

**Dimension of Governance on Microfinance Institutions in South Asian Countries
(A Cross Country Study of Nepal and Bangladesh)**

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Abstract

This research aims to empower Nepalese and Bangladeshi microfinance institutions (MFIs) to strengthen their microfinance governance. By contrasting the governance structures of MFIs in Bangladesh and Nepal, the study focuses on the corporate governance aspect of MFIs for sustainability. This study adopted an interpretive methodology and a qualitative research design. Internal control, timely internal audit, proper rules and regulations, institutional culture, full compliance with rules and regulations, budget and annual plan review, financial transparency, and board literacy education are the main dimension of corporate governance, broadly influencing MFIs for sustainability. The study found sustainability of MFIs is affected by proper guidelines for operation, effective internal control mechanisms, professional management, board literacy education, financial transparency, the rule of law in operation, institutional culture, and review of budget and achievement. The findings of the study might be applicable to the BFIs, MFIs, regulatory authorities, economist, HR analyst, and planners.

Keywords: governance, operational performance, poverty alleviation, social performance, sustainability

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Introduction

Microfinance Institutions (MFIs) provide financial services (credit, savings, micro insurance, etc.) to the poor to reduce the credit rationing they face and help reduce poverty (Dhakal, 2012). Giving loans and other financial services to the underprivileged is known as microfinance. The MFI has developed due to the initiatives taken by dedicated people and aid organizations to combat poverty by encouraging entrepreneurship and self-employment. Due to its dual obligations to cover costs and provide financial services to the underprivileged (outreach), the MFI needs to improve its sustainability (Morduch, 1999; Armendariz de Aghion, & Morduch, 2000).

Aspects of corporate governance include establishing trustworthiness, assuring accountability and transparency, and preserving an efficient conduit for information disclosure that supports strong business performance. Building and maintaining trust among the various parties that make up a corporation is the focus of corporate governance. Corporate governance focuses on establishing and preserving trust among the many parties that make up a corporation (Rogers, 2008).

Owen (2003) found corporate governance as guidelines, connections, frameworks, and procedures corporations used to exercise and regulate their authority. It includes the procedures used to hold businesses and those in charge accountable. Corporate governance impacts how the company's goals are established and attained, the risk is monitored and evaluated, and performance is optimized.

Governance encompasses all methods, structures, practices, and procedures used to run institutions, how these rules and regulations are implemented and enforced, and the type of relationship that these rules and regulations establish or define. Generally, governance discusses the institutional framework's leadership position (Chenuos, et al., 2014).

The formation of friendly relationships between citizens, the state, and public institutions is a process that takes place as part of the institutional dimension of good governance. The way in which authority is used to manage a nation's economic and social resources for development is called governance (World Bank, 1992). It is concerned with the structure and processes that ensure the rule of law, accountability, transparency, stability, inclusivity, empowerment, participation, and legal value.

Governance refers to the institutionalized set of guidelines, procedures, and practices that a private firm uses to coordinate its operations with those of its stakeholders, clients, lenders, regulators, and neighbors. Due to the fact that it provides the framework for attaining a company's goals, corporate governance involves almost every area of management, including action plans, internal controls, performance evaluation, and corporate admission (Poudyal, 2021).

A robust banking system aids the development of the country's economy. By identifying and funding profitable business opportunities, financial institutions permit the addition of dispersed capital and promote investment (Dhungana, 2019). The banking industry fuels economic expansion by providing capital for profitable investments. The financial institution is important to the country's economic development (Schumpeter, 1934).

The financial sector is the economic pillar that makes it possible to generate continuous economic growth through effective financial intermediation. Economic growth necessitates a modern and stable financial system to pool and utilize financial resources, lower costs, and risks, expand, and diversify opportunities, improve resource efficiency, boost productivity, and facilitate economic growth (Dhungana, 2019). MFIs are essential to economic activity in rural areas. Corporate governance is a necessity for the efficient operation of the banking industry and the economy (Thapa, 2021).

A financial framework and technique that helps the underprivileged escape poverty is microfinance. The provision of financial and non-financial services to the underprivileged who are shut out of the financial and credit markets (Bassem, 2009). Thus, many microfinance organizations assert that their dual goals are to reach underserved borrowers (outreach) and maintain a healthy financial position. MFIs' primary goal is to promote development by generating new revenue-generating businesses.

Governance is about achieving corporate goals. It is illustrated in terms of profitability wealth maximization, and a culture of feeling served to its client, customers, and society at large (Mishra, et al, .2021; Mishra & Aithal, 2022). Thus, it is a process by which a board of directors (BODs) guides an institution through its management to fulfill its corporate mission and protect the institution's assets. Fundamental to good governance is the ability of individual directors to work in partnership and for the board to provide proper guidance to management regarding the institution's strategic direction and oversee management's efforts to move in this direction. The interplay between the board and management centers on the relationship between strategy and operation, both of which are essential for the successful evolution of the institution which is not functioning properly (Bassem, 2009).

First and foremost, the BODs of MFIs must carry out their legal responsibilities, including upholding the institution's bylaws, processes, and other legal or regulatory requirements like Nepal Rastra Bank (NRB), the central bank of Nepal directive and the business act. Second, they need to satisfy managerial accountability, which entails employing qualified professionals, setting clear expectations for these executives, closely observing their performance, resolving their flaws, and giving the MFIs strategic direction. The board should fulfill its role by keeping a distance from day-to-day operations, relying on the directors' collective institutional memory, and coming to legally binding judgments as a group.

The stability of the micro banking system depends on a successful microfinance sector. Poor profitability makes MFIs less able to detect harmful shocks, which then have an impact on solvency. Profitability is a key indicator of how MFIs are managed in their operating environment, which should maximize their effectiveness, risk management skills, competitive strategies, management caliber, and capitalization levels. In Nepal, MFIs achieve operational self-sufficiency three years after their start date, which means that their operating income exceeds their operating expenses.

The capacity of an organization to maintain its status over an extended period is known as sustainability. Financial sustainability is a company's capacity to sustain its financial position over an extended period. Since MFIs cater to a sizable segment of the population with high needs. The financial sustainability of MFIs depends on their financial agility over the long term. Financial sustainability refers

to the capacity to create and maintain a diverse resource base over an extended period to serve the needs of its clientele, whether financial donors or assistance is provided (Abdelkarim, 2002).

Financial sustainability is a situation when the operating income is sufficient to cover operational and financial costs like interest expenses, salaries, administrative costs, and other forms of cost. Financial sustained institutions are the organization's capacity to bear all the expenses including direct and indirect costs incurred to produce products and services. If the institution is financially sustained, it can invest margin funds in the client's skills development and other institutional development. Outreach is an important factor for the sustainability and growth of MFIs. It includes financial access to the target people in terms of household, age, demography, and others. A high level of outreach provides sustainability to the MFIs which ultimately helps to get their goal that is, financial and social. Outreach indicates the area it covers, the number of branches it establishes, the number of members/borrowers it serves, and the amount of money it lends and collects.

The principal objective of this study is to evaluate how corporate governance affects the viability of MFIs for microfinance in Bangladesh and Nepal. The objectives are to analyze Nepalese and Bangladeshi MFIs' current governance practices and identify new dimensions of good governance of MFIs for outreach and sustainability. The paper, in sequence, presents the significance of the study, literature review, and research methodology followed by the findings of the study. Finally, the paper concludes with a discussion and conclusion.

Significance of the Study

The Nepalese microfinance sector has grown rapidly since the 1990s. Now it is one of the major players for financial access in remote areas. In earlier days, it was a little informal but now due to the initiation of the Government of Nepal (GOV/N) and NRB, it is more formal. Now, NRB regulates MFIs. But there are certain good governance-related common challenges for Nepalese MFIs. Among these challenges: First, mission drift, which can happen when business interests take precedence over objectives for social impact, must be managed as a possible conflict between the organization's desire for financial success and its commitment to serving the public good. Second, given that many MFIs originate from non-profits and charities, defining ownership and shareholding arrangements and converting into regulated financial institutions is frequently a lack of transparency. Lastly, the issues of governance that come with being for-profit organizations are a problem for many MFIs. Members of boards for non-profit organizations have substantially different motivations than those of standard for-profit boards. Financial institutions and officials were also facing problems due to a lack of proper governance (Bhattarai & Gupta, 2022).

There are many issues related to governance patterns regarding board responsibilities, operation, management, internal control, internal audit, and financial transparency. MFIs are thought to benefit from good corporate governance in terms of improving performance and sustainability as well as expanding their reach (Mersland & Strom, 2010).

Previous studies have primarily focused on how MFIs affect borrowers and how innovative lending methods might increase outreach and sustainability (Morduch, 1999; Armendariz de Aghion & Morduch,

2000). This context-proposed study will cover the gap in this area. To fulfill this gap, this study explores the dimensions of corporate governance in MFIs for outreach and financial sustainability.

Review of Literature

This chapter reviews prior research and provides a conceptual overview of the study's subject and related fields. Reviewing the literature refers to examining research studies or other pertinent arguments in the relevant field of study to identify gaps in prior research, its conclusions, and its perspective. It is a crucial part of every study that communicates what understanding and concepts have been established on a subject in the past, along with their advantages and disadvantages (Lamichhane, 2022).

Corporate Governance Theory

In order to strengthen the financial sustainability of microfinance organizations, corporate governance procedures are crucial to their functioning. These procedures also call for a sizable proportion of women on the board, a reasonable board size, a range of specialties and abilities, a separation of power and responsibility between the roles of board chairman and Chief Executive Officer (CEO), and an effective governance framework (Chenuos et al., 2014). There is a strong correlation between corporate governance and MFI effectiveness. The board's diversity (in terms of gender, profession, and ethnicity), board size, independence from the CEO, separation of powers between the chairman and CEO, internal and external audit, internal control mechanism, corporate mission, and regulatory environment all offer suggestions for a way out of the MFIs' good governance dimension. These elements affect the MFIs' financial performance, operational performance, and outreach (Thrikawala, et al, 2013; Chaulagain, & Lamichhane, 2022).

Review of Empirical Literature

All across the world, MFIs are in operation. The largest markets are in Asia (70%) and Latin America (20%), with the other markets dispersed across the world. The biggest markets, in terms of nations, are in Bangladesh, Bolivia, India, and Cambodia (Micro Banking Bulletin, at the end of 2006). There has been a great deal of investigation and inquiry into the governance of the microfinance industry in many nations and contexts. With regard to defining the resolution in the microfinance sector, the majority of the study has also concentrated on the aspect of corporate governance. In this background, relevant literature is sourced from several places.

For governance in MFIs, Strom et al. (2014) have examined the relationship between female leadership, firm performance, and corporate governance in MFIs. They focused their studies on the impact of female leadership on governance and performance of MFIs that is mission orientation, entrepreneurs' nature, diverse institutionalized operation for service continuity, and financial performance that is operational for self-sufficiency and financial self-sufficiency as well. Furthermore, firstly, they concluded female leadership increases with MFI's mission to supply credit to poor women. Secondly, female leader has highly concentrated corporate governance; and thirdly, they are greatly focused on financial performance, transparency, and service stability.

By the use of econometrics and panel data analysis, Halouani and Boujelbène (2015) investigated the connection between external governance and dual mission in African MFIs between 2002 and 2009. They examined how the competition between MFIs' financial performance and their social performance (i.e., outreach and poverty alleviation) related to external governance mechanisms evaluated by regulation, rating, and audit. They came to the conclusion that a stable policy, governance system, disciplinary role for management behavior, and institutional mechanism for self-control are necessary for the success of the microfinance sector. Also, they came to the conclusion that the governance mechanism depends on the social and economic goals of MFIs and that there is no meaningful relationship between those goals and the mission of MFIs.

Bassem (2009) studied on Mediterranean microfinance governance and performance in terms of sustainability and outreach. He looked at the effects of management compensation, the independence of the board, the diversity of the board's knowledge, the internal auditors' report, and the internal control process. The researcher emphasized every known governance mechanism that influences institution performance as well as various other elements that affect outreach and sustainability. A strong CEO, knowledgeable board members, independent board members, more women on the board, effective regulation, and the adoption of individual lending methodology are vital traits of sustainability and outreach.

Corporate governance practices are essential to the operation of MFIs in order to increase their financial sustainability. These practices also require a significant percentage of women on the board, a moderate board size, various expertise and skills, a separation of power and authority between the board chairman and CEO positions, and good governance (Chenuos et al., 2014).

The effectiveness of MFIs and corporate governance are significantly correlated. Regulatory environment, board size, independence, diversity of power between CEO and Chairman, internal and external audit, internal control mechanism, corporate mission, and governance provide guidance for a way out of the good governance dimension of MFIs. These factors affect both the financial performance and outreach (Thrikawala et al., 2013).

Uchenna, et al., (2020) used a descriptive research design to investigate the effect of corporate governance on the financial sustainability of registered MFIs in Nigeria. They assumed that OSS, board freedom, board magnitude, gender diversity, and financial sustainability measurement using return on assets (ROA) were adopted as corporate governance attributes. The study found that there is a positive correlation between board size, gender, and financial sustainability but no discernible association between corporate governance procedures (board independence, gender diversity). According to the report, to reap the benefits of having women serving on microfinance bank boards, MFIs should develop gender-inclusive policies. The report recommends that regulatory organizations confirm the existence of corporate governance mechanisms.

Review of Governance Practices in Nepalese MFIs

NRB has strengthened its regulatory and oversight functions in the financial sector. It is the regulatory authority of Nepal. It issues licenses to all banking and financial institutions for their operation. NRB is only the single authority to regulate MFIs. NRB issues directives, circulars, and other related

guidelines to regulate MFIs. In the fiscal year 2020/2021, NRB issued new directives for MFIs for governance, operation and management.

The Bank and Financial Institutions Act (BAFIA), (2017), the Company Act, and directives issued by NRB all serve to govern Nepalese banks. With the start of the joint venture commercial banks' operations in Nepal in 1984, they worked to develop sound governance principles in the country's financial sector as well as a contemporary banking system. It is crucial to focus on the banking laws, commercial laws, and regulatory frameworks while examining Nepal's overall banking environment.

Another contributing factor is the level of exposure of the banking institutions to international regulations. Banks with foreign ownership are more likely to have an advanced level of corporate governance than those with limited international exposure. Another important common dimension relevant to corporate governance is the strong family control of ownership, boards of directors, and management.

The traditional banking activities of Nepali banks and financial institutions (BFIs) are often constrained. This restriction might also point to generally still subpar company governance. Notwithstanding these problems, the majority of Nepalese banks remain modest in comparison to the biggest financial players on the global markets. The capital market and non-bank financial institutions play a minor role in the total financial sector, which is dominated by commercial banks. A significant portion of the financial system's assets are held by the banking industry alone.

With the introduction of a solid corporate governance framework, Nepalese banks are attempting to innovate new products and expand the global banking environment. Being a regulator, NRB is tasked with keeping an eye on the type of corporate governance procedures used in the banking industry. The Nepalese government and NRB have continued the financial sector reform initiative and placed a strong emphasis on the preservation of good governance practices that foster the flow of foreign investment.

Several particular obligations to the BODs have been mentioned in the BAFIA Act (2017). First off, some board members have the right to receive any personal benefits from banks or other financial organizations while serving in their capacity. Second, the financial institution has the authority to seek repayment from any director who is discovered to have received a personal gain. Thirdly, the bank or financial institution will not be held liable for any decisions made by directors who operate outside their scope of authority and hurt the bank. The board should set the CEO's compensation and benefits.

Since the enactment of the BAFIA Act (2017), the management-related appointment standards for the CEOs of banks and financial institutions have slightly changed. A bank CEO must have a Master's degree in management, banking, finance, economics, commerce, auditing, statistics, or law to be eligible to hold the position. Alternatively, they must have a Bachelor's degree and at least 10 years of experience working as an officer in these fields if they have a Bachelor's degree. Also, just like it is for the BODs, the person nominated as CEO must be a regular person and cannot have any criminal convictions for fraud or other unethical behavior. A bank's CEO can serve a two-year term and is in charge of creating the yearly budget and action plan, which is presented to the board for approval prior to implementation according to Company Act, 2006. The Companies Act of 2006 mandates that all publicly traded firms with paid-up capital of NPR 30 million that are wholly or partially owned by the government have an audit committee,

which is led by a non-executive director who is not involved in the company's day-to-day management. Also, no immediate family members of the CEO may serve on the audit committee under this law.

In Nepal, wholesale lending MFIs have been playing a remarkable role in good governance mechanisms. In Nepal, there are four wholesale lending MFIs namely, RMDC Laghubitta Bittiya Sanstha Ltd., Sana Kisan Bikas Laghubitta Bittiya Sanstha Ltd., First Microfinance Laghubitta Bittiya Sanstha Ltd., and RSDC Laghubitta Bittiya Sanstha Ltd. RMDC Laghubitta Bittiya Sanstha Ltd. was established in October 1998 with an initiative of NRB and funding support as well as technical assistance from the Asian Development Bank. Its main activities are wholesale lending to MFIs, capacity building of its partner MFIs, and promotion and development of new MFIs in the country. RMDC focuses on good governance practices in partner organizations (POs). RMDC regularly makes on-site and off-site visits to monitor its PO for mitigating risks and maintaining governance.

Review of Companies Act (2006) and Governance Provision in Nepal

The GOV/N has issued the Companies Act 2006, for the establishment, promotion, and development of public companies in Nepal. Besides, these provide the companies Act 2006 has highlighted the responsibilities of the audit committee regarding good governance. The Companies Act also focuses on the duties of the audit committee, including reviewing the company's accounts and financial statements, internal financial controls, and risk management systems, recommending candidates for the position of company auditor, and setting the auditor's compensation and terms and conditions.

The audit committee also reviews the remarks contained in the internal as well as external audit reports and takes necessary actions if required. The committee also provides the BODs with accurate information about the company, prepares the accounts-related policy of the company, and enforces it. Moreover, the audit committee has a vital role in fostering good governance practices in the business scenario of Nepal. Despite the body playing its role, in many cases, it has been reported issues of fraud and miscommunication. Nepal has taken some steps toward improving corporate governance. Regarding the governance mechanism, the Companies Act, of 2006 has been amended in 2016. The newly introduced amendment has important provisions to enhance corporate governance, including the requirement for a public company to have at least one female director and an independent/professional BODs, provisions relating to the assurance of shares at a premium price, and a special provision for de-registration of defunct and non-compliance companies.

Additionally, in current directive 2020 issued by NRB, it includes issues related to anti-money laundering (AML)/combating financial terrorism (CFT) for managing the undue and illegal transfer and placement of black money through MFIs. Each bank and financial institution need to formulate a separate AML-related sub-committee to address AML/CFT issues in BFIs. AML/CFT have globally grown as the agenda of serious concern in the entire domestic and international banking. It is sometimes realized as a big mystery or burden over the industry. However, there are limited efforts made to mitigate the situation. There is need to address these issues strategically and systematically so that they can be solved permanently within existing legal and regulatory frameworks.

Review of Governance Practices in MFIs in Bangladesh

For the poor, microfinance includes a variety of financial services like savings, credit, and insurance (Alamgir, 2009). Microfinance program was developed in Bangladesh. It began in 1978 with the help of Grameen Bank. There are 705 licensed Non-Government Organization (NGO)-MFIs in Bangladesh, and they have lent more than BDT 1.201 billion to over 25 million borrowers in 2018. They have a network of over 18,000 branches (Microcredit Regulatory Authority (Nargis, 2020). Bangladesh's Gross domestic product is also significantly impacted by efforts to reduce poverty. Based on the number of borrowers, Grameen Bank Bangladesh alone holds around 21% of the microfinance market share, while Bangladesh Rural Advancement Committee and an NGO collectively hold about 38%. (Nargis, 2020). The MRA Act, 2006 (Act number 32 of 2006), which went into effect on August 27, 2006, was issued by the Bangladeshi government. In accordance with this Act, the Government established the MRA in order to ensure the accountability and transparency of the nation's microcredit activities. The Authority has been given the authority and duty to carry out the legislation and provide a comprehensive regulatory framework for the nation's microcredit industry.

The goal of MRA is to promote the long-term development of the microfinance industry while ensuring the accountability and openness of microfinance operations. In order to fulfill its objective, MRA has set out to develop and put into practice policies that will guarantee MFIs' sound financial management and transparent governance. Along with giving policy recommendations to the government that are consistent with the national goal for ending poverty, MRA also carries out in-depth research on important microfinance topics, trains MFIs, and connects them to a larger financial market. MRA also makes it easier to manage resources effectively and sustainably, helping the government create an inclusive financial system that will support national economic growth.

In order to fulfill the social duty of the MRA, it also recognizes the top priorities in the microfinance industry for policy advice and information distribution. According to the Act, the MRA is in charge of three key tasks that must be completed: licensing MFIs with specific legal authority; monitoring and supervising MFIs to ensure that they continue to adhere to licensing requirements; and enforcing sanctions when any MFI fails to comply with licensing and ongoing supervision requirements.

The Palli Karma-Sahayak Foundation (PKSF) by the Government of Bangladesh in May 1990 as an apex wholesale lending and development organization for sustainable poverty reduction through employment creation through microfinance activities. The PKSF's legal framework gives it the freedom and power to conduct programs across the nation in a changing environment. Additionally, it offers wholesale loans to MFIs, supports the development of rural off-farm self-employment opportunities, and chose the credit program promotion method to achieve this objective. Additionally, it improves POs institutional capacity and their ability to offer a range of financial and non-financial services to the underprivileged in a long-term way. For sustainability and profitability, it supports the POs' good governance practices (Badruddoza, 2013).

Research Methodology

This study adopts an explanatory methodology and a qualitative research design. It is primarily based on secondary material that was gathered from a variety of scholarly journals, business journals, and periodicals. Furthermore, this study is focusing on exploring the dimension of governance and compares it with international best practices as well. In this paper, the researcher has used descriptive as well as archival techniques as the major part of the research. The researcher has used a cross-country review methodology to examine the regulatory frameworks for governance practices in Bangladesh and Nepal in light of the significance of governance in microfinance.

Findings

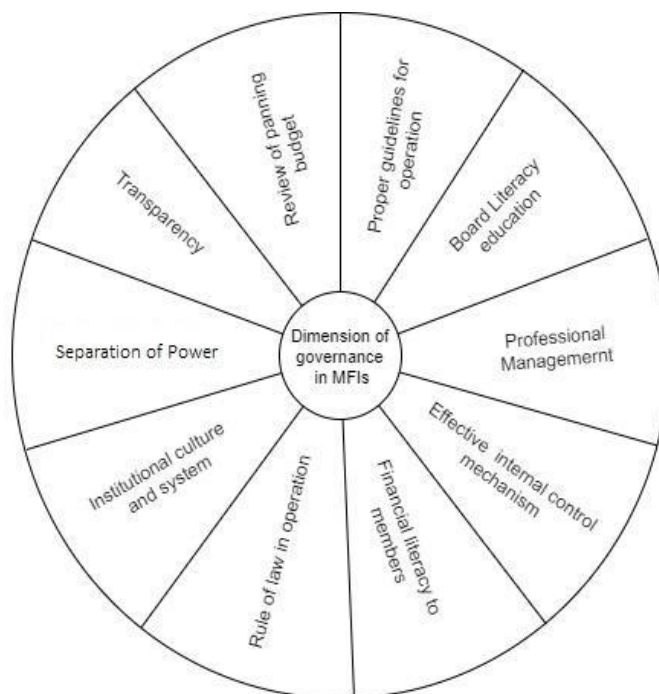
Corporate governance's goal is to contribute to developing the climate of trust, accountability, and openness required for encouraging long-term investment, financial stability, and commercial integrity, enabling societies with better growth. The functions of board members, the board's makeup, fostering trust, and handling conflicts of interest are the main topics of concern when it comes to governance in the microfinance industry. Corporate governance has several goals to increase investor confidence and help MFIs grow quickly and profitably.

A stable financial system supports long-term national economic prosperity. Through responsible lending activities, MFIs significantly contribute to developing the rural economy and achieving national goals. As a result, the regulatory body should encourage the promotion of good governance in the banking and financial sectors of Bangladesh and Nepal. Concerning the components of corporate governance, there is a conundrum at the academic and professional levels.

The researcher formed a governance dimension for MFIs based on a review of related literature and a cross-country review, which may be insufficient. As a result, more research is required to assess the governance dimension in MFIs.

Proposed Dimension for Governance in MFIs

Governance is the key to the success of any institution. The following are the effective dimension for good governance in MFIs, which may ensure outreach and profitability. Based on the review of literature and methodology the researcher has developed an effective dimension of good governance of MFIs for outreach, poverty alleviation and sustainability.

Figure 1:*Dimension of Governance in MFIs*

- i. **Proper guidelines for operation:** NRB and PKSF are necessary to recommend MFIs to make and implement some major policies such as HR policy to assist the board with staff selection and recruitment, career development, successor planning, business planning, operational plan, and among other.
- ii. **Board literacy education:** Members of the board may come from a variety of educational backgrounds, professions, and experiences. NRB and PKSF recommend providing training to board members about the hybrid objectives of microfinance, as well as preparing guidelines about the appropriate role of board members to avoid conflicts of interest.
- iii. **Research and development for innovation:** Research and development may aid in aligning incentives and compensation for senior management and board members with the institution's social goals. Change management is a regular process in any institution, and managing it effectively is the major challenge. So, conducting regular research and development is essential for the innovation of MFIs.
- iv. **Professional management:** When the management of any institution is professional, it maintains the minimum criteria for good governance activities. For growth and development, it is necessary to have

a professional management team. Board expects professional management for growth and development. Thus, MFIs need to have professionalism in nature.

- v. **Effective internal control mechanism:** Internal control system is the check and balance of all internal activities of any organization including the banking sector and MFIs. It confirms the activities made by the board, management, and other staff within the policy, rules, and regulations made by the organization. The internal and external audit ensures governance in MFIs. Internal audit assures proper tests about compliance with rules, regulations, and policies.
- vi. **Financial transparency:** Transparency is the minimum criterion for good governance. Transparency is required for any organization's growth and development. Every business needs transparency in business operations in every aspect for example financial transparency. MFIs need to have established an appropriate transparency system as a whole at an institutional level.
- vii. **Rule of law in operation:** In any organization, if it is operating following its rule and laws, good governance is automatically maintained. All the activities done in any organization must be based on its policy, procedures, and manuals. Corporate governance is about establishing credibility, ensuring transparency, accountability, and trust, as well as putting the rule of law into action. At the institutional level, MFIs must have established an appropriate rule of law.
- viii. **Institutional culture and systems:** Institutional culture provides a major effect on governance-related aspects. If the culture is positive toward good governance, it supports the growth and development of the organization. Good corporate and institutional culture is the key to maintaining good governance in banking and MFIs.
- ix. **Review of budget and programs:** Regular review of budget and programs identifies the gap between actual and budgeted which ultimately helps to maintain good governance within the organization. Review is the basis for control within the organization. It is the standard to put forward of any institution. It shows organizations' success and failure equally help to take corrective action if necessary. Therefore, MFIs need to have regularly reviewed their program and activities for goal-oriented achievements.

Discussion

Governance's goal is to help create an environment that encourages long-term investment, financial stability, and commercial integrity, resulting in stronger growth and more inclusive societies. Board member functions, board composition, building confidence, and resolving conflicts of interest are all critical aspects of microfinance governance.

Corporate governance is the major issue in the present scenario. It is about building credibility, ensuring transparency, public trust, and liability as well as keeping an effective channel of communication with stakeholders. It gives confidence for further investment to investors. Governance is a system of checks and balances, whereby a board is established to manage the managers. The internal control mechanism, timely internal audit, proper rules and regulations, institutional culture, full compliance with rules and regulations, review of a budget annual plan, financial literacy, and transparency are the main dimension of corporate governance that broadly influence the microfinance sector for sustainability. In the microfinance industry, MFIs have large pools of financial assets. Many organizations in the microfinance industry are

struggling with governance challenges. Company Act (2006) has mentioned public companies to maintain governance-related best practices. NRB has issued governance guidelines to banks and financial institutions through directives, circulars, and guidelines, and has made a mechanism to check compliance. Likewise, the (GOV/N) also has issued AML/CFT guidelines which make an impact on the application of good governance practices.

In Bangladesh, MRA has also provided directives, circulars, and guidelines to MFIs to address governance-related issues. Likewise, PKSF Bangladesh also provides technical as well as non-technical support to its POs for maintaining good governance, and compliance with the regulatory authority. Mainly, the impact of governance in microfinance positively influence financial transparency, compliance with the rules and regulation in the proper way, systematic and effective operation, revenue generation, increased service quality, corporate culture, profitability, increases reputation, board accountability, management duty, and responsibility, business culture, and enhance sustainability.

Corporate governance mainly depends on board size, independent board, differentiating of power on CEO and chairman, internal and external audit, internal control mechanism, corporate mission, and regulatory environment which is suggested by Thrikawala et al. (2013) which is similar to my research. Likewise, Bassem (2009) has studied on governance and performance of Mediterranean microfinance in standings of outreach and sustainability. The researcher examined the impact of management remuneration, board independence, diverse knowledge, internal auditors' report, and internal control mechanism which is also similar to my finding. Similarly, Uchenna et al. (2020) investigated the corporate governance and long-term viability of Nigerian microfinance banks. The study discovered that board size and women's participation in board composition have a positive impact on MFI sustainability, which is consistent with research findings.

Conclusion

The results show that outreach/social efficiency and financial efficiency are positively influenced by governance. Operationally efficient and systems-driven MFIs may definitely gain profit and social efficiency. These include scientific internal management, organizational culture, internal check and control, audits, and effective risk and compliance handling mechanism. The study suggests that institutionally efficient MFIs may achieve their social goal and profit and financial sustainability as well. The regulatory authority should play its role to promise governance principles in MFIs. The findings of the study will be beneficial to policymakers, regulatory authorities, economists, NGO-MFIs, and BFIs.

One of the study's limitations is the lack of BFIs, policymakers, and regulators as study populations. Future research on this topic will open a new chapter, depending on the availability of the database. Before conducting additional research, it is also strongly recommended that a panel of experts and professionals in the field of corporate governance in MFIs be consulted.

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