

Performance of Microfinance and Women-led Enterprises in Africa and India: A Comparative Review

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Abstract

In India, a more formalised and technology driven microfinance ecosystem has facilitated significant improvements in women's access to credit, financial literacy and enterprise activity. In Africa, microfinance serves as a significant tool in addressing joblessness through enhancing financial inclusion and supporting entrepreneurship.

Microfinance has played a pivotal role in advancing financial inclusion and fostering entrepreneurial growth, particularly for women in underserved regions. This study provides a comparative analysis of microfinance's impact on women entrepreneurs in India and Africa, focusing on its influence on household income, entrepreneurial activity, and socio-economic empowerment. While India's formalised and technology driven microfinance ecosystem has contributed to enhanced access to credit, financial literacy and enterprise expansion, Africa's microfinance initiatives often serve as vital tools for broader developmental objectives, particularly in rural and post-conflict areas. Despite its transformative potential, challenges such as high interest rates, over-indebtedness and limited outreach remain prevalent across both regions. By synthesising existing research, this paper highlights key similarities and differences in microfinance's effectiveness within these geographies.

1. Introduction

Microfinance is widely acknowledged as a potent tool for promoting financial inclusion and entrepreneurial development, particularly among women, in regions where the supply of formal financial services is inadequate. This paper examines the comparative impacts of microfinance initiatives on women entrepreneurs in India and sub-Saharan Africa, emphasizing its role in enhancing household income, fostering entrepreneurial

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ventures, and empowering women socially and economically over the past two decades. The African countries considered are South Sudan, Kenya, Nigeria, Tanzania, Ethiopia, Ghana and South Africa. By analysing a diverse body of literature, the study highlights similarities and differences in microfinance outcomes within these two geographies shaped by varying policy frameworks, cultural contexts and institutional capacities. By comparing these contexts, the paper offers insights into the factors contributing to successful outcomes and highlights areas for improvement. This analysis aims to inform policymakers, practitioners and researchers seeking to design more effective, context-sensitive microfinance programmes that balance financial sustainability with impact, particularly in empowering women entrepreneurs.

2. Methodology

This paper is based on a systematic review of existing literature examining the multifaceted impacts of microfinance initiatives within Indian and African contexts. By synthesizing a wide array of scholarly research, the review highlights the heterogeneous outcomes of microfinance interventions, including the ways they influence household income, women's empowerment, entrepreneurial activities, and community level financial inclusion. Recognising the inherent diversity in regional economic conditions, cultural norms and policy frameworks across these two geographies, the paper draws attention to key similarities and differences in how microfinance affects borrower well-being and market dynamics.

3. Literature Review

Microfinance and its impact have been areas of significant interest for researchers. In the African context, several studies suggest that microfinance has played a significant role by fostering entrepreneurial growth, enhancing financial inclusion, and contributing to economic development. It has emerged as a crucial tool for empowering individuals, particularly in regions where access to traditional financial services is limited. The impact of microfinance in Africa appears to be multifaceted, influencing various aspects of economic and social life across the continent. Microfinance has been instrumental in supporting the establishment and growth of small and medium enterprises (SMEs) by providing necessary capital to entrepreneurs who lack collateral and credit history (Falaiye *et al.*, 2024). A study across several African countries found a long-term relationship between microfinance, financial inclusion and economic welfare, suggesting that microfinance contributes to economic growth and household consumption (Manasseh *et al.*, 2024).

Microfinance has been associated with poverty alleviation by improving household income and fostering entrepreneurship, with beneficiaries experiencing significant increase in income and improvements in health and education. In rural areas, microfinance

has been seen as a tool for poverty reduction and reconciliation, especially in post-conflict regions (Musanganya *et al.*, 2017).

Despite these positive impacts, challenges such as high interest rates, limited outreach to marginalised groups and over indebtedness persist. In some regions, like Central Africa, the effects of microfinance on socio-economic conditions have been negligible, highlighting the need for tailored and accessible programmes to maximise its potential (Djoufouet, 2019).

In Africa, microfinance has also been criticised for mission drift. The social mission gives way to profit motives. The problem is exacerbated when such drift is observed in charitable organizations. In contexts such as South Sudan, there is a paucity of regulatory oversight. Even in more evolved sub-Saharan countries, the interest rates microfinance institutions (MFIs) charge and their collection practices may escape oversight of regulators. In this form, microfinance may add to borrower distress, and have a negative impact on their lives and businesses (M2i, 2024).

Studies and assessments aimed at evaluating the impact of microfinance on clients in India have been conducted since the initial phase when most MFIs operated as non-profit entities. One notable national level impact assessment was undertaken as part of the National Microfinance Support Programme (NMSP) implemented by Small Industries Development Bank of India (SIDBI). This study, carried out by an independent research institution between 2002 and 2007, was conducted in two stages. Stage I (2001-2004) included a baseline survey across a sample of 20 partner MFIs, while Stage II (2004-2007), the endline study, encompassed five additional MFIs. The findings indicated that microfinance services have generally contributed positively to poverty alleviation and the empowerment of women in India. Specifically, the study found strong evidence that microfinance improves access to and usage of MFI loans, enhances enterprise activity, supports improvements in income related aspects, and strengthens households' capacity to manage risks. It also partially supported the notion that microfinance extends financial services to underserved populations, contributes to women's empowerment, fosters overall socio-economic improvements for clients, and enhances the terms, conditions and accessibility of other financial services.

Another research focusing on the impact of the Portfolio Risk Fund (PRF), a Government of India (GoI) supported initiative managed by SIDBI to bolster microfinance lending, was conducted in 2013-14 with assistance from independent agencies. This research surveyed 26 MFIs and 5,720 clients nationwide. The results showed that 98% of respondents reported increased confidence levels after engaging with an MFI, and nearly 90% reported improved social standing both within their families and in the broader community. In addition, 90% of respondents stated that their economic and financial conditions had improved after engaging with the MFI. They also indicated an increase in income sources, higher business asset values, growth in real income and savings (ad-

justed for inflation at 8% annually), and improved household amenities such as toilets, mobile phones, televisions and refrigerators (PWC/M2i 2013). This study identified several factors contributing to positive outcomes for clients, including client relationship management by MFIs, access to patient risk capital, strong governance and management within MFIs, and sound risk management practices.

Prominent experts have noted that inadequate governance and regulatory oversight could lead to misuse of the microfinance model, such as charging excessively high interest rates to poor borrowers (Nair, 2011) and creating structures to generate disproportionate profits for MFI promoters and investors (Sriram, 2010). These observations underscore the need for effective regulation and robust governance (Nair, 2011). The government-imposed restrictions on MFIs in Andhra Pradesh in 2010 illustrate the severity of issues that could arise from inadequate oversight.

Following these events, the Reserve Bank of India (RBI) introduced a regulatory framework, defining the institutional and operational parameters of microfinance. This was accompanied by the recognition of Sa-Dhan and MFIN as self-regulatory organisations (SROs) and the introduction of a code of conduct compliance assessments (COCA) for MFIs. Over the following decade, although secular risk events such as demonetisation and the COVID-19 pandemic occurred, fewer concerns were raised about MFI governance related to systemic misuse. Governance issues, when identified, typically involved fraud rather than large scale manipulation of regulations for profit at the expense of poor clients.

Nobel laureates Abhijit Banerjee and Esther Duflo have also studied microfinance's impact. They examined outcomes through three endline surveys (2007, 2010 and 2012) within randomised control trials in Andhra Pradesh. Their research suggests that the primary benefits of credit access are experienced by existing entrepreneurs who can either overcome fixed cost barriers or scale up already productive businesses, thus, improving household business outcomes and consumption. For households starting new businesses or not venturing into entrepreneurship, the impact of microfinance was essentially neutral, neither particularly beneficial nor harmful. Over time, some clients showed substantial gains, and formal finance access reduced reliance on informal credit. This decreased borrowing cost appears to have limited overall credit demand for certain groups, but for proactive entrepreneurs, microfinance facilitated access to additional credit sources, enabling greater long-term benefits.

Between 2010 and 2020, the microfinance sector in India continued to evolve. It became more integrated into the formal economy, with commercial banks, along with small finance banks (SFBs) and non-banking financial companies (NBFCs), accounting for a majority of microfinance assets. Despite encountering significant risk events such as the 2016 demonetisation and the unprecedented COVID-19 pandemic, the sector has shown resilience. Survey based research by Sa-Dhan indicates that microfinance clients

were severely affected by the pandemic, and a substantial segment of these clients has not yet fully recovered their livelihoods.

An interesting aspect that emerges from this review is that while India has seen evolution of microfinance over time, particularly in the last 25 years, different countries in the African continent have different levels of microfinance evolution. On the one hand microfinance is seen as an entry strategy for wider interventions in the social development sphere in countries such as South Sudan (Anand, 2022); on the other hand, there are commercial microfinance banks in countries such as Kenya (Kenya Central Bank, 2024).

Also, there appears to be a merit to greater formalisation of microfinance in case the institutional, political and legal frameworks are conducive. It brings the economically poor to the mainstream economy and particularly serves women. It makes government and monetary policies more effective. In India, the RBI has acted against MFIs when it believed that the benefits of low interest rates were not passed on to microfinance customers (*The Hindu Business Line*, October 2024). In contrast the proliferation of mobile agents (agents who give easy loans in cash to the needy) in Nigeria has undermined the country's monetary policies and its central bank's efforts to stabilise the Naira. The Central Bank of Nigeria's initial push for financial inclusion through the expansion of informal financial networks now faces unintended consequences. The regulatory authority is concerned that excessive cash circulating outside the formal banking system is limiting its ability to control inflation and stabilise the naira. The accumulation of liquidity outside regulated financial institutions has diminished the impact of key policy tools, such as the cash reserve ratio and lending rates (Bloomberg, 2024).

4. Specific Dimensions of Impact

The pathway to economic success generally and entrepreneurial success particularly increased because of improved access to institutional financial services that microfinance enables. The specific dimensions of impact have been explored below.

4.1 Impact on Access to Formal Financial Services

Africa: MFIs provide accessible financial services to those who are typically excluded from formal banking systems, thereby, reducing the need for informal moneylenders who often charge exorbitant interest rates (Mago and Hofisi, 2012). The MFIs reduce dependence on costly informal moneylenders in Africa (Abdulkadir *et al.*, 2024). In Nigeria, MFIs have been shown to support the informal sector significantly, enabling a shift from informal moneylenders to more structured financial services provided by MFIs (Osugwu *et al.*, n.d.). Access to savings accounts and insurance products remains low in Africa, though some respondents utilised informal savings mechanisms. Still, MFIs effectively complement formal banking systems by addressing gaps in financial access, particularly within the informal credit market. They provide financial services to

those who lack collateral and credit history, which are often prerequisites for traditional banking services (Olugbenga and Mashigo, 2017).

India: In older studies, microfinance was considered to be an effective means to deliver financial services to economically vulnerable and underserved populations who lack access to conventional financial institutions. These studies found that while there had been a notable improvement in both the availability and uptake of MFI loans, other offerings – such as savings, insurance, and non-financial services – had not shown the same level of progress (SIDBI 2004, 2007).

An impact study in 2022 has found that only 1% of microfinance customers (respondents in the study) in India relied on moneylenders after joining MFIs, compared to 14% before their association. This reduction highlights the effectiveness of MFIs in providing accessible credit (Sa-Dhan 2022). A study in 2013 found that microfinance leads to subscription to credit linked insurance. At the same time, it did not improve subscription to health insurance or pension schemes. Also, fewer than 25% of the respondents in the study had obtained loans from other formal sources such as banks or cooperatives (PWC, M2i 2013).

In a more recent study, microfinance customers in India have reported high access to savings accounts, with 22% using mobile applications supporting the unified payments interface (UPI) for making payments as a substitute for cash. However, uptake of voluntary insurance products remained low (Sa-Dhan 2022).

To sum up, both Africa and India show reduced reliance on moneylenders, with India exhibiting a more significant shift due to the formalised microfinance landscape. India shows greater integration with formal financial systems, partly due to technological advancements like UPI.

4.2 Impact on Economic and Financial Condition

Africa: Microfinance has emerged as a significant tool for improving income in Africa by providing financial services to those traditionally excluded from formal banking systems. It plays a crucial role in fostering microbusiness development, enhancing household welfare, and empowering marginalised groups, particularly women. The impact of microfinance on income improvement in Africa can be understood through several key aspects.

Microfinance has been shown to positively impact microbusiness growth in regions like northern Ghana, where businesses that received microfinance exhibited higher monthly sales, increased number of employees, and greater business assets compared to those that did not receive such support. By facilitating access to credit, MFIs contribute to economic growth and poverty reduction, enabling borrowers to invest in business development and improve their livelihoods.

In the Kassena-Nankana municipality, access to microfinance increased the monthly average income of SMEs and generated significant employment, thereby, enhancing

household welfare (Ali, 2013). Microfinance enables poor individuals to diversify and increase their income sources, which is essential for poverty alleviation. This is particularly evident in rural areas where traditional financial services are inaccessible (Mago and Hofisi, 2012).

In Tanzania, microfinance has been effective in increasing individual income, although success is often contingent on factors like collateral and education (Kaseva, 2014).

Financial inclusion positively influences financial stability (Koudalo and Toure, 2023). This boosts employment by enabling marginalised groups to access essential financial services, which is crucial for job creation. Research indicates a negative relationship between micro-credit finance and unemployment in South Africa, suggesting that micro-credit can effectively reduce joblessness and stimulate economic growth. The study utilised data from 1994 to 2014, demonstrating both short-term and long-term benefits of micro-credit in addressing unemployment (Ncanywa and Getye, 2016).

In Nigeria, microfinancing showed no significant short-term impact on unemployment but indicated potential long-term benefits, emphasising the need for government partnerships with microfinance institutions to support entrepreneurs (Ihenetu and Wilson, 2021). Micro-credit has been particularly effective in promoting women's employment and enhancing business revenues in the informal sector, highlighting its role in gender-based employment creation.

Researchers have found that the effectiveness of microfinance in reducing female unemployment in sub-Saharan Africa is contingent upon reaching specific thresholds of microfinance institutions per capita (Asongu *et al.*, 2024). Savings increased as women diversified income sources through microfinance supported ventures. In Ethiopia, the Amhara Credit and Saving Institution (ACSI) has shown a positive impact on household savings (Menza, 2016). In Ghana, microfinance schemes have been effective in mobilising savings among rural households, particularly small scale cocoa farmers, by fostering a savings culture and providing access to credit (Asamoah *et al.*, 2015).

India: In older studies, microfinance has been found to increase enterprise activity and contribute to improvements in various income related areas, while also enhancing the capacity of vulnerable households to manage risks (SIDBI 2004, 2007). Its customers often report an increase in the number of income sources and the value of business assets within their households. There is also evidence of increased average income and savings, adjusted for an annual inflation rate of 8%. Additionally, respondents have reported improvements in amenities such as the presence of a toilet facility at home (rising from 48% before to 61% after association with a microfinance institution), cell phone ownership (67% to 87%), television ownership (57% to 72%), and refrigerator ownership (18% to 23%) (PWC 2013).

Research by Abhijit Banerjee and Esther Duflo shows that microfinance mainly benefits households already running established businesses prior to its introduction, ena-

bling them to expand production, shift to more productive technologies, and increase both business activity and consumption. In contrast, households starting new enterprises or never initiating any business see little impact. Over time, microfinance could also reduce reliance on informal credit, though its overall effect depends on whether borrowers adjust their demand for credit. For ‘gung-ho entrepreneurs’, it encourages greater borrowing from multiple sources, which are long-term positive effects.

More recent studies have determined that jobless days for main earners experiencing more than 30 days decreased from 61% before joining MFIs to 50%. This decline was disrupted during the COVID-19 pandemic. At the same time, the share of households with savings rose from 54% before microfinance to 79% after joining MFIs, indicating a significant impact on financial stability (Sa-Dhan 2022). About 99% of respondents in India reported some improvement in economic conditions, with 32% attributing this to timely and lower-cost loans from MFIs (Sa-Dhan 2022).

According to Sa-dhan’s 2022 impact study, the leading contributors to improved economic and financial conditions are having more earning members in the household (cited by 53% of respondents) and increased work or customers (43%). Additionally, 32% of respondents credit these improvements to receiving MFI loans either promptly, at lower interest rates, or both. Data presented in the Appendix of Sa-Dhan’s impact study provides several interesting insights into the nature of income increases witnessed by microfinance customers, and the reasons they attribute to this increase.

It may be noted here that Abhijit Banerjee and Esther Duflo have suggested that beneficial impact is experienced by existing entrepreneurs on account of business skill sets they have acquired. It may still be possible that these skill sets can be passed on to more members of the family, and when one of them start a new business or expand an existing one, their likelihood of success improves if they have access to microfinance.

Sa-dhan’s 2022 impact study provides several statistical tests comparing first time microfinance borrowers with those who have borrowed more than once from MFIs. These tests compare the proportions of respondents in each group who have stated that their income and savings has increased, attributing this increase to various parameters such as:

- 1. More earning members in the family:** A significantly higher proportion of customers who have taken more than one loan from MFIs have attributed the increase in income and savings to more earning members in the family.
- 2. More work or customers in the business:** A significantly higher proportion of customers who have taken more than one loans from MFIs have attributed the increase in income and savings to more work or customers in business, as compared to first time loan customers.
- 3. Greater ability to stock:** A significantly higher proportion of customers who have taken more than one loan from MFIs have attributed the increase in income and savings to the ability to keep more stock in business, as compared to first time loan customers.

4. **Timely loans, lower cost of funds, investment in business expansion:** The differences in the proportions of respondents in each group are not significant for variables such as timely loans, lower cost of funds, and investment in business expansion or machinery. This might suggest that while these factors are essential, they are more uniformly experienced across borrower groups and are not as dependent on loan cycles.
5. **New business:** A significantly higher proportion of customers who are first time borrowers of MFIs have attributed the increase in income and savings to new business.

The findings suggest that repeat borrowing may facilitate progressive economic stability and growth, as borrowers leverage successive loans to build capacity and resilience. This also points to a shift in priorities across loan cycles, with initial loans driving entrepreneurial entry and subsequent loans enhancing operational efficiency and profitability.

4.3 Social Dimensions of Impact

Africa: Microfinance has significantly impacted women's autonomy in household decision making. The ability to engage in income generating activities fosters a sense of self-worth and community involvement among women, further enhancing their decision making roles (Gracy and Devi, 2024). Higher access to microfinance is associated with reduced gender asset gaps, suggesting that it may empower women, thereby, potentially enhancing their influence in household decision making within the context of Ghanaian households (Mannah-Blankson, 2018).

Access to microfinance has enhanced women's participation in decision making and increased their social respect within communities, as seen in Tanzania (Maghina *et al.*, 2023). In Ethiopia, microfinance has been linked to improvements in family relations and political empowerment, although the overall empowerment status remains low, with only 38.4% of women considered empowered (Asha and Senapathy, 2022).

India: Similar findings emerge in India, where about 80% of respondents stated that loan utilisation decisions were made jointly with their spouse or a close family member. Only 6% of women reported making such decisions independently, highlighting the interplay of traditional gender roles and evolving financial empowerment. Nearly 44% of Indian respondents reported a high improvement in their confidence when talking to outsiders, with an additional 55% noting moderate improvements. Similar trends were noted in their ability to interact with banking officials. In India, 46% of respondents noted a high increase in their participation in community affairs, with another 51% reporting moderate improvements. This impact is particularly pronounced in semi-urban areas. Around 45% of respondents felt their societal status improved significantly after joining microfinance groups. Another 54% noted moderate improvements, with variations across regions (Sa-Dhan 2022).

4.4 Comparison on Social Dimensions

The improvement in confidence levels is a shared outcome, with both regions showing significant progress. The formalised nature of Indian microfinance institutions may contribute to a slightly more measurable impact in structured interactions such as bank visits. Both regions exhibit enhanced community participation, although the structured group meeting formats may provide a more direct avenue for fostering such engagement. The societal status of women in both regions improves through microfinance. However, the cultural acknowledgment of this status change may vary, with more pronounced community-level recognition in Africa.

4.5 Effects of Microfinance

In India, the high concentration of MFIs in specific regions has resulted in multiple lending to the same set of borrowers. As a result, borrowers often take loans from multiple MFIs simultaneously, leading to excessive debt burdens. This resulted in the microfinance crisis of Andhra Pradesh in 2010. More recently, it has been the cause of discomfort among regulators. Since borrowers must repay existing loans, they frequently resort to fresh borrowing, creating a cycle of unsustainable debt.

Many clients, particularly women, become trapped in a vicious cycle where their entire income goes toward loan repayments, often forcing them to cut back on essential expenditures like food, healthcare, and education. Periodic regulatory oversight, such as the RBI interventions, has helped reduce the severity of these issues. However, profit driven expansion by some MFIs still threatens financial stability in vulnerable communities.

While microfinance in Africa has played a crucial role in financial inclusion, mission drift – where social objectives take a backseat to profitability – has become a growing concern. In several African countries, even non-profit and socially motivated microfinance entities have drifted toward aggressive profit seeking behaviour. In post-conflict regions like South Sudan, regulatory structures for microfinance institutions are weak or non-existent, allowing exploitative lending practices to thrive.

In more evolved Sub-Saharan economies, such as Nigeria and Kenya, interest rates charged by MFIs and their collection practices often escape the scrutiny of financial regulators. Exorbitant interest rates and aggressive loan recovery tactics have driven some borrowers into further financial distress. In extreme cases, microfinance can potentially have a net negative impact, deepening poverty rather than alleviating it.

5. Findings and Discussions

This multiregional comparison of the impact of microfinance offers some insights about the microfinance model. The relationship between microfinance interventions and borrower well-being sits at a complex intersection of philanthropic aims, commercial imperatives, and the realities of vulnerable populations navigating financial sys-

tems, as demonstrated by the experience in African countries as well as India. While both Africa and India show positive aspects of the impact of microfinance, the formalised lending structures in India may contribute to more consistent economic improvements. Two dominant approaches emerge, each with distinct implications for both the sustainability of lending operations and the socioeconomic outcomes for borrowers.

5.1 Microfinance as a Charitable Tool

Some non-governmental organisations (NGOs), social enterprises and impact-driven institutions use microfinance as a development tool. In this model, the priority often leans toward improving the livelihoods of the poor rather than ensuring full repayment. This approach is based on the idea that giving the poor access to capital – even if it involves a high degree of tolerance for defaults – will spur small scale entrepreneurship, improve household resilience, and potentially lift people out of poverty. Such a model is often characterised by:

- **Flexibility and compassion:** Lenders focus less on strict credit discipline and more on supporting borrowers' well-being. Repayment stress is minimised, reducing the possibility of borrower distress and creating a more nurturing environment.
- **Limited scale and financial fragility:** Because these operations do not demand high repayment discipline, they struggle to attract commercial or even large-scale philanthropic capital. This limits their ability to scale, often confining them to small pockets of influence. Over time, reliance on donor funds or small grants means that when these sources dry up, the growth and outreach remain constrained.

5.2 Microfinance Driven by Commercial Capital

On the other end of the spectrum, there is the commercially driven microfinance model that proliferated in countries like India. Fueled by for-profit or semi-commercial capital markets, these lenders must maintain strict repayment discipline to meet investor expectations and ensure financial sustainability. The characteristics of this model include:

- **Scale and outreach:** By providing financial products on a large scale, these institutions can reach millions of borrowers, enhancing overall access to credit. They contribute to financial inclusion by developing extensive networks, which can foster economic dynamism at the grassroots level.
- **Credit discipline and potential distress:** Commercial pressures demand that borrowers repay on time. While this ensures a sustainable flow of funds and the ability to reach more customers, it can also translate into aggressive collection practices and, in extreme cases, borrower distress. Without safeguards, some borrowers may become excessively indebted.
- **Potential for sustainable poverty alleviation (if well-regulated):** When well-regulated and anchored in sound credit principles – such as proper borrower selec-

tion, realistic loan sizing, adequate training, and fair interest rates – commercial microfinance can indeed help to improve household income and resilience. The sustainable flow of capital allows these institutions to offer a wide range of products (credit, savings and insurance) that can genuinely support long-term economic well-being.

Another contentious issue that concerns microfinance is the tricky question of price control. Regulating microfinance pricing, particularly interest rates, is inherently contentious because it sits at the intersection of two often conflicting objectives: protecting vulnerable borrowers and preserving a sustainable and market driven financial ecosystem. On one hand, microfinance borrowers tend to have limited financial literacy, low resilience to economic shocks, and few alternative credit options, leaving them vulnerable to high interest rates and potential exploitation. Regulating these rates can serve as a safeguard, preventing unscrupulous lending practices and helping to ensure that microfinance aligns with its social mission of poverty alleviation.

On the other hand, microfinance institutions operate in challenging contexts - rural areas, informal economies, and markets characterised by limited infrastructure and higher operational costs. These conditions naturally push up the cost of loan delivery. Without the flexibility to set interest rates that reflect these additional costs and risks, MFIs may struggle to remain financially viable. Overly stringent rate caps could discourage investment, reduce the availability of credit and curtail product innovation, effectively undermining the very financial inclusion goals microfinance is meant to advance.

This tension is compounded by the notion that unregulated interest rates, while potentially fostering innovation and competition, might lead to borrower distress if left unchecked. At the same time, strict regulation risks stifling the growth and scale needed for microfinance to serve large underserved populations sustainably. Hence, navigating this delicate balance—protecting borrowers without crippling the sector’s capacity to reach them—renders interest rate regulation in microfinance a deeply nuanced and contentious policy challenge.

The evidence is that no single microfinance model offers a perfect solution. The philanthropic model sacrifices scale and sustainability in favor of a developmental ethos that reduces borrower stress. The commercial model scales rapidly and can potentially reach far more people, but it must constantly guard against practices that harm borrowers. The path forward involves integrating the strengths of both approaches – leveraging the growth and efficiency of commercial capital while embedding the social safeguards and client-centric philosophies of philanthropic efforts. By blending rigor with compassion, microfinance can better fulfill its promise as a tool for poverty alleviation and durable improvements in borrower well-being.

6. Conclusion

The Table 1 summarises the achievements from microfinance operations in the Indian and African contexts, and the potential for cross learnings.

Finally, microfinance appears to have positively influenced both Africa and India, enhancing social dimensions, financial services, and economic conditions. India's structured and technology driven microfinance ecosystem often delivers more measurable and widespread impacts. Africa, while showcasing notable progress, reflects a need for further institutionalisation and integration with government programmes to achieve similar levels of outreach and effectiveness. Both regions highlight the transformative potential of microfinance in empowering marginalised populations and fostering economic resilience. At the same time, there is also the need to exercise caution in the way microfinance operations are carried out. Particularly, regulators must ensure that borrowers do not come under duress from unsustainable debt.

Certain strategic implications for microfinance emerge from this study. For instance, new microfinance customers may benefit from starter loans that emphasize low risk entry into

What India Can Learn from Africa	What Africa Can Learn from India
Adapting to local needs: African MFIs often incorporate products beyond credit - like insurance (microinsurance for farmers), savings programmes, and remittance services. Indian MFIs can broaden their portfolios to meet diverse community needs, especially in agriculture dependent regions.	Structured MFI regulation: India has a more developed regulatory ecosystem for microfinance, with guidelines on interest rate caps, lending practices, and MFI classification. Adopting standardised policies may help African MFIs reduce predatory lending and improve consumer protection.
Village Saving and Loan Associations (VSLAs): VSLAs are widespread in Africa, leveraging community trust and social capital effectively. India's groups can learn new models of voluntary savings and more flexible loan structures from African VSLA practices.	SHG-Bank Linkage Programme: India's SHG-BLP model has proven successful in providing capital to women and rural groups. African MFIs can replicate or adapt these linkage models to formal financial institutions for higher volumes of credit.
Grassroots engagement: African microfinance programmes often involve comprehensive training for women entrepreneurs in tandem with financial services. India can adopt more skill building modules and leadership training beyond just credit provision.	Scaling women focused initiatives: India's microfinance sector has significantly scaled lending to women, often leveraging group liability. African MFIs can learn how to replicate this scalable women focused approach and build leadership capacity among women borrowers.
Diversification and risk sharing models: African institutions sometimes blend microfinance with impact investment and donor funding to buffer against shocks. Indian MFIs can explore these blended finance approaches to reduce dependency on commercial funding alone.	Robust credit bureaus and data analytics: India's establishment of credit bureaus for MFIs and the use of data analytics to assess borrower risk can help African MFIs manage defaults better and maintain sustainability over time.
Localised training and communication: African MFIs often tailor financial literacy programmes in local languages and use community trainers. India can learn from these context specific approaches to better engage rural populations.	Tech-driven scale: India's largescale digital infrastructure initiatives (e.g., Aadhaar, UPI) show how broad digital identity and payment systems can reduce operational costs and expand reach. Adapting these digital frameworks can help African MFIs to scale up quickly.

entrepreneurship and concomitant opportunities to build skills, while repeat borrowers may require larger or more flexible loans to support business expansion and diversification.

Programmes that integrate family members into the entrepreneurial ecosystem (example skill-building workshops) can amplify the impact of microfinance loans, aligning with the observation that more earning members drive economic improvement. Encouraging a transition from starting new businesses to scaling existing ventures ensures long-term sustainability and stability in income generation. Enhanced training and advisory services, alongside timely and affordable credit, could further improve outcomes by addressing gaps in operational management and financial literacy.

Finally, the capital discipline and scalability of the commercial model should be combined with the compassion and mission-driven ethos of the charitable approach. Such a blended model might feature:

- **Mission driven capital with market like rigor:** Utilising social investment funds, impact investors, or ‘patient capital’ that still expects returns—albeit more modest—can help to maintain credit discipline while avoiding the most exploitative repayment pressures.
- **Client protection measures:** Incorporating borrower protection standards, transparent interest rates and mechanisms to prevent over-indebtedness would allow commercially oriented microfinance to avoid borrower distress.
- **Capacity building:** Providing financial literacy training, business development support, and other non-financial services could enhance borrowers’ ability to manage loans productively, reduce default rates and improve overall well-being.

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