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Overcoming Challenges To Sustainability Of Microfinance Institutions: A Review

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Abstract

Microfinance, which seeks to include the poor in the financial system, has grown over time. It refers to financial services for low-income or remote communities that lack access to traditional banking services. Microfinance institutions (MFIs) provide underserved groups with small loans to establish or expand small businesses, thereby assisting them in breaking the cycle of poverty.

There are numerous benefits to microfinance such as increased domestic income, entrepreneurial spirit, and social standards; encouraging micro-entrepreneurship, and promoting economic and social gender equality.

Despite these advantages, MFI sustainability is a significant concern. A viable MFI can provide long-term assistance to its clients, thereby reducing poverty. Without sustainability, even the most valuable organisations can fail and damage their beneficiaries.

Existing research has shed light on challenges to MFI sustainability including operational obstacles, governance concerns, economic factors, and intrinsic factors such as mission drift. While many researchers have examined specific difficulties, there is an absence of comprehensive review studies that detail all these challenges and mitigation solutions.

This paper fills the gap by reviewing MFI sustainability concerns and proposes interventions to mitigate the challenges from the existing literature with a view to strengthening microfinance in the future.

Keywords: *microfinance, challenges, sustainability, mitigation, interventions*

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I. Introduction

Microfinance, refers to the facility of financial services tailored for entities or groups who are unable to access typical banking services, primarily due to poverty or living in remote areas (Yunus, 2003). The fundamental aim of microfinance institutions (MFIs) is to offer these underserved populations an opportunity to break their cycle of poverty by providing them with financial capital, typically in the procedure of small loans, to start or expand small enterprises (Robinson, 2001).

The advantages of microfinance are numerous. At an individual level, it has proven instrumental in improving household income, fostering entrepreneurial spirit, and elevating social standards. Economically, microfinance aids in driving economic growth by fostering micro-entrepreneurship, which, in turn, creates employment opportunities and enhances local economic activity (Armendáriz & Morduch, 2010). Moreover, from a societal standpoint, it can promote gender equality, as a significant proportion of beneficiaries are women, empowering them economically and socially.

However, for all its advantages, the sustainability of MFIs remains a significant concern. Sustainability, in this context, mentions to the ability of these establishments to meet their social objectives while ensuring their financial viability (Cull, Demirgüç-Kunt, & Morduch, 2009). A sustainable MFI can provide continuous support to its beneficiaries, ensuring its long-term impact on poverty alleviation. Without sustainability, even institutions with the most altruistic intentions can falter, leading to detrimental consequences for their beneficiaries.

Existing literature has indeed shed light on various challenges to the sustainability of MFIs. These challenges range from operational issues, governance concerns, and external economic factors to more intrinsic problems like mission drift (Mersland & Strøm, 2010). Yet, while numerous studies have delved deep into individual challenges, there is a noticeable void when it comes to comprehensive review papers that collate all these challenges and, importantly, discuss mitigation strategies. This, in turn, would empower policymakers, MFI), and other relevant parties to implement well-informed strategies that guarantee the financial sustainability and social effectiveness of microfinance sector.

This study seeks to bridge this gap by providing an all-encompassing review of the challenges to sustainability faced by MFIs and suggesting viable interventions to counteract these challenges. The intent is to offer a well-rounded perspective, gleaned from global research, that could potentially fortify the foundation of microfinance for future endeavors.

Specifically, this research paper attempts to answer the following research questions:

RQ1: What are the challenges to the sustainability of MFIs worldwide?

RQ2: What are the interventions that can help mitigate the challenges to the sustainability of MFIs?

Concept of Microfinance

Microfinance is the term used to describe the delivery of financial services to individuals with low incomes. These services often include microcredit, micro-insurance, micro-savings, and money remittances (van Rooyen et al., 2012). Microfinance has been recognised as a notable catalyst in enhancing and broadening the formal financial system (Ledgerwood, 1999), leading to substantial public interest (Beisland et al., 2015). It exerts both direct and indirect impacts on the promotion of sustainable development, as shown by Scholtens (2008) and Busch et al. (2016).

Several researchers posit that microfinance is one of the most promising tools for economic development and reducing poverty around the world (Armendariz de Aghion & Morduch, 2000; Burgess & Pande, 2005; Khandker, 2003). Microfinance offers a wide range of social benefits, such as empowering women and making them less vulnerable (Cohen & Sebstad, 2000), and ensuring food security (Zeller et al., 1997), as well as business effects, such as increases in productivity, technology, and employment (Hulme & Mosley, 1996), and profits (Karlan & Vladivia, 2006).

Challenges to Microfinance Institutions

The existing body of research in the microfinance industry frequently associates the concept of sustainability with monetary, specifically financial Sustainability (Bayai & Ikhide, 2018). García-Perez et al. (2018) believe that four exogenous variables, namely, demographic, social, economic, and environmental factors, influence sustainability.

Demographic characteristics, as identified by Elsayed and Paton (2009) and Jawahar and McLaughlin (2001), include age, gender, and profession. Social factors encompass various components including culture, local knowledge, and social capital (Bedecarrats et al., 2012). Economic factors encompass poverty, entrepreneurship, and financial inclusion (Elsayed & Paton, 2009; Robinson, 2002). Lastly, environmental factors include food security, global warming (particularly deforestation and fire management), biodiversity, and local wisdom (Starik & Kanashiro, 2013).

Structure

Historically, MFIs have functioned as non-governmental organisations (NGOs), obtaining financial support from philanthropic contributions, government subsidies, and customer fees. Similar to other social enterprises, the reliance on financial support might incentivize MFIs to adopt a more advanced and commercial approach (Mort et al., 2003), or it can lead them to exhibit characteristics resembling those of profit-driven companies (Eikenberry & Kluver, 2004).

Capital Requirements

As the microfinance sector progresses, financiers increasingly imposing higher standards for the efficient allocation of funds and the provision of transparent evidence regarding social outcomes (Bruck, 2006). The fast proliferation of MFIs has led to a heightened demand for capital. The presence of high demand leads to a heightened level of competition among MFIs (Dees, 1998).

Over the previous few years, there has been a rise in the accessibility of funds for prominent MFIs that are focused on commercial activities and operate in politically stable countries (Latortue et al., 2006). The available investment capital for MFIs has experienced significant growth in recent years, reaching an estimated amount above $10 billion by the conclusion of 2008 (CGAP, 2009). Reille and Forster (2008) present an inclusive examination of the various forms of distant capital investment that are presently used within the microfinance sector.

In spite of the rise in available funding, MFIs face financial challenges due to the combination of heightened expectations from funders and intensified rivalry for financial resources. Since many MFIs rely on donors for financial support, they find it difficult to adhere to their initial objective if doing so requires them to forego significant financing opportunities that are crucial for their operations. During the process of soliciting funds, there is a risk of diluting the mission of the MFI as it strives to meet various expectations and obligations from different stakeholders (Dieckmann, 2007).

Mission Drift and Diffusion

Mission drift is a phenomenon characterised by the increasing deviation of MFIs from their core mission of providing financial services to disadvantaged and impoverished people, in favour of servicing clients who are comparatively more affluent (Mersland & Strøm, 2010). The issue pertaining to the financial viability of MFIs viewed through the lens of institutionalism against their emphasis on social change from a welfarist standpoint is frequently a subject of contention (Battilana et al., 2010). Mission drift frequently emerges when MFIs aim to attain financial viability, occasionally at the cost of their initial social objectives. Drift can manifest in several actions, such as the curtailment of services, the elevation of interest rates, or the shifting of attention from destitute people to more wealthy consumers (Epstein & Yuthas, 2010).

On the other hand, mission diffusion represents a broader concept, wherein an MFI not only deviates from its core mission but also expands its services to include various other non-financial offerings, such as health or educational services, thus diluting its primary focus (Battilana et al., 2010). Diffusion can give rise to various challenges, including the inefficient provision of services and the potential for financial difficulties or even the collapse of the MFI.

Both mission drift and mission diffusion can challenge the core purpose of microfinance, possibly hindering its impact on poverty alleviation and financial inclusion.

Interventions to Overcome Challenges

While the challenges to MFIs' sustainability are multifaceted, research suggests that these can be addressed through innovative and adaptive interventions.

This section delves into the most promising strategies that have emerged to fortify the foundation of MFIs and ensure their continued impact.

Collaborations for Sustainability of MFIs

Private and Public Partnership in MFIs

Hart (2002) posits that the amalgamation of private entrepreneurial capacity with government support, administration, and oversight has the ability to address a multitude of economic difficulties faced by a country.

Microfinance has emerged as a distinctive invention in the realm of financial services in India. The use of microfinance loans to attain favourable societal outcomes, particularly in the southern states of India, is encouraging for considering Public Private Partnership (PPP) in microfinance (Nihar & Murty, 2013) and has been proposed by various scholars to expand the scope and effectiveness of services provided to economically marginalised individuals, especially in the agricultural sector (Nihar & Murty, 2013).

Private companies can enhance farmer engagement by offering targeted training programmes focused on crop production and can facilitate knowledge exchange by inviting international experts to share their experiences in processes, technology, agricultural practices, and irrigation similar to the collaboration between Pepsico and the Punjab Government in India. Furthermore, private firms can establish multi-food processing plants, thereby enabling value addition. The success of microcredit programmes and increased agricultural production may be attributed to market-driven techniques, the adoption of new ecologically sustainable farm equipment, and the use of improved seed varieties which will enable farmers to better comprehend customer preferences and thus command higher prices for their products. According to Roy and Chowdhury (2007), private enterprises have the potential to foster technological advancements and establish collaborative alliances in the domains of agriculture, irrigation, and the distribution of agricultural goods, all at highly affordable costs.

NGOs, whether local or international in nature, have the potential to provide financial resources while also participating in the agricultural system to impart knowledge and skills to farmers. These firms play a crucial role in the microlending sector since they are not negatively impacted by the monetary restrictions established by the government to regulate the economic circumstances of the country (Nihar & Murty, 2013). It is recommended that NGOs and donors that provide funds for lending activities should prioritise the inclusion of social services (Nihar & Murty, 2013).

The microlending institutions' coverage may be expanded via channels such as post offices, pharmacies, supermarkets, and similar establishments, as observed in Brazil. Another effective approach is mobile vans functioning as banking branches, as demonstrated in Colombia (Siedek, 2007). These concepts can help provide affordable financial access for a significant proportion of economically disadvantaged population.

Overseas financiers have exerted a substantial positive effect on microfinance in India. During the initial phases of the microfinance industry's growth in India, some of the most successful MFIs had financial assistance from international institutions, such as The World Bank, Asian Development Bank, United Nations; as well as countries like Great Britain, Canada (via CIDA), United States (through USAID); alongside organisations like the Ford Foundation, Swiss Agency for Development and Cooperation (SDC) and Gesellschaft für Technische Zusammenarbeit (GTZ). Thus, international donors have contributed significantly to capacity building of MFIs and helped improve management and operations. However, further training and effective accounting can ensure long-term profitability and donor confidence.

Collaborating with Commercial Banks

In 2011, the Reserve Bank of India published a paper outlining the existence of three prevalent forms of microfinance currently being implemented in India. The SHG-Bank Linkage model, NBFC-MFI model, and other similar models primarily comprising trusts and societies (Jayadev & Rao, 2012).

Microfinance loans are typically characterised by their lack of collateral (as those living in poverty generally lack the means to provide assets as security for obtaining credit); short tenure, generally not beyond a period of 24 months; and loans of tiny denominations to individuals, resulting in elevated transaction and operational expenses (Jayadev & Rao, 2012).

Scholars believe that the integrating microfinance within the operating framework of public banks is of utmost importance. There exist large funding opportunities, particularly derived from impermissible revenue, that can be utilised to finance microfinance enterprises as part of corporate social responsibility (CSR) initiatives, without imposing substantial burdens or expenses on private banks. Public banks have an advantage in the distribution of microfinance due to their wide branch network, highly qualified workforce, and strong infrastructure. They can also facilitate the transition of microenterprises into small and medium-sized firms (Ozdemir, Savasan, & Ulev, 2023).

According to Delfiner and Peron (2007), the USAID 2006 study highlights many reasons that drive banks towards engaging in microfinance. The Reserve Bank of India has adopted the usage of third-party companies, commonly referred to as business correspondents (BCs), as a means to enhance the outreach services offered by the bank. According to Mas et al. (2012), this programme enables banks to expand their array of financial services to include microproducts such as micro-loans, micro-savings, micro-insurance, and other similar offers.

The implementation of a microfinance branch inside the preexisting activities of a bank has been proposed by Rhyne (2009). Westley (2006) states that banks offer several advantages over microfinance institutions such as a strong physical, technological, and human infrastructure, an established brand name and image that fosters trustworthiness, the capacity to obtain ample and cost-effective funds, an operationally efficient structure, and a comprehensive knowledge of the industry.

Thus, there is a recognised need for banks and MFIs to establish collaborative initiatives to effectively tap into the base of the pyramid market (Praseeda, 2018).

Community Based Models

Microfinance is often seen as a manifestation and consequence of social capital which encompasses a range of social norms and values, including trust and reciprocity, as well as community networks, connections, and institutions that foster collective engagement (World Bank, 2012). The promotion microfinance sector is often seen as an effective utilization of social capital for the purpose of development (Fukuyama, 2002).

Researchers have recognized the significance of social relationships, trust, and peer monitoring in relation to the favourable savings and payback rates of individuals in a group and have posited that groups can foster and use social capital as a means to facilitate microfinance services (Bastelaer & Leathers, 2006; Karlan, 2007; Cassar & Wydick, 2010).

The participation of NGOs and community-based organisations (CBOs) plays a crucial role in promoting social mobilisation among individuals living in poverty (Fernandez, 2001).

Shylendra (2012) advocates for restoring the focus of microfinance on development, prioritizing social objectives above financial objectives, and substituting private resources with public resources. A potential solution is giving importance to civil society and CBOs to strengthen altruism and collective action (Fernandez, 2001). This process entails the involvement of social entrepreneurs in order to facilitate microfinance operations (Yunus, 2010).

CBOs include established entities such as trusts and societies, which possess the authority to exert full ownership and control over the allocation of resources and implementation of delivery mechanisms. These CBOs have the ability to gather resources from several channels, such as through the allocation of equity and savings contributions from their members.

Research suggests that microfinance enabled by CBOs has had a constructive impact on the well-being of impoverished individuals including women empowerment, cultivation of leadership skills, the sense of ownership over CBOs, and increased awareness and modified behavior in health and education (Shylendra, 2012).

Religious Affiliations

According to Rohman et al. (2022), conventional microfinance institutions have not effectively addressed poverty within the Muslim community due to their reliance on an interest-based system. This practise is seen impermissible in Islamic teachings since it aligns with the concept of usury.

The establishment of Islamic microfinance banks is anticipated to serve as a potential remedy for the Muslim population, a significant portion of which continues to reside below the poverty threshold. Islamic microfinance institutions function by implementing the principles derived from Islamic teachings (Rohman et al., 2022).

Pitchay et al. (2018) showed that Islamic Microfinance Institutions (IMFIs) based on waqf was successful in promoting the productivity of waqf land within the specific context of Malaysia. Similarly, Thaker et al. (2016) formulated the Integrated Cash Waqf Micro Enterprise Investment model to offer affordable financial services to

MSME participants in Malaysia. Hamber and Haneef (2017) proposed a social micro-enterprise model that utilises a waqf-based social micro venture fund (WSMVF) for financial inclusion among micro entrepreneurs.

There exist a multitude of innovative models and structures pertaining to Islamic microfinance across diverse countries. Extensive research has demonstrated the efficacy of Islamic microfinance institutions (MFIs) in several Muslim nations, including Nigeria (Abdul Majeed & Alalubosa, 2019), Kenya (Ali, 2017), Uganda (Kakembo, Abduh, & Salleh, 2021), Libya (Abdussalam & Ryan, 2011), and Sudan (Bellal et al., 2022).

Improving Performance

Performance Review

In order to ensure their long-term viability, MFIs must maintain themselves operationally. The comprehensive performance evaluation of the performance of MFIs may be assessed by considering both financial sustainability and social aims (Hossain et al., 2020; Roy & Pati, 2019).

The measurement of MFI performance has been explored by various studies (Adhikary & Papachristou, 2014; Dutta & Das, 2014; Louis, Seret & Baesens, 2013; Cull et al., 2007; Gutierrez-Nieto et al., 2007). Many of these studies focus on the social performance of MFIs, specifically in terms of their ability to meet the financial needs of the impoverished (D'Espallier et al., 2017; Louis, Seret & Baesens, 2013; Bedecarrat et al., 2009; Copestake, 2007).

Hermes and Hudon (2018) found that MFI performance was evaluated using conventional banking performance indicators banks, such as return on equity (ROE) and return on assets (ROA) as well as contemporary measures such as operational self-sufficiency (OSS) and financial self-sufficiency (FSS). Social efficiency was measured through depth and breadth of outreach.

Daher and Saout (2015) listed the characteristics of profitable MFIs as high credit portfolio quality, large assets, a high capital-to-assets ratio, low-cost inefficiencies, large loans, a high share of microcredit portfolios, MFI status, country-specific characteristics, high institutional quality, and low dependence on external financial markets. The performance indicators can be categorised into five main categories: financial performance indicators, social performance indicators, governance indicators, macroeconomic indicators, and institution-specific indicators (Bardhan, Nag, & Mishra, 2021). Some of the performance indicators used for Indian MFIs include funding source, borrowing and overhead costs, loan late (non-performing assets), and company size.

Epstein and Yuthas (2010) argue that rating systems play a crucial role in establishing uniform performance criteria to enable funders compare the quality and efficiency of MFIs. The industry-wide use of ratings has incentivized MFIs to enhance their transparency and engage in information sharing leading to benchmarking and striving for performance improvements (Epstein & Yuthas, 2010).

Several new agencies have emerged to help MFIs measure their performance. MicroRate assists MFIs in gaining entry to both local and international financial markets through the identification and assessment of fiduciary and credit risks in the areas of management and governance, management information systems, financial circumstances, credit operations, and portfolio analysis. The Microfinance Information Exchange, Inc. (MIX), which is backed by many prominent organisations, has a database compiling social indicators such as average loan size and the proportion of female borrowers, along with conventional metrics such as profitability, growth, and portfolio risk (Epstein & Yuthas, 2010). Charity Navigator evaluates MFIs based on the proportion of their costs allocated to fundraising and administration in relation to their overall expenses (Epstein & Yuthas, 2010).

The various performance review indicators and mechanisms discussed above can be employed by funders and other stakeholder to exert pressure on management to prioritise financial achievement above social performance (Birchard, 2005).

Avoiding Mission Drift

Mission drift has emerged as a significant concern for MFIs, regardless of whether they operate as NGOs or profit-oriented banks. Mission drift in the MFI industry is primarily motivated by the objective of achieving financial sustainability which is characterised by the capacity to generate sufficient revenue to meet all operational and financing costs in the long run (Copestake, 2007).

Some of the challenges faced by MFIs that add to the phenomenon of mission drift are: scaling, commercialization and conversion to regulated financial institutions (Epstein & Yuthas, 2010).

According to Epstein and Yuthas (2010), the many sources of drift mentioned above may undermine an MFI's primary objective as it endeavours to broaden its range of goods, services, or markets, or to introduce novel business models, processes, or technology. Such division of time, energy, and other resources can result in internal discord inside the organisation. When an MFI gradually reduces the importance of its current programmes or customers in order to focus on new ones, it may inadvertently cause a detrimental social effect on a segment of the population it aims to assist, leading to a decline in its reputation and the trust of its stakeholders (Epstein & Yuthas, 2010). MFIs may encounter "contextual" mission drift, whereby their heightened emphasis on the technical elements of lending leads to a diminished consideration of the sociocultural impacts of the loans (Deshmukh-Ranadive, 2008).

MFIs can utilise a range of conventional management control practises to recognise the factors that lead to diffusion and drift, as well as to minimise the possible adverse outcomes resulting from it (Epstein & Yuthas, 2010). Mission clarity, performance evaluation, and good governance are identified as key.

An unambiguous and precise mission statement can help mitigate the occurrence of drift. The initial stage in demonstrating an organization's dedication to its desired social outcomes is to clearly define and clarify its mission (Epstein & Yuthas, 2010). This clarity is not only important for making informed decisions regarding resource allocation and operations, but it also plays a significant role in directing MFIs towards securing funding that aligns with their goal. An organisation may establish clear accountability for specific objectives by developing a well stated theory of change and mission (Bradach et al., 2008).

To ensure the preservation of the organization's mission, it is imperative that board-level governance is also efficient and impactful. The lack of attention given to the mission by board members of non-profit organisations may result in conflicting aims (Weisman, 2003).

Marketing

Mega marketing is a process which can concentrate on the strategic abilities and endeavours of businesses in response to socio-political obstacles encountered when attempting to enter or operate inside certain markets (Kotler, 1986). It also encompasses the strategic endeavours of various industry stakeholders in creating a market or industry by influencing the relevant cognitive, normative, and regulative circumstances (Humphreys et al., 2017).

Industries such as microfinance have garnered international recognition and endorsement by adhering to principles that deviate from the conventional norms of traditional commercial practises (Convergences, 2019).

According to Humphreys (2010), the concept of mega marketing involves the intentional implementation of activities aimed at establishing the legitimacy of a market, with the ultimate goal of gaining social, cultural, and political acceptance. Organisations can establish legitimacy by showcasing their adherence to legal and regulatory frameworks (referred to as regulatory legitimacy), as well as by aligning with the prevailing norms and values in the wider social context (known as normative legitimacy). Additionally, organisations attain legitimacy by conforming to existing cognitive and cultural frameworks, thereby gaining recognition and acceptance from other participants in the market (termed cultural-cognitive legitimacy).

Mega marketing encompasses a diverse array of public relations endeavours and strategic initiatives aimed at cultivating and moulding the public perception of industries or markets (Humphreys & Thompson, 2014).

Bajde, Chelekis, and van Dalen (2022) examined the strategic marketing approaches employed to cultivate, sustain, or safeguard the perceived value of microfinance which has demonstrated resilience in the face of various crises and has exhibited robust performance since 2012 (Convergences, 2019). Although microfinance is no longer regarded as a panacea for poverty eradication, it continues to uphold its social objective of promoting financial inclusion among the impoverished population.

In an effort to preserve the credibility of the microfinance industry and revive its tarnished reputation in poverty alleviation, mega marketers aimed to reestablish the industry's foundational principles and commitments by re-establishing the industry's integrity and addressing the negative effects of its increasing commercialization and ineffective performance.

Industry personas, such as Yunus, possess a range of attributes that enable stakeholders and audiences to establish a connection with the sector (Bornstein, 2017). MFIs can enhance credibility and reputation by engaging in mega marketing and establishing relationships with governmental and public-sector entities that are aligned with common social objectives and values.

Legal and Regulatory Framework

MFIs established as social companies or non-profit organisations face challenges in maintaining their social reputation and securing required financial resources largely due to the absence of a legislative framework that can safeguard both their social and operational components. Social businesses are increasingly adopting hybrid structures, which involve obtaining legal status and transitioning towards commercial models while yet maintaining their social aims (Marakkath & Attuel-mendes, 2015).

The use of social innovation such as crowdfunding is subject to country-specific legislative challenges, which makes it difficult to be used in microfinance. If regulators fail to address these contextual challenges, the social innovation's ability to effectively provide affordable microcredit to impoverished individuals may be hindered, preventing it from fully realising its promise (Marakkath & Attuel-mendes, 2015).

The degree of participation of NGOs in the administration of MFIs differs considerably between India and China (Tsai, 2004), mostly as a result of disparities in the regulatory framework governing NGOs and nonbank financial organisations in both countries. The Indian government has actively facilitated the expansion of autonomous NGOs and has encouraged domestic development finance institutions to engage in partnerships with them. In contrast, Chinese NGOs are either sponsored by a specific government unit, thereby categorising them as government-organized NGOs rather than independent NGOs, or they are established through support from international donors (Tsai, 2004). As of now, Indian NGOs have a higher penetration compared to their counterparts in China.

Indian microfinance NGOs often choose one of three primary models: self-help group (SHG) programmes with bank connections, cooperatives, or Grameen replicators (Tsai, 2004). Indian MFIs have generally not been subjected to rigorous regulatory measures, particularly those that are not officially established as cooperatives or nonbanking finance firms. The Reserve Bank of India (RBI) has refrained from implementing Section 45S of the RBI Act, which forbids the mobilisation of savings from the general population without prior approval from the RBI (Tsai, 2004). Financial liberalisation has resulted in relaxed interest rate regulations on microcredit, allowing Indian MFIs to design their loan structures in a financially self-sustaining manner (Tsai, 2004).

Thus, research suggests that microfinance interventions should adopt a distinct legal structure in order to enhance efficiency, facilitate expansion, and ensure long-term viability (Robinson, 2001).

II. Conclusion

Microfinance institutions, with their remarkable potential to empower underserved populations and foster economic growth, are undeniably transformative forces. However, the sustainability of these institutions remains under scrutiny, and the challenges they face are multifaceted. This review paper has found that despite these challenges, there exist viable interventions that can mitigate them.

Private-public partnerships emerge as promising strategies, leveraging the strengths of both sectors to ensure efficient delivery and sustainability (Bateman, 2010). Collaborations with commercial banks could also provide MFIs with the necessary financial and infrastructural support, bringing together commercial viability and social mission. Additionally, community-based models, including those aligned with religious affiliations, stand as testament to the potential of leveraging community ties and trust to bolster MFI operations (Ahmed, 2002). Regular performance reviews would keep these institutions on track, ensuring their operations align with their core objectives (Epstein & Yuthas, 2010). Fighting mission drift is indispensable; if MFIs stray from their core purpose, the very essence of microfinance becomes jeopardized (Mersland & Strøm, 2010). In conclusion, the implementation of a comprehensive legislative and regulatory framework is crucial in establishing a solid basis for sustainable operations, providing necessary safeguards and direction for microfinance institutions (Marakkath & Attuel-mendes, 2015).

This review acts as a guide for policymakers, MFIs, and other stakeholders, aiding them in understanding and subsequently implementing these interventions.

Further research can delve deeper into the efficacy, challenges in implementation and best practices for these interventions in different socio-economic contexts. Furthermore, the emergence of digital finance presents several opportunities and future research can examine its implications for MFI sustainability.

In conclusion, while microfinance faces challenges in its path towards sustainable development, the solutions are within reach. With the right interventions and commitment, MFIs can continue to illuminate the path to economic prosperity for many.

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