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### RESEARCH ARTICLE

#### MICROFINANCE IN DIFFERENT COUNTRIES: COMPARATIVE ANALYSIS OF DIFFERENT COUNTRIES

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#### Manuscript Info

##### Manuscript History

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#### Abstract

This paper compares microfinance across Bangladesh, India, Cambodia, France, and the USA from 2013 to 2023. Microfinance, which originated in Bangladesh in the 1970s, provides financial services to low-income individuals. In developing countries, microfinance plays a crucial role in poverty reduction and financial inclusion, with loan disbursements in billions of USD. In contrast, developed countries like France and the USA utilize microfinance on a smaller scale, with disbursements in millions, often for business expansion. Trends show higher loan volumes but greater volatility in developing economies.

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#### Introduction:-

Microfinance consists of two words, "micro" and "finance." Micro is derived from the Greek word "mikros, which means small, and "finance" has come from the French word "finances, which means monetary resource. Hence, microfinance deals with the financial services that deal with small monetary resources. Microfinance means financial services provided to low-income individuals who live in rural households, mostly women, to provide them with a better standard of living and with the aim of making them self-sufficient.

However, microfinance can be traced back to the 1800s to the theorist Lysander Spooner\*, who wrote about the benefits of lending small amounts of credit to farmers to help them get rid of poverty. Microfinance was first started in Bangladesh by Nobel Prize winner Muhammad Yunus in the 1970s. Which led to the founding of Grameen Bank, the first MFI in the world, in 1976. Since its inception in Bangladesh in 1976, microfinance has expanded significantly, now being available in more than 91 countries\*. The effect of microfinance has been widespread, as it has helped more than 80 million people\*. There are more than 300 MFIs in the world. MFIs mean institutions that provide microfinance services to the public. They include various services like microcredit, savings accounts, financial education, and insurance. MFIs can have a major role in the development of a developing country. This is because the poverty rates of a developing country are comparatively higher than those of a developed country. Since MFIs serve the impoverished population, they generally address a larger market in developing countries compared to developed ones. For example, in a developing country like India or Bangladesh, people living in poverty are 63.9 million (2023) and 31.79 million (2023), respectively, with at least 66 million and 35.6 million people who have used MFIs at least once since its introduction. Nevertheless, in developed countries like France, where the people living in poverty are not more than 9.1 million people, only 49 thousand people have used MFIs. This shows us a good insight about how microfinance has varied in different countries. The role played by MFIs in developed countries varies largely from that in developing countries. Hence the objective of this research paper would be to understand how and why microfinance plays a different role in developed versus developing countries. The aim is to

compare various variables like the availability of primary institutions of finance, social safety nets, welfare programs, and immigrant policies. This paper would act as an analysis of microfinance needs in different countries.

**Objective:-**

To conduct a comparative analysis between countries Bangladesh, India, Cambodia, France, and the United States on microfinance in 2013, 2015, 2018, 2021, and 2023 on the following variables:

- 1) Loan Disbursement
- 2) Average Loan per Person
- 3) Year-on-Year Growth of the Market

**Country 1: Bangladesh**

Bangladesh was the first country to have microfinance, an initiative by Nobel Prize Winner Muhammad Yusuf. The country since then has taken many initiatives to grow this industry and make the government-supported industry. The information given below is subject to microfinance institutions that are government-supported or based.

In the year 2013, microfinance in Bangladesh had a total loan disbursement of \$3.55 billion. The average loan per person was not more than \$109. The average rate of interest ranged from 20.8% to 29.5%. The primary institutions were Grameen Bank, The BRAC, and ASA International.

In the year 2015, microfinance in Bangladesh had a total loan disbursement of \$5.21 billion, a 46.76% increase from the latter. This is primarily because of the expansion of MFIs in under \$5.21 billion. The average loan per person was \$165. The interest rates declined, now ranging from 18.5% to 27.9%.microfinance This was because of the improved efficiency seen in microinstitutions. The primary institutions remained the same.

In the year 2018, microfinance in Bangladesh had a loan disbursement of \$9.88 billion, an 89.57% increase from 2015. The adaptation towards digital financing and an initiated initiative to achieve an 89.57% reduction were the main reasons for the steady growth. The average initiated increase was 6%, which was about \$174. The interest rates declined even further, ranging about 24.7%. The increased regulatory support from financial inclusions led to this decline in interest rates.

In the year 2021, the loan disbursement was \$12.43 billion, a 25.81% increase from 2018. This slow growth was likely a result of the COVID-19 pandemic, to which the MFIS adapted quickly. The average loan per person increased by 5%, about \$185 per person. Interest rates had a steady decline: 12.2%–21.8%.

In 2023, the loan disbursement was about \$23.52 billion, an 89% increase since 2021. This is because of the post-pandemic recovery of the financial market and the all-time high of fintech. Another key reason for such staggering growth is the low of the Bangladeshi taka to the USD. The average loan per person in this year was \$400, a spike of 115%. The interest rates continued to decline, now ranging from taka to 20.4%. The ongoing competition and the regulatory efforts to make microfinance more affordable are the main reasons for this steady decline.

Overall, microfinance in Bangladesh has grown more than 500% in the past 10 years. It has played an integral role in the reduction of poverty and financial independence for the rural.

1 usd = 121 BDT

**Country 2: India**

India is the most populated country in the world currently, with a population of 142.86 crore. It is a rapidly developing nation that relies on agriculture. Hence, the need for microfinance institutions was always there. The Indian government has taken various initiatives for the same. The information given below is subject to microfinance institutions that are government-supported or based.

In 2013, India’s government-based MFI loan disbursement was about \$2.45 billion. The average loan taken by an individual was about \$175. The interest rates ranged around 18.6% to 27.8%. The primary institute was the National Bank for Agriculture and Rural Development.

In 2015, India had a total loan disbursement of \$4.33 billion. The average loan was \$207. The growth from 2013–15 was about 77%. The major reasons for this rapid growth included new microfinance policies introduced by the Reserve Bank of India, the introduction of Pradhanmantri Dhan Yojna, and the general rise of financial inclusion and disruption. The Interest rates were slightly reduced, ranging from 16.4% to 25%.

In 2018, the total loan disbursement was \$6.77 billion. The average loan was \$300. The growth rate from 2015 was 56%. The growth during this time was significant but less, as this was a stage post-monetization. The reasons for growth included upcoming digital transactions and expansions of mfis in rural and semi-urban places. The policies introduced this year included the Mudra Yojna. The interest rates were about 14.5%–23.7%. This steady decline was a result of all the initiatives taken by the government.

In 2021, the total amount of loans disbursed was \$6.75 billion. The average loan per person increased and now stands at \$412. The industry noticed a decline of 0.3%. The most important reason for this was the COVID-19 pandemic. The increased default rates and even the conservative approach to lending could've also played an important role. The India-wide lockdown made it all the more difficult. The average lending rates were 15%–22.8%.

In 2023, India had a significantly good year in all finance because of the up-and-coming digital finance options. The post-pandemic stage was now over, and as a result, the microfinance industry disbursed loans of \$11.63 billion. This was growth of more than 72%. The interest rates ranged from 9% to 19.5%. The average loan per person grew even further now at \$471. Higher female participation in microfinance and the growth of rural finance in the country led to this magnificent growth over 2 years. However, this may not be the only reason, as inflation and the rise in daily needs and consumption also grew, hence, larger amounts of loans were required to meet both personal and business needs.

86 rs = 1 usd

### **Country 3 : Cambodia**

Cambodia is a Southeast Asian country on the Indochinese Peninsula. It is one of the least developed lower-middle economies in the world. The role of microfinance was very important in Cambodia to fight poverty. It was introduced in the early 1990s, after a long period of conflict and when the banking system was not working.

In the year 2013, microfinance institutions in Cambodia had disbursed a total loan of \$1.31 billion. The primary institutes in Cambodia in 2013 were Prasac MFI, ACLEDA Bank, and AMRET. The average amount of loan distributed per person was \$744. The interest rates ranged from 15% to 16.5%.

In the year 2015, microfinance institutions in Cambodia had disbursed a total loan of \$3.05 billion. A total growth of 132% from 2013. This is because of various reasons, like financial inclusion initiatives by the government to support rural communities, high demand for agricultural loans for small-scale farmers, and an increase in foreign capital inflow as investors saw Cambodia as a high-return market and as it had minimal regulations enabling aggressive loan disbursement. The average loan per person also increased more than 2 times than that of 2013, now \$1496.

In 2018, the total amount of loans disbursed by microfinance institutions in Cambodia was \$5.43 billion. It was an increase of 77.9% from 2015. The major reasons for this included the expansion of MFIs, which led to an outreach in deeper rural markets, the real estate and SME boom, and the start and adoption of various mobile banking and digital loan disbursements. This growth was also a result of over-indebtedness; borrowers started taking multiple loans. The average loan per year has yet again doubled over the past 3 years, now standing at about \$2900.

In 2021, during the pandemic COVID-19, the total amount disbursed in Cambodia by microfinance institutions was \$7.9 billion. A growth of 45.5% from the year 2018. MFIs in Cambodia, despite having gone through a pandemic, were successful in having growth. This is, however, because of the increasingly high borrower dependency on microloans to survive economic shocks. Real estate loans peaked during these years. Even the interest rate cap policy of 2017 at 18% played a role, but it did not halt the growth of aggressive lending.

In 2023, the then great market of microfinance of Cambodia had finally unfolded as a result of over-indebtedness. The total amount of loans disbursed was now \$5.4 billion. This was a decline of 31.6% from 2021. The major reasons were the over-indebtedness crises, multiple loans per household resulting in debt defaults and regulatory

tightening. The NBC, National Bank of Cambodia, had imposed stricter reporting and capital requirements. Because of this crisis, foreign investors became wary, leading to reduced funding for MFIs.

1 USD = 4008 Cambodian Reil

Country 4: France

France is located in western Europe and is one of the most important countries in the world. It is a developed country and has the sixth-largest economy in the world. Well-developed countries do not specifically have the concept of developed countries but have it categorized under microloans. The main reason for this is because of the high standard of living and less poverty. In France, a microloan is anything that is categorized under €12,000, or about \$12,537.

In 2013, the total amount of microloans disbursed in France was about \$267 million. The average amount of the loan was about \$4100. The primary institutions for these microloans were Adie, France Active, Credit Cooperatif, and many others.

In 2015, the microloan industry was not able to grow and, as a result, faced a decline of 16.1%. The total microloans disbursed by French banks during this time was about \$224 million. The major reason for this decline in the amount of microloans taken by people in France was mostly because of the post-Eurozone crisis. The economy also faced severe unemployment, because of which the demand for microloans had reduced, especially among small entrepreneurs. The average microloan amount per person also took a hit, now being about \$3023.

In 2018, the microloan industry doubled; 129% growth was seen in France since 2015. The total amount of loans disbursed is no standing at \$514 million. The major reasons for this were the increased focus on start-ups and social enterprises through microloans, strong public funding for MFIs, especially for women and immigrants, and tax benefits encouraging private microfinance investments. The average amount of loan taken per person is \$4,781.

In 2021, the microloan and microfinance industry suffered major drawbacks due to COVID-19 and was not able to grow significantly; it grew by 0.16%. The total amount of microloans disbursed by banks in France was about \$515 million. The major reason for such less growth in France was firstly due to COVID 19. But new MFIs shifting towards eco-friendly models was also a reason for sustaining growth.

In 2023, the microfinance sector in France grew massively and doubled in number from 2021. The total loan disbursed by banks in France in 2023 was about \$1.1 billion. A 114.5% increase from the year 2021. The average loan taken by a person was not more than \$3973. The reason for such growth in 2 years was because of the post-COVID-19 recovery of the microfinance market. It also included the digitalization of microfinance and the various fundings received from the EU.

1 USD = 0.95 EURO

#### **Country 5: USA**

USA is the world's largest economy with a GDP of over \$25.4 trillion. It is considered a superpower and is a developed country. It is located in North America. The concept of microfinance is widespread in America but is privatized largely and does not have many government-supported MFIs. Hence the most direct government-based initiative in the USA for microloans in the SBA Microloan program.

In 2013, the SBA Microloan Program had disbursed loans worth \$44.9 million. The average loan per person was \$11,401.

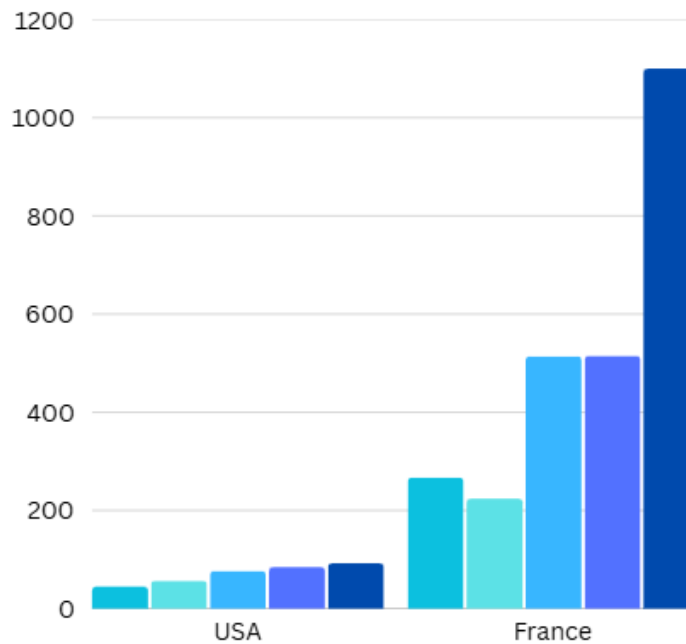
In 2015, the SBA Microloan program had grown by 26.5%. Now the total amount of loans disbursed by the SBA Microloan Program was \$56.8 million. The reasons for this growth were increased emphasis on entrepreneurship and small business support under government programs and even the rise in targeted minorities and women-owned businesses. The average loan per person was \$12,489

In 2018, the SBA Microloan program had grown by 35.2%, primarily because of the upcoming shift towards technology. The total amount of loans disbursed by the SBA microloan program was \$76.8 million. The reasons

were the digitalization of small-scale enterprises leading to higher microloan demands; even the expansion of the SBA program resulted in steady growth; and entrepreneurs in gig-based industries increased, which resulted in more microloans. The average loan per person during this year was \$13,882

In 2021, the total amount of loans disbursed by SBA under the microloans program was \$85 million. The rate of growth was about 10.7%. The reasons for such minimal growth were because of the initial decline because of the shutdown of many small businesses because of COVID-19. Although the post-pandemic bounceback and special relief microloans helped many businesses restart, and as a result, the loan program saw growth. The average loan per person was about \$14,430.

In 2023, the growth rate from 2021 was 8.82%. The total amount of loans disbursed by the SBA under the microloan program was \$92.5 million. The growth rate remained stable as a result of the post-pandemic stabilization of many small businesses. The rising rates of inflation and interest rates also resulted in a caution for new businesses to take loans.



Amount of Microfinance Loan Disbursed in Developed Countries (Millions USD)

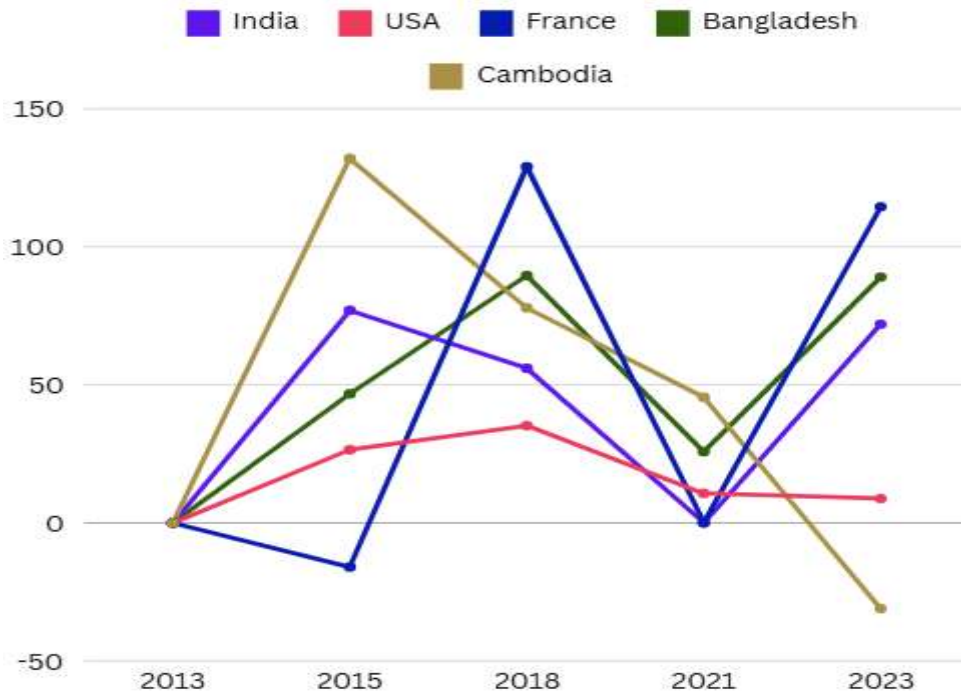
#### Trend over years: Total loan Disbursed

These graphs on the right show the total amount of microfinance loans disbursed in countries. The graphs have been divided into two: 1) Developing and underdeveloped countries 2) Developed countries. The key differentiating factors between these countries are the scale of microfinance, the growth trends, and the role of microfinance with reference to the total amount of loan disbursed.

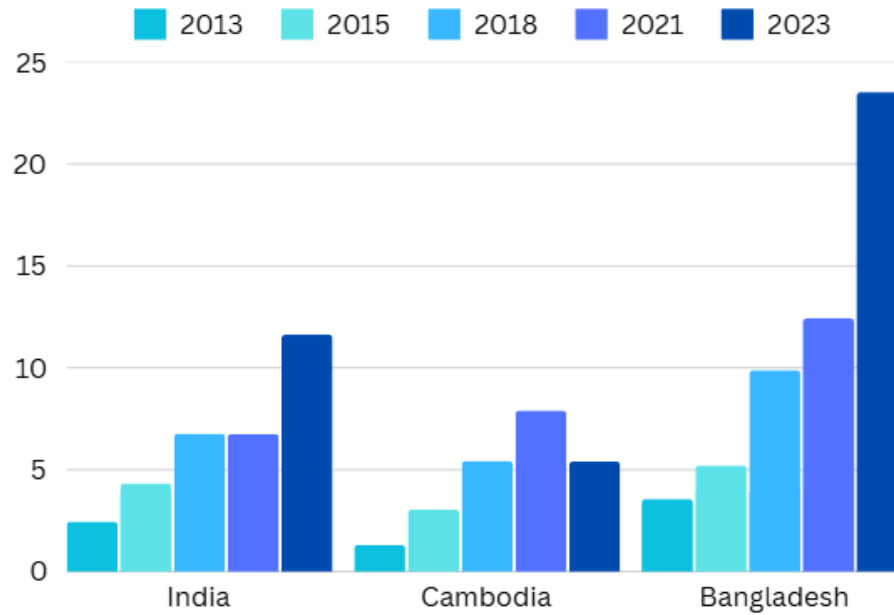
1) The Scale of Microfinance: The scale of microfinance in developing and underdeveloped countries is in billions of USD, whereas for developed countries it is in millions. As presented in these charts, Bangladesh alone reached \$25 billion in 2023, whereas the developed country France only reached a little over \$1 billion. This displays the large role of microfinance in countries like India, Bangladesh, and Cambodia. The lack of availability of traditional banking resources has led to poor people switching to microfinance in developing and underdeveloped countries.

2) The Growth Trends: The growth in developing countries and underdeveloped countries is high but volatile. As can be seen in the growth chart, India had significant growth from 2015 to 2018, but then had a dip in 2021. This was a major differentiator between developing and developed countries. As can be seen, the growth rate in developed countries is low and stable. Although a dip can be seen for almost all countries in 2021, it isn't as volatile as it is for developing countries like India and Bangladesh. There might also be other reasons for this

decline in the growth rate, but it is mainly in context to COVID-19. Future trends in developing countries will depend on managing over-indebtedness and regulatory policies, while in developed countries, government incentives and fintech innovation could drive slow but steady adoption.



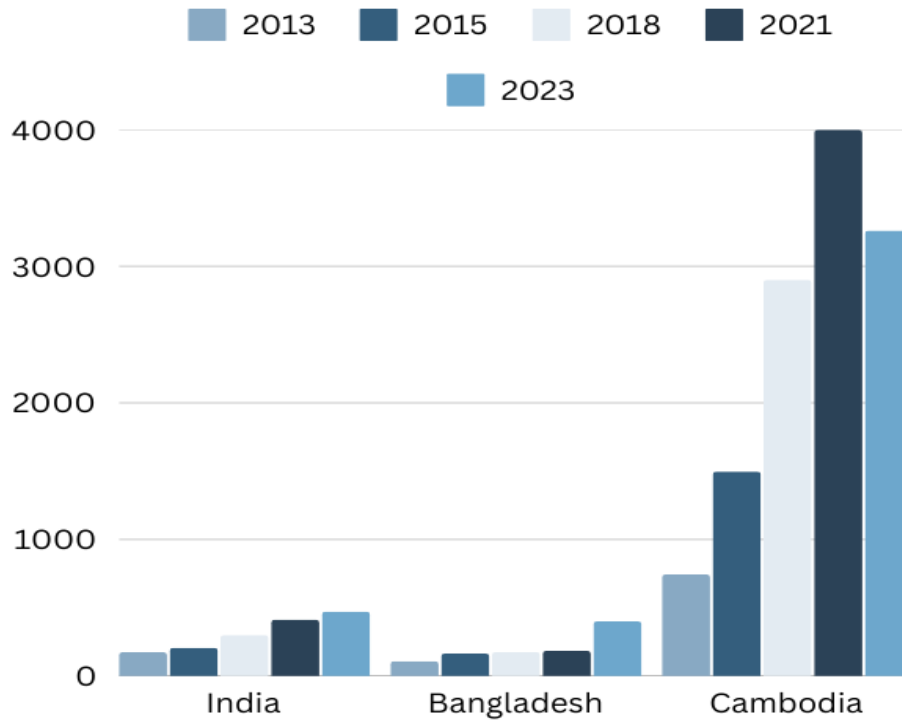
Country-wise year on year growth% chart.



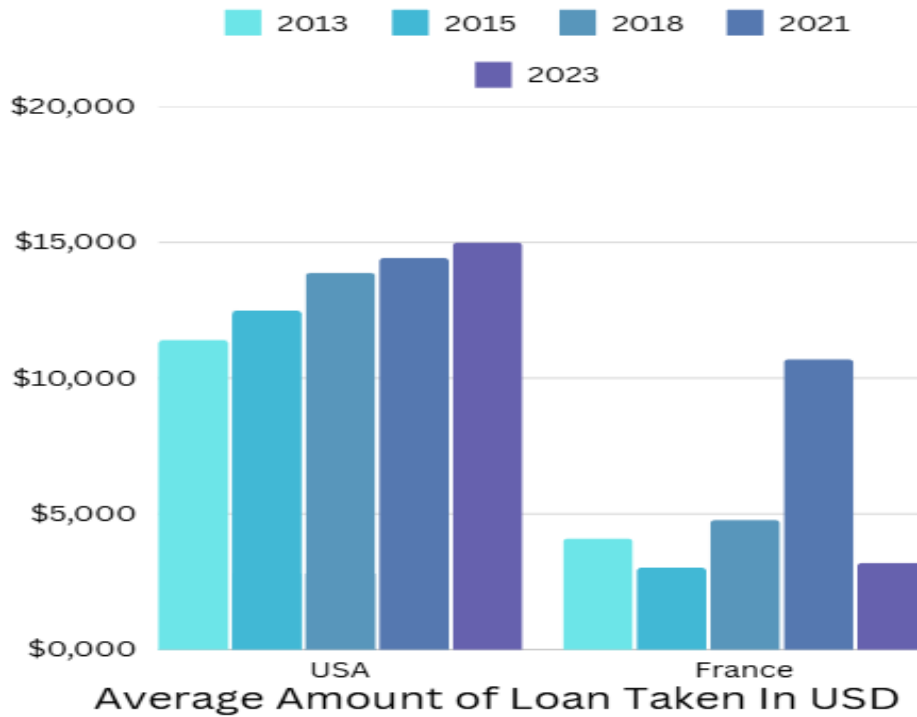
Total Amount of Microfinance Loans Disbursed (Billions of USD)

Trend over the Years : Average Loan per Person

The next variable in the comparison includes the average loan per person for developed and developing countries. The key differentiating factors between these graphs are 1) the loan size, 2) growth trends, and 3) the average cost of living.

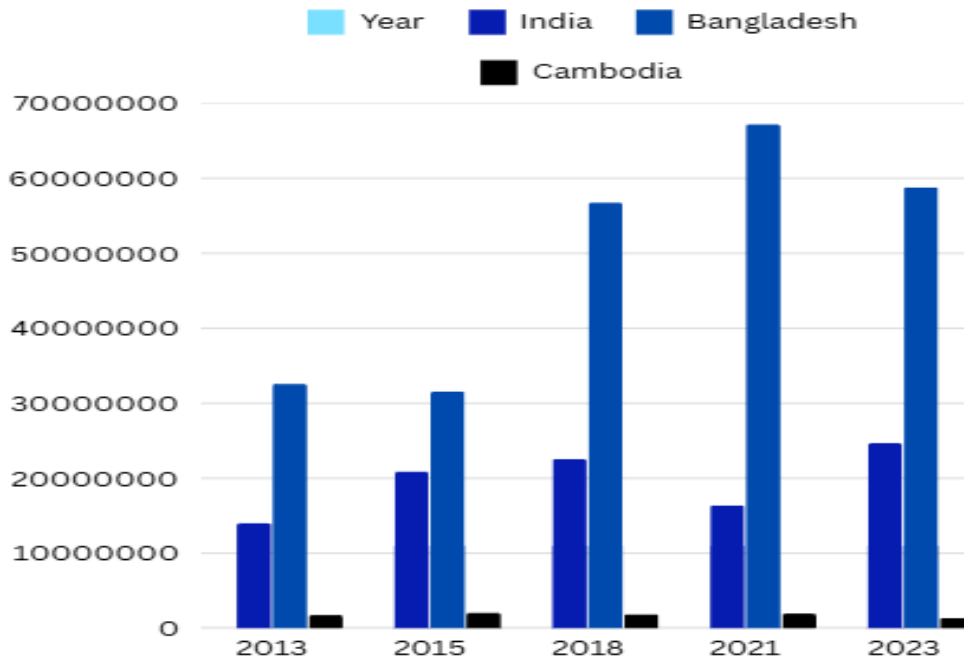


### Average Microloan Amount Per Person in USD



- 1) **Loan Size:** The average loan sizes between developed and developing countries had a wide gap. While the average loan in India didn't even cross the \$1,000 mark, the average loan in the USA exceeded \$10,000. This tells us the different role of microfinance in developed and developing countries. While the role of microfinance in India and Bangladesh is very different and is for the people that lack access to traditional banking. Microfinance in developed countries caters to different financial needs, like business expansion and alternative credit options, rather than basic financial inclusion.
- 2) **Growth Trends:** As seen in the graphs, the average loan amount has seen fluctuations for both developed countries and developing countries. For developing countries, the fluctuations in the average amount of loans are highly volatile. Cambodia saw its peak in 2021, which was then followed by a steep decline. Whereas India and Bangladesh just had continuous, gradual growth. Developed countries like the USA saw a steady increase in the loan amounts, whereas France saw fluctuations mainly because of the change in financial policies.
- 3) **The Average GDP Per Capita:** The loan size is lower in developing nations because their GDP per capita is lower. Microloans in India (\$2,400), Bangladesh (\$2,800), and Cambodia (\$6,100) are all in the few hundred to few thousand USD, as expected by income and ability to repay. Microfinance in these nations is mostly to cover the gap left by mainstream banks, providing small loans for daily living and small enterprises. On the other hand, however, developed nations such as the USA (\$75,000) and France (\$45,000) experience greater loan sizes, typically above \$10,000 per individual. Individuals are able to access greater loans with increased incomes, primarily for business growth and other credit purposes and not for financial inclusion per se.

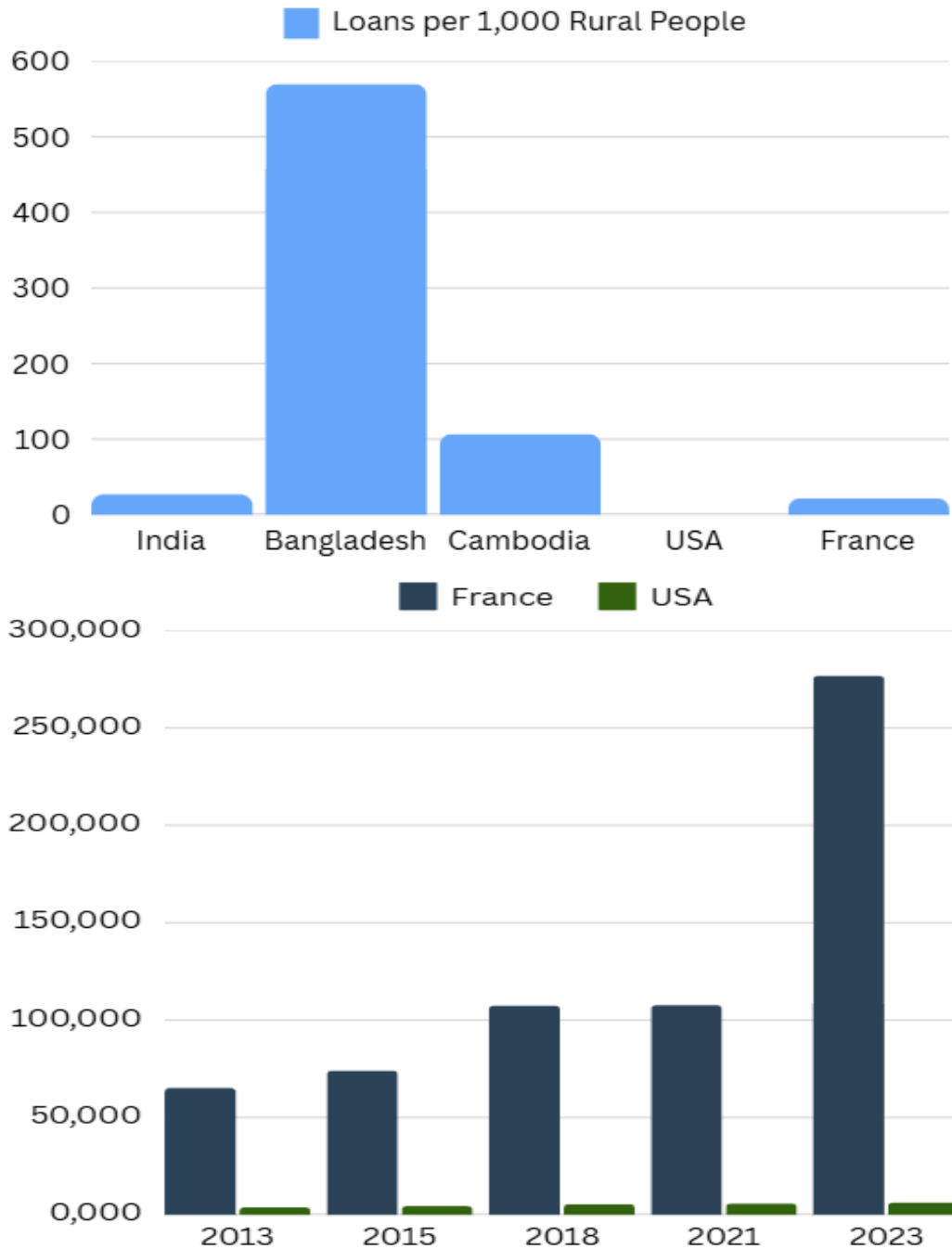
**Trend Over the Years: Number of Loans Given**



A large amount of microfinance loans have been disbursed in the previous decades across all countries. The key differentiating factors between developed and developing countries are:

- 1) **Number of Loans Disbursed:** While in developing countries the amount of loans is in millions, the loans in developed countries do not exceed more than 300,000. The simplest reason for this is because of different goals and objectives of microfinance in these countries. Microfinance in a country like Bangladesh is a lifesaver for people who cannot access the traditional banking system. But for people in the USA, microfinance is merely just another source of credit. However, there is a recent spike in the growth of microfinance in France and other European nations.
- 2) **Rural Population:** Since the main objective of microfinance is to help rural people become financially independent by providing loans to run their businesses. Hence, to properly compare, we must know the total number of rural people that have received microfinance loans. In a country like India, where the majority of the population is rural, only 27 of 1000 people have had the opportunity to microfinance. Whereas in Bangladesh it is about 530 people per 1000 rural people. This number is particularly low in the USA, with only

0.1 person per 1000 people. But this is just because of the fact that microfinance is not required by people because of the variety of options and access to the traditional banking system.



**Key takeaways from these trends:**

Microfinance is at the core of filling the financial gap of underprivileged groups, especially developing nations such as Bangladesh, India, and Cambodia. The study shows that in developing nations, conventional banking services are not available or are lacking, and microfinance is a major source of credit for the rural and poor population. The turnover of microloans extended in these nations is high, indicating the reliance on such banking services for livelihood and the formation of small businesses. Developed economies such as the USA and France have low microfinance penetration because of extensive access to conventional banking and credit facilities, and hence microfinance is only a secondary source of business expansion and not survival through finance.

One of the differences between developing and developed economies is the size of the loan, which directly relates to the economic state of affairs. In weaker economies, microloans are typically below \$1,000 and targeted at individuals requiring small amounts for day-to-day living or micro-enterprises. In developed economies, where GDP per capita is comparatively much higher, microloans typically exceed \$10,000 and are more of an alternative credit source than a primary source for finance, as they have traditional banking systems readily available.

Growth trends also portray a different picture—developing economies experience volatile microfinance growth with spurts of growth followed by economic downturns, while developed economies experience steady and stable uptake, with policy efforts and technology becoming the focal points. Microfinance sustainability in the future will be based on prudent lending, financial education, and regulatory backing. In the developing world, over-indebtedness must be addressed and borrowers compelled to repay their loans so that long-term financial stability can be achieved. The developed economies, on the other hand, can expect a gradual but certain increase in the utilization of microfinance based on government subsidies and fintech. In the end, though microfinance is a revolutionary force towards financial inclusion in the world, its role and influence are highly dependent on the economic situation of a country.

### **Practical Scenarios on Microfinance in India**

Microfinance in India has played an important role in the application of financial inclusion, particularly among the marginalized. The present study discusses its tangible influence, motivational objectives, related advantages, and repayment rates in relation to the loans.

### **The Actual Impact of Microfinance**

Microfinance institutions have emerged in India as a key instrument for providing financial services to individuals who did not have access to the traditional banking system. They mainly cater to underprivileged people, including rural villages, and empower them through microloans, savings, and financial literacy.

### **Economic Progress**

The microfinance sector has played a key role in improving the financial health of underprivileged people who didn't have access to traditional banking systems. A study conducted by the SIDBI Foundation for Microcredit (SFMC) found that about 70% of the entrepreneurs who used microfinance saw their profitability improve. Improved access to working capital enabled entrepreneurs to expand their business operations, expand their product line, and boost their profitability.

### **Decline in Over-Reliance on Sahokars or Informal Money Lenders**

Before MFIs, poor people were heavily dependent on informal moneylenders at extremely high interest rates. Microfinance has minimized the dependence of rural people by a large extent in the borrowing of money from informal moneylenders/sahokars. A change from 44% to 34% has been observed.

### **Financial Inclusion**

The growth of microfinance institutions (MFIs) has helped bring about a major push for financial inclusion in India. Efforts by the government, of which the Pradhan Mantri Jan Dhan Yojana (PMJDY) is a shining example, have also helped facilitate this activity. Microfinance has helped bring the unbanked into the formal financial system and has allowed them to participate in saving and investing.

### **Obstacles in the Realistic Execution**

Despite microfinance having proven to be successful, there are some inherent problems with it. Large numbers of borrowers have complained about repayment issues, mainly due to reasons of inordinately high interest payments and coercive actions by lenders. In some instances, aggressive attempts at microloans recovery have led to economic hardship as well as suicides among farm workers in a few states. However, our government and various organizations like NABARD and SIDBI are continuously working for better execution.

### **The Ideal Role of Microfinance in India**

While microfinance has come a long way in driving inclusion, its long-term goal is to achieve a more profound and more sustainable transformation in the location of the poor.

**Poverty Reduction**

Microfinance, in theory, ought to be an answer to poverty because it ought to render individuals economically independent. Microfinance ought not to extend credit alone but offer sustainable economic independence through capacity building, entrepreneurship development, and guidance.

**Sustainable Livelihoods**

A well-functioning microfinance system ought to bridge the credit lines and provide sustainable employment opportunities. This means providing training to the borrowers in good financial management, market access, and supply chains.

**Increased Women's Empowerment**

The majority of microfinance customers are women, and an efficient microfinance system should empower them. Through the provision of credit, women can be empowered to start businesses, increase household revenues, and be actively involved in community development activities.

**Low Interest Rates**

One of the strongest arguments that have been put forth against microfinance institutions is that they offer very high rates of interest. Ideally, the MFIs ought to have just and fair interest rates so that the debt trap is avoided.

**Methods for Loan Recovery**

While MFIs are to recover their loans, ethical recovery methods should be utilized. Borrowers should be dealt with with flexibility in respect of payment timing and helped in case of financial difficulties to ensure they are not forced.

**The Positive Aspects of Microfinance in India**

In spite of the adversity it encounters, microfinance has seen numerous positive results, most importantly in enhancing access to finance and empowering poor people.

**Empowerment of Women**

95% of India's overall microfinance borrowers are women. The availability of financial resources through microfinance has made them independent, allowing them to start entrepreneurial activities and earn income for their families. Empirical evidence also shows that women who borrow microfinance loans see their social status improve and have greater decision-making power within their households.

**Promoting Entrepreneurship**

The availability of microfinance credit has led to unprecedented growth in the set-up of small-scale businesses. People in the rural areas have been able to set up businesses in such endeavors as handicrafts, chicken rearing, tailoring, and shop operations, thus improving the economies within the local community.

**Improve Educational and Health Services**

Some of the microfinance loans are spent on non-enterprise activities, such as education and healthcare. About 17% of the borrowers spend their loans to finance the education of their children, and 12% spend their loans on healthcare requirements. This points to the extensive reach of microfinance beyond enterprise development.

**Closing the Rural-Urban Gap**

Microfinance has assisted in narrowing the economic disparity between rural and urban people. Rural businessmen can access funds; hence, they can compete favorably with their urban counterparts and enhance their financial welfare.

**Microfinance Loan Repayment Statistics**

Repayment of the microfinance loans is central to determining whether the MFIs are sustainable and the borrowers are healthy financially.

**Repayment Trends**

Microfinance institutions have more favorable loan repayment rates. Industry reports have shown that the Indian loan repayment ratio has generally been between 95% and 98%, higher than that of regular bank loans. But the current economic recession has caused an increase in loan defaults.

### Challenges in Loan Repayment

**Economic Slowdown:** Economic slowdowns, like during the period after the COVID-19 pandemic, have caused repayment problems as the borrowers perceive lower income opportunities.

**High Interest Rates:** Certain microfinance institutions have interest rates ranging from 24% to 30% per year, which creates challenges for borrowers to settle their dues in a timely manner.

**Multiple Borrowing:** The majority of borrowers borrow from multiple sources, leading to overindebtedness.

### Regulatory Challenges and Policy Interventions

The Reserve Bank of India (RBI) also acted against the microfinance lending activities. The RBI prohibited four non-banking finance companies (NBFCs) from providing new loans in October 2024 for breaching policies, including charging extremely high interest rates and not verifying the repayment capability of the clients.

Non-bank financial institutions registered a rise in defaults for individual and small loans in February 2025, reporting delinquency levels between 1.42% and 4.7%. The trend will extend through to mid-2025, with driving forces stemming from slowing economic growth and the constrictive tightening of regulatory regimes.

### A Strategic Approach to Sustainable Debt Servicing

**To achieve high repayment rates and prevent borrower stress, microfinance institutions must:**

- Conduct financial literacy programs that would instruct borrowers on good borrowing and payment habits. - Charge modest interest and have flexible payment plans. - Exercise open and ethical collection. Employ technology-based credit assessment methods to properly evaluate the ability of borrowers to repay.

### Conclusion:-

Microfinance has been a game-changing financial inclusion instrument in India, providing credit to millions and improving their economic conditions. Even though the performance is commendable, it remains short of the intended extent of change, primarily attributed to high interest charges, repayment pressures, and moral issues. Still, the plus side, encompassing women empowerment and entrepreneurship encouragement, cannot be overlooked. With the issues related to repayment taken care of and moral lending assured, Microfinance can become a propeller for sustainable development in India.

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