher than their social efficiency; however, the study found no evidence of a trade-off between financial and social efficiency. Rai (2011) compared the financial performance of the two most promising Asian economies in the Microfinance sector, namely India and Bangladesh, and concluded that Bangladeshi Microfinance Institutions have saturated.

METHODOLOGY

In this paper, secondary data has been used.The objective is to study the literature to review the literature to suggest the potential existence of a trade-off between sustainability and outreach(Gupta & Sharma, 2023)**.**The research aims at analyzing the performance of Indian MFIs and comparing it with the performance of Bangladesh MFIs. It also aims to establish the relationship between sustainability and other financial indicators and develop a more comprehensive model for financial sustainability (Rai & Rai, 2011).

History of microfinance: Since its inception in the 1970s as part of the Grameen Bank model, the concept of microfinance has evolved as a critical component in fostering financial inclusion. Microfinance assists low-income people to overcome deprivation by offering financial services and microcredit, which aid in income generation, improves livelihood, and promotes community integration. The microfinance industry primarily caters to rural and underprivileged communities, particularly women, as well as small and micro businesses, with the goal of encouraging self-sufficiency among them. The microenterprise movement in the 1970s and 1980s resulted in the formation of non-governmental organizations (NGOs) that gave small loans to the underprivileged.Inthe 1990s, across the world (N. H. Kumar, n.d.). The year 2005 was designated as the Year of Microcredit, and Md. Yunus and Grameen Bank were awarded the Nobel Prize for their contributions to microfinance the following year. Furthermore, in 2010, microfinance was tied to the United Nations' Millennium Development Goals (MDGs).We hardly find research in the context of the theme of this paper before 2000(Gupta & Sharma, 2023).

Growth of Microfinance in India: India has the largest microfinance market in the world. NABARD's SHG-Bank linkage program is the world's largest microfinance program, covering over ten million families and generating Rs.38,800 crores in yearly loan offtake and Rs.61,600 crores in collateral.-interest-free loan (Chintala, 2017).



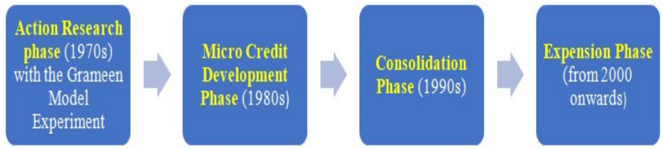
The Microfinance Journey in India: Microfinance has come a long way on the Indian subcontinent. Throughout the journey, starting from a small experiment by the National Bank for Agricultural and Rural Development (NABARD) in the late 1990s in the state of Karnataka till the conversion of Bandhan, an Indian non-banking MFI, to a full-fledged commercial bank in 2015, microfinance has reached millions of families (Pati, 2021). (Gupta & Sharma, 2023) find positive results. However, the results were not always such.The MFIs suffered from stagnation and low penetration during the early

2000s but started giving positive results in 2015 (Jassim *et al*., 2018) (Gupta & Sharma, 2023). Microfinance in India began with the Reserve Bank of India's formal sanction in 1992, allowing banks to open accounts for Self-Help Groups and lend to them based on the strength of their deposits. NABARD launched an innovative scheme called SHG Bank Linkage.

Following that, the RBI enabled other institutions to give microcredit to the needy, resulting in the establishment of the first Micro Finance Institutions in the country. The Government of India and the Reserve Bank of India have been extremely supportive of the microfinance industry, establishing a policy and regulatory framework that allows Microfinance Institutions (MFIs) to operate in the country. This has given the industry the necessary credibility and impetus. SROs appointed by the RBI have ensured that MFIs in general comply with rules, address client protection concerns, follow the Industry Code of Conduct, and engage in responsible lending. This year marks the third decade of the SHG Bank Linkage Program, which began in 1992. The initiative has grown to become the world's largest microfinance program. The paradigm has been used by the Government of India in its poverty alleviation projects such as SGSY, and currently in the National Rural Livelihood Mission (NRLM), the Ministry of Rural Development's largest program. It employs the SHG model to mobilize poor households and to establish member-level institutions at various levels to support the same. The SHG Bank Linkage Programme, begun by NABARD and now carried forward by the GOI and state governments, has been able to give credit to 14.2 crore poor households in the country, amounting to 1,51,051 crore (SHA-DHAN).

Client Outreach and Loan Portfolio: Client outreach and loan portfolio, which are also two essential metrics of an MFI's contribution to financial inclusion, are used to measure the growth and spread of the microfinance sector. The operational geographies and number of clients served by an MFI might indicate the depth and breadth of its financial deepening. MFIs operate in 33 Indian states and union territories.There were 22,428 MFI branches in the country as of March 31, 2022. This figure has risen by 12% since 2020-21, when it stood at 20,065. As of March 2022, the distribution of branches across different kinds of MFIs shows that NBFC-MFIs had the lion's share of 18,356 (82%) branches. During fiscal year 2021-22, 3,773 new branches were opened, while 762 were closed. NBFC-MFIs have 18,356 branches, NBFCs have 2,199 branches, Section 8 Companies have 1,030 branches, and Other NGO-MFIs have 843 branches. Very Large MFIs (GLP> 2,000 Cr) with 13,685 branches, followed by Large MFIs (500 Cr-2,000 Cr) with 4,479 branches, Medium MFIs (100 Cr-500 Cr) with 2,297 branches, and Small MFIs (GLP) with only 1,967 branches. Majority of these clients are being served by NBFC-MFIs (80%), and the remaining by NBFCs (8%), Sec. 8 Companies (3%) and Others (Society/Trust/MACS) (9%). MFIs with outstanding portfolio above ₹2,000 crore had a wider outreach, reaching 74% of the clients in the industry (BMR 2022).

Growth of Microfinance in Bangladesh: Bangladesh has long been considered as the cradle of microfinance, and competition has grown significantly over the last decade. Microfinance has evolved as an economic development strategy to serve low-income people in rural and urban regions since its inception. Bangladesh has one of the most extensive microfinance histories. Since Grameen Bank and BRAC performed many pilot programs and tests, microfinance in the country has seen constant progress (N. H. Kumar, n.d.). Nobel Laureate Professor Muhammad Yunus' pioneering work in Bangladesh during the 1970s resulted in the founding of the country's first microfinance organization, after successful experiments with lending small quantities of money to poor residents of Bangladeshi communities. This effort had a substantial impact on the development of microbusinesses, skill development, wealth, standard of life, and economic empowerment in Bangladesh (Uddin *et al*., 2023). Bangladesh's microfinance sector has evolved through four distinct stages: action research in the 1970s with the Grameen Model experiment, microcredit development in the 1980s, consolidation in the 1990s, and expansion from 2000 onwards (Sethi *et al*., 2019).



The Microfinancejourney in Bangladesh

Bangladesh is widely regarded as the home of contemporary microfinance, with a plethora of very successful microfinance institutions (MFIs) making significant contributions to poverty reduction and economic development in the country. In 2022, Bangladesh's microcredit sector had exceptional diversity, containing a range of MFIs ranging from modest non-governmental organizations (NGOs) to formidable, large-scale corporations. These MFIs provided a wide range of loan products and services that were precisely crafted to meet the specific demands of diverse borrower segments. According to the Microcredit Regulatory Authority (MRA), approximately 40 million people have benefited from various microfinance projects, and the workforce active in these programs has topped 200,000 people. A particularly striking number was that an astounding 90% of these beneficiaries were women, demonstrating the transformative power of microfinance in increasing financial access among underrepresented communities. According to MRA data, these Microfinance Institutions (MFIs) have injected more over 2 trillion Bangladeshi Taka (BDT) into the national economy, not only fortifying financial stability but also providing a significant contribution to the country's GDP growth. Furthermore, data from the Bangladesh Bureau of Statistics (BBS) revealed a considerable increase in women's active participation in economic and entrepreneurial ventures. Women made up a sizable proportion of microfinance borrowers, resulting in significant advances in gender equality and economic empowerment for women. Microcredit's impact extended beyond economic realms; it also played a critical role in supporting social development in Bangladesh. MFIs, for example, have helped to improve access to education and healthcare services for the economically disadvantaged portions of society. This multidimensional impact highlighted the critical role of microfinance in transforming Bangladesh's socioeconomic environment.

FINDINGS AND DISCUSSIONS

Indian microfinance customers are now paying a comparatively high interest rate on their loans (Rai & Rai, 2011). Microfinance in India employs a variety of models, including NBFCs, NGOs, and so on. According to the data, NGOs outperform NBFCs in terms of financial and sustainability performance, but not in terms of social performance. Furthermore, the former has lower operating costs and a higher portfolio quality than the latter. As a result, NGOs outperform NBFCs in all performance aspects except social performance, where both are equally efficient (Ghose *et al*., 2018). Both India and Bangladesh are developing countries with numerous successful microfinance models and stories, however several studies show that India was a relatively late entrant to the microfinance model but has now become the world's largest microfinance market. According to stated data for 2013 (mixmarket.org), MFIs in India disbursed loans of USD 4.6 billion to 31.3 million borrowers (N. Kumar &Sensarma, 2017b). The microfinance sector has expanded dramatically. Despite roadblocks along the way, the sector maintained its resilience and emerged from the majority of external events that hampered the sector's growth from time to time. Concerns have been raised about the distribution of microfinance across the country. While the top ten states account for roughly 80% of all outstanding credit, the following 26 states/UTs account for the remainder. Similarly, the top 25 districts account for over 20% of the total portfolio, with 12 districts having portfolios worth more than 2,000 crore. On the other hand, approximately 80 districts have less than 25% credit penetration, and approximately 200 districts have loan portfolios of less than Rs 100 crore. This type of credit growth mismatch must be investigated. Similarly, the delinquency rates in North Eastern, West Bengal, and several of the smaller states are higher. Surprisingly, the per capita loan amount shows that several of these states have larger per loan amounts. There is a need to consider carefully about loan eligibility screening. In the public policy arena, the microfinance sector must emphasize three crucial themes. To begin, there is a need to articulate the idea that microfinance is a strategic component of the Government's and the Central Bank's financial inclusion program. Second, the sector must reaffirm its collective intention to assist the poor and unbanked population by establishing the appropriate mission, social performance measures, and client protection protocols. Furthermore, it is important to underline that microfinance organizations are sustainable financial institutions that continue to be an investible destination for bankers and investors (Sh-Dhan).

Limitation of the study: This study has some limitations due to obtaining only secondary data. Only the GoogleScholar database has been taken into consideration for research papers. Some official websites and theses have also been reviewed for this study.

CONCLUSIONS

The importance of microfinance in reforming the world's status by raising the fiscal and civic living standards of vulnerable and destitute segments of the population is well acknowledged. The writers are very interested in microfinance because it generally falls under the category of corporate social responsibility and aims at the sustainable development of underdeveloped countries (book). Microfinance has probably shown to be one of the most effective strategies of alleviating poverty in Bangladesh and the developing globe (Uddin *et al*., 2023). Bangladeshi MFIs reach out to women borrowers more effectively than Indian MFIs. Despite the fact that women account for more than 90% of clients in each of these nations (Rai & Rai, 2011). The Microfinance Scheme has been identified as an effective tool for bringing the poor out of poverty by increasing self-employment options and making them creditworthy (Kumar Shastri, 2009).

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