



A Study on the Growth and Outreach of Microfinance Institutions in India

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ABSTRACT

Microfinance has become a very popular tool in developing and less developed economies due to its benefits of economic welfare as well as to empower the weaker sections of society. It is found helpful in the fields of poverty alleviation, income, and employment generation, thereby leading to the development of an economy. For a country like India, microfinance can indeed play a vital role in meeting the ever-growing needs of the huge population. This study aims to assess the progress of microfinance institutions (MFIs) in India, analyse their regional outreach, and examine trends among microfinance borrowers. The research primarily relies on secondary data and follows a design that is both descriptive and exploratory. Data were gathered from multiple sources, including the *Status of Microfinance in India*, the NABARD Report (various editions), the *Bharat Microfinance Report* (various editions), as well as various websites and studies, covering the period from 2019–20 to 2023–24. Statistical tools such as percentages, graphs, and charts to achieve the study's objectives. The findings of the paper demonstrate that there is advancement in the outreach and growth of MFIs in India with rural clientele on top of the urban borrowers. The findings of the paper are expected to be of considerable help to the stakeholders, especially the central and state governments,



in taking the necessary steps to promote the growth of the microfinance sector in India.

Introduction

Microfinance offers banking services to unemployed or low-income individuals and groups who otherwise would not have access to traditional financial services. It enables people to obtain small business loans safely and ethically, fostering financial independence. Microfinance institutions support various activities, from offering basic services like checking and savings accounts to providing startup capital for small businesses and educational programs on investing. As an economic tool, microfinance promotes financial inclusion, helping low-income households to alleviate poverty, increase their income, and enhance their overall living standards. Additionally, it supports national policies aimed at poverty reduction, women's empowerment, assistance to vulnerable groups, and improved quality of life. Microfinance plays three critical roles in development.

- It helps impoverished households meet basic needs and protect against risks.
- It is associated with improvements in households' economic welfare.
- It helps in empowering women by giving chance to women for economic participation and, thus, promotes gender equity.

Some key features of microfinance are:

- The borrowers are generally from low-income families.
- Microfinance loans, also known as microloans, are typically small in amounts.
- They have a short repayment tenure.
- No collateral is required for microfinance loans.
- Repayments typically occur at regular intervals.

The microfinance movement vis-à-vis microenterprise development is a new paradigm that has become very popular in developing and less developed economies. Microfinance intervention is a novel approach to rural development aimed at assisting the impoverished—those living below the poverty line, vulnerable groups, and landless individuals living in villages, semi-urban areas, and urban areas. The



scarcity of formal credit channels and their poor accessibility made this small initiative significant. Among recent policies and programs in such economics, the microfinance movement has been found to eradicate poverty, increase income, and employment generation on the one hand and financial development on the other. The entire emphasis is here to engage people with low incomes in meaningful and sustainable economic activities, and in this process, micro-enterprises got a new thrust.

Microfinance evolution can be traced back to the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits for entrepreneurs and farmers to escape poverty. The term "microfinance" was first used in 1970s when the Grameen Bank in Bangladesh was incorporated by Muhammad Yunus. His efforts played a crucial role in shaping the modern microfinance industry, providing small-scale financial services to underserved communities. Yunus institutionalised the microfinance approach in 1976 by founding Grameen Bank Bangladesh. The microfinance paradigm received an increased impetus in the mid-1900s

Micro Finance in India

In India, Microfinance was first started by the members of the Self-Employed Women's Association (SEWA), it has since played a crucial role in providing financial services to those previously excluded from the economic mainstream. NABARD formally launched it in 1992, coordinating with other financial institutions such as regional rural banks, cooperative banks, and commercial banks. Similarly, the Small Industries Development Bank of India formulated a micro-credit scheme in 1994 to promote SHGs and microenterprises, insisting on working with good-track NGOs. These financial intermediaries are vital for mobilising funds for needy people and microentrepreneurs. There are two main channels through which microfinance operates in India:

a) SHG-Bank Linkage Program (SBLP)

b) Micro Finance Institutions (MFIs)

Significance of the Study

Microfinance institutions have provided financial needs to the lower sections of society over the past many years. Microfinance institutions (MFIs), primarily those serving marginalised communities, not only play a crucial role in benefiting society but also face the expectation of operating efficiently. To sustain their operations and achieve their objectives, MFIs must maintain financial viability. This study aims to analyze the progress and outreach of microfinance institutions in India over the years.



Methodology and Data

The study is partly descriptive and a portion exploratory. Secondary data were collected from various sources, like the status of microfinance in India, the NABARD Report (multiple issues), the Bharat Microfinance Report, and other websites and studies for the period 2019-20 to 2023-24. Statistical tools like percentages, averages, graphs, and charts were used for the analysis.

Objectives of the Study

1. To examine the progress of microfinance institutions in India.
2. To identify the regional outreach of microfinance institutions in India.
3. To study the trends of microfinance institution's borrowers in India.

Data Analysis and Interpretation

After collecting data from the relevant secondary sources, the tables and charts below display the information in a well-organised manner, and a careful analysis was done to meet the study's objectives.

Section 1

An attempt has been made to examine the progress of MFIs throughout the study period. Here, data like the number of loans disbursed by banks or financial institutions to MFIs, loans outstanding against microfinance institutions, and fresh loans as a percentage of loans outstanding from 2019-2020 to 2023-24 is shown below.

Table 1: Progress under MFI-bank linkage program (Amount in crore)

	2019-20		2020-21		2021-22		2022-23		2023-24	
	No of MFIs	Amt. In crore	No of MFIs	Amt. in crore	No of MFIs	Amt .in crore	No of MFIs	Amt. in crore	No of MFIs	Amt. in crore
Loans disbursed by	20744	20875.97	2860 1(37.9%)	15322.3 3(-26.6%)	24686 (-13.7%)	26567.02 (73.4%)	80211 (255.03%)	36757.1 (38.36%)	28871 (-64%)	28152.12 %



banks/FI to MFIs										23.41%)
Loans o/s against MFIs on 31 st March	52288	29896.67	61259 (17.1%)	24494.04 (-18.1%)	58849 (-4.0%)	38806.35 (58.4%)	106355 (80.73%)	44120.1 (13.70%)	185716 (74.62%)	55825.53 (26.53%)
Fresh loans as % to loans o/s		70.02%		63.1%		68.5%		83.31%		50.43%

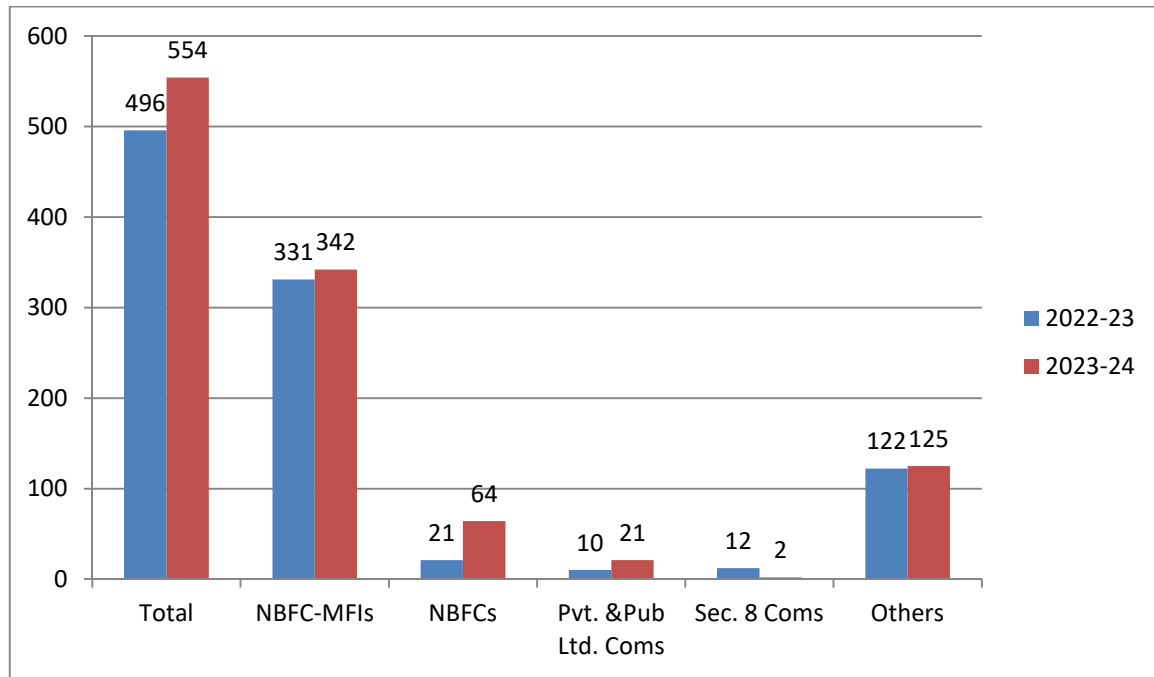
Source: Status of Micro Finance in India Report 2019-20 to 2023-24

Table 1 shows the progress under the MFI-bank linkage program. The number of microfinance institutions availing loans from banks increased in all the years over their previous years except in the financial years 2020-21 (decreased by 13.7 percent) and 2023-24 (decreased by 64 percent). There is a steep rise in microfinance institutions availing loans in 2022-23, with an increase of 225.03 percent over 2021-22. The loans outstanding against microfinance institutions increased in all the years over the previous years except in the year 2020-21 (decreased by 18.1 percent). However, a significant surge in loans outstanding against MFIs was observed in 2021-22, marking a 58.4% increase compared to the previous year. The fresh loans as a percentage of outstanding loans fluctuated over the years compared to the last year, with a decrease in 2020-21 and a steep decline in 2023-24. However, the percentage increased to 68.5 in 2021-22 and a better figure in 2022-23, i.e., 83.31 percent. Despite some fluctuations in the previous year, especially in 2021-22 and 2022-23, there was significant growth.

Section 2

An attempt has been made to examine the microfinance loans disbursed through various sources from 2022-23 and 2023-24.

Figure 1: No of microfinance loans disbursed (source wise) during FY 2022-23 and 2023-24(Amount in lakh)



Source: The Bharat Microfinance Report 2023 and 2024.

Out of the total number of 496 lakh loans disbursed during FY 2022-23, NBFC-MFIs have disbursed a maximum of 67% of loans, followed by Others, which have disbursed 25% of loans, while the Pvt. & Pub. Ltd. Coms. have disbursed the least amount of loans. Similarly, in FY 2023-24, out of the 554 lakh loans disbursed, the major share was by NBFIs-MFI with 62% loans, followed by Others with 23% loans and NBFCs with 12% loans. In Sec. 8, companies had a small share of 0.4%.

Section 3

This section aims to pinpoint the regional reach of microfinance institutions in India from 2019-20 to 2023-24. For clearer understanding and perception, the breakup amount is shown percentage-wise below.

Table 2: Regional breakup of Client outreach

	Client base(in lakh)	North	East	West	South	Northeast	Central
2019-20	423(100%)	8%	28%	9%	33%	4%	18%
2020-21	422(100%)	8%	27%	9%	33%	4%	19%



2021-22	448(100%)	9%	28%	9%	33%	3%	19%
2022-23	532(100%)	9%	29%	9%	30%	2%	21%
2023-24	698(100%)	9%	30%	9%	29%	1%	22%

Source: The Bharat Microfinance Report 2020-2024

The above table shows that the southern region is leading in all the years, except in the year 2024. The northern and western regions share almost the same percentage of client outreach. The northeast region has the lowest client outreach percentage in all five years. Over the years, a positive trend of growth in client outreach has been observed in the northern and central regions. The western region has shown neither a positive nor a negative growth trend. The eastern region experienced a negative growth trend in 2019-20 and 2020-21 but peaked in 2021-22 and 2022-23. However, the southern region only observed a positive or constant growth trend in 2019-20 and 2020-21 and declined in 2021-22 and 2022-23. The northeastern region maintained a minimum but steady growth trend until 2020–21 but fell in 2021–22 and 2022–23.

Section 4

In this section, an attempt has been made to study the client outreach of microfinance institutions across states and union territories for the years ending March 2023 and March 2024. Below, we display the percentage growth (increase/decrease) compared to March 2023.

Table 3: Client outreach (in lakhs) of MFIs across states/UTs – March 2023 & March 2024(ascending order)

STATE/UT	MARCH 2023	MARCH 2024	GROWTH (%)
Karnataka	75.54	90.25	19.47%
Bihar	71.92	99.61	38.51%
Tamil Nadu	65.36	83.76	28.15%
	61.63	84.03	36.34%



Uttar Pradesh			
	37.66	47.36	25.75%
Madhya Pradesh			
	34.18	43.66	27.74%
Odisha			
	31.77	43.30	36.31%
West Bengal			
	31.03	40.94	31.94%
Maharashtra			
	26.20	32.63	24.57%
Rajasthan			
	17.35	20.81	20.00%
Jharkhand			
	15.12	21.99	45.41%
Gujarat			
	13.41	18.67	39.24%
Kerala			
	11.07	17.01	53.75%
Chhattisgarh			
	10.26	12.99	26.63%
Punjab			
	9.40	12.89	37.19%
Haryana			
	6.21	7.02	12.91%
Assam			
	3.46	4.21	21.78%
Uttarakhand			
	2.95	2.79	-5.31%
Tripura			
	2.86	5.67	98.13%
Andhra Pradesh			
	1.43	1.84	28.56%
Puducherry			
	0.52	0.67	27.33%
Himachal Pradesh			



Manipur	0.47	0.41	-13.55%
Telangana	0.33	2.79	736.18%
Goa	0.23	0.35	49.60%
Jammu & Kashmir	0.22	0.42	89.65%
Delhi	0.16	0.49	201.24%
Sikkim	0.14	0.14	2.60%
Arunachal Pradesh	0.10	0.38	291.85%
Meghalaya	0.06	0.17	168.08%
Chandigarh	0.06	0.05	-16.51%
Mizoram	0.04	0.07	61.68%
Andaman & Nicobar Islands	0.02	0.02	16.21%
Nagaland	0.01	0.20	1562.77%
Dadra & Nagar Haveli and Daman & Diu	0.00	0.00	0.00%
Ladakh	0.00	0.00	0.00%
Lakshadweep	0.00	0.00	0.00%



Total	532	698	31%
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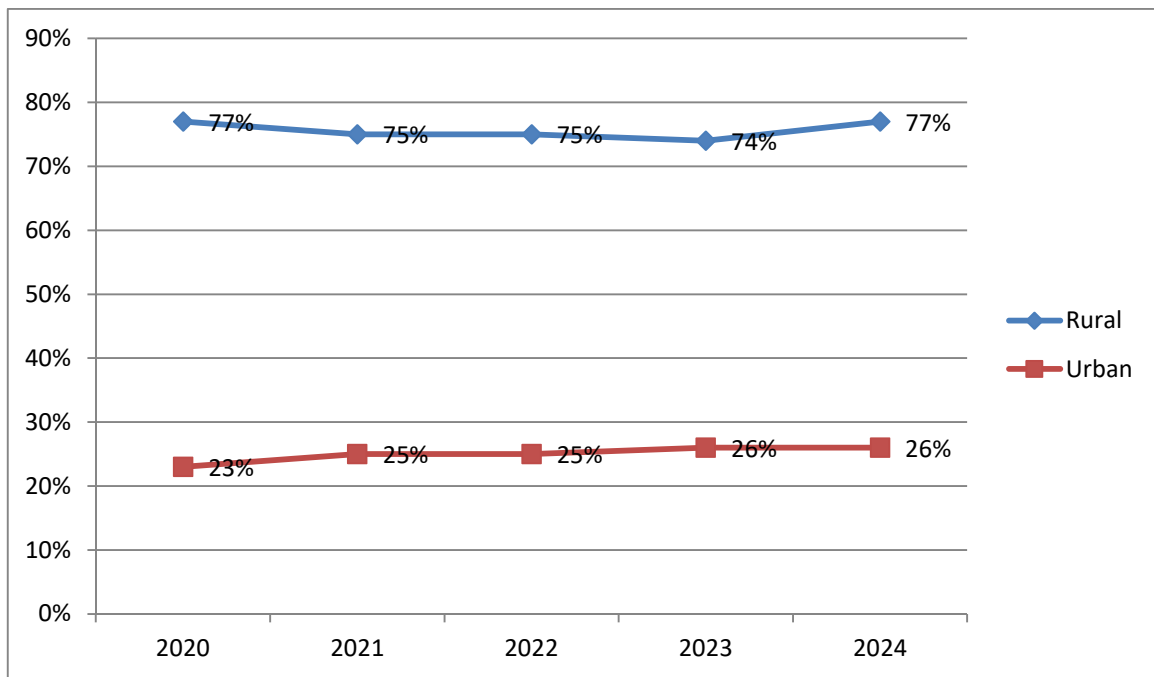
Source: Bharat Microfinance Report 2020-2024

Table 3 presents client outreach in various states. Nagaland saw the highest increase, at 1562.77%, followed by Telangana at 736.18% and Arunachal Pradesh at 291%. Manipur, Chandigarh, and Tripura experienced a decline in growth. Dadra & Nagar Haveli, Daman & Diu, Ladakh, and Lakshadweep showed no client outreach in both years.

Section 5

This section aims to examine the trends of microfinance institution borrowers in India from 2020 to 2024. The division between rural and urban borrowers has been shown percentage-wise and is represented in the form of a line chart to show the trends of borrowers over the years.

Figure 2: Trends in rural and urban share of MFI borrowers



Source: The Bharat Microfinance Report 2024

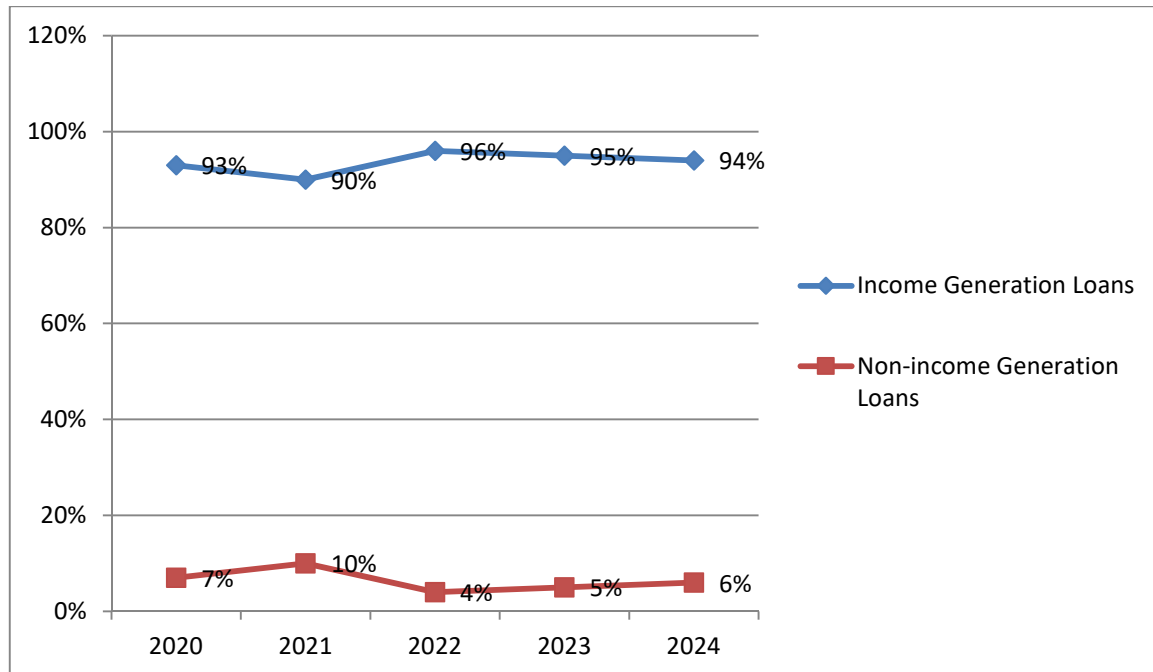
Figure 2 shows that rural client base dominated the urban client base in all five years under study. The share of rural clientele was 77% in the year 2020 and decreased to 75% in 2021. It declined in the year 2023 but rose to 77% again in 2024. The urban clientele continued to be between 23% and 26% in all the years. The trend of rural and urban MFI borrowers shows a significant disparity across all years. Though

the rural clientele dropped in some years, it still outnumbered the urban clientele in all the years.

Section 6

A line chart and a bar graph were used to try to figure out what microfinance institution loans are for and how they are used in different subsectors.

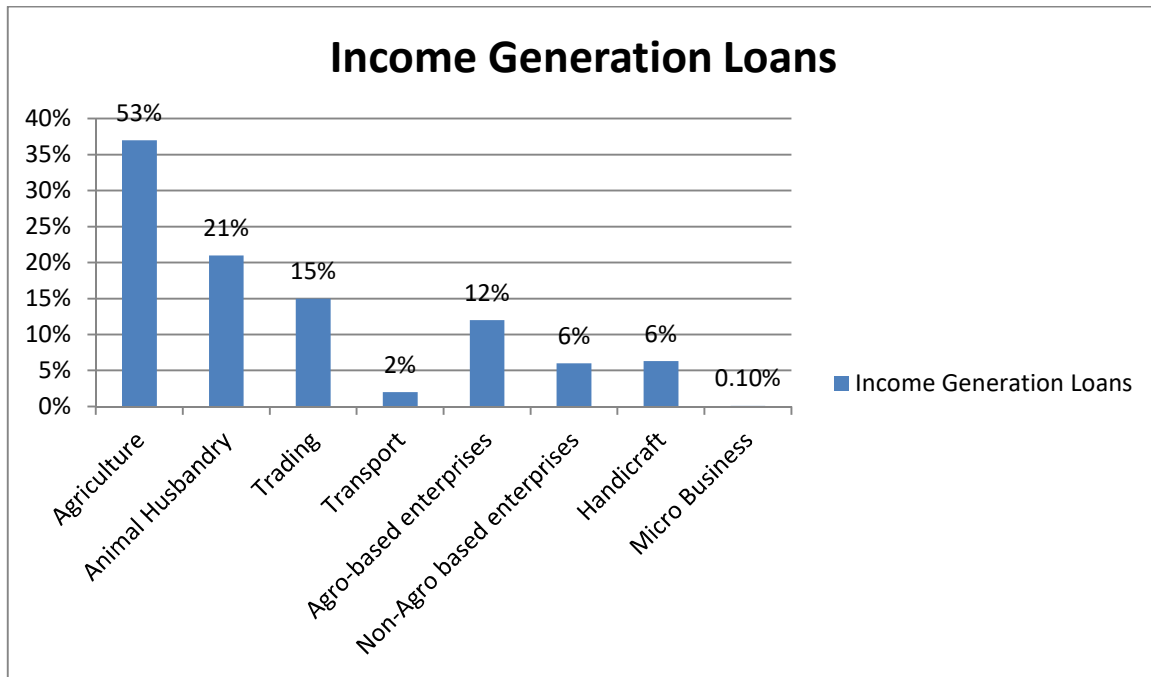
Figure 3: Share of Income Generation loans and Non-Income Generation loans.



Source: The Bharat Microfinance Report 2024

Microfinance institutions have been lending for both consumption and income-generating activities, more so for productive purposes. The data shows that most of the borrowers are borrowing for income-generating activities. However, they could also allocate a portion of their borrowing for other purposes. Figure 3 shows the proportion of income generation loans and non-income generation loans from 2020 to 2024. All the studied years clearly state the maximum number of loans deployed for income-generation activities. The year 2022 saw the maximum difference between income-generating loans and non-income-generating loans, with 2023 following closely behind. The minimum difference was in the year 2021, although the gap is still very evident.

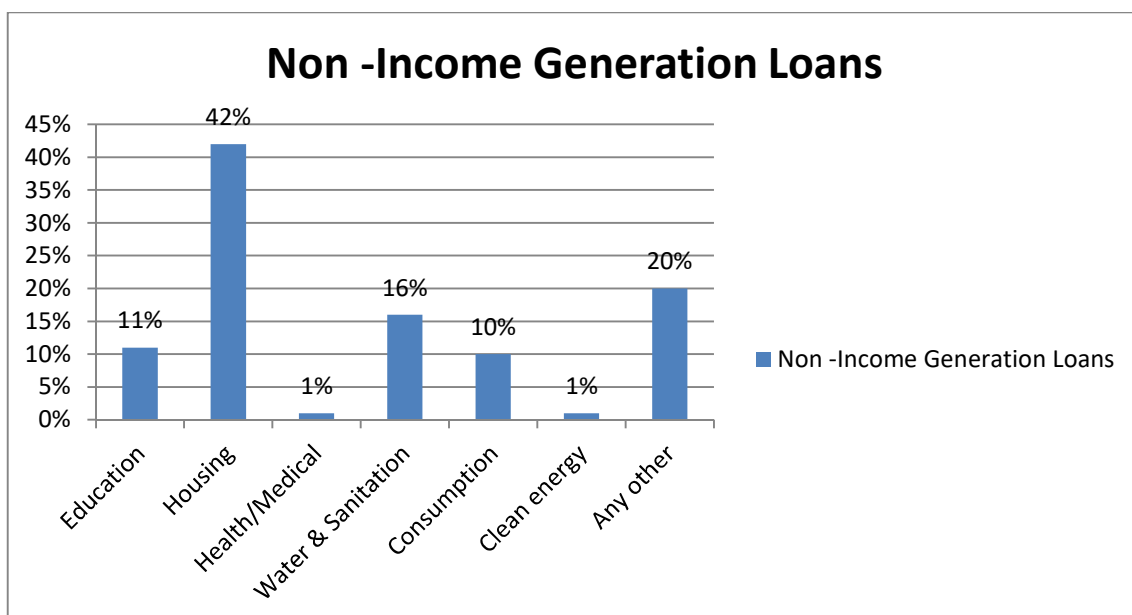
Figure 4: Share of MFIs income Generation Loans under different Sub- sectors as of March 2024



Source: The Bharat Microfinance Report 2024

We categorise the income generation loans into various sectors, such as agriculture, animal husbandry, trading, transport, agro-based enterprises, non-agro-based enterprises, handicrafts, and microbusiness. In 2024, Figure 4 shows that 53% of all income-generating loans will go to agriculture. Next in line are loans for animal husbandry at 21%, trading at 15%, agro-based businesses at 12%, non-agro-based businesses at 6%, and handicrafts at 6%. The smallest loans are for microbusinesses.

Figure 5: Share of MFIs Non-Income Generation Loans under Different Sub-Sectors as of March 2024





Source: The Bharat Microfinance Report 2024

Figure 5 shows that housing loans make up 42% of all non-income-generating loans. Other types of non-income-generating loans account for 20%, while water and sanitation contribute 16%.th/medical and clean energy sectors come in last, with each getting 1%.

Major Findings

1. The number of microfinance institutions availing loans from banks increased in all the years over their previous years except in the financial year 2020-21 (decreased by 13.7 percent) and 2023-24 (decreased by 64 percent).
2. The loans outstanding against microfinance institutions increased in all the years over the previous years except in the year 2020-21 (decreased by 18.1 percent).
3. The fresh loans as a percentage of outstanding loans fluctuated over the years compared to the last year, with a decrease in 2020-21 and a steep decline in 2023-24.
4. The microfinance loans are disbursed through NBFC-MFIs, NBFCs, Sec. 8 Coms, Pvt. & Pub. Ltd. Coms, and others.
5. In the case of a regional breakup of client outreach, it was observed that the southern region is leading in all five years except in the year 2024, followed by the eastern and central areas.
6. The northeast region has the lowest client outreach percentage in all five years.
7. Nagaland saw the largest increase in client outreach (1562.77%), followed by Telangana (736.18%) and Arunachal Pradesh (291%). Manipur, Chandigarh, and Tripura experienced a decline in the growth. Dadra & Nagar Haveli, Daman & Diu, Ladakh, and Lakshadweep showed no client outreach in both years.

Observations show that, despite a decrease in some years, the rural clientele consistently outnumbered the urban clientele.

9. We observe that all the study years allocate the maximum amount of the loan to income-generating activities.

It is seen that among the income generation loans, agriculture loans have the highest percentage, which is followed by animal husbandry and trading.



11. Housing loans dominate the non-income generation loans, followed by any other types of non-income generation loans and water & sanitation.

Conclusion

In a developing country like India, microfinance plays an important role in the socio-economic upliftment of the underprivileged sections of society. It is not just a tool designed to promote financial inclusion. However, it facilitates the achievement of national policies on poverty eradication and women's empowerment, as well as assistance to vulnerable groups and improvements in the standards of living. Microfinance institutions are vital in India's development, especially in rural areas. Microfinance institutions (MFIs) play a crucial role in fostering the sustainable growth of rural India by delivering financial services to underserved communities while also promoting social development through improved access to education, healthcare, and infrastructure. However, for long-term sustainability, MFIs must focus on responsible lending, transparent governance, and digital technology to enhance efficiency and outreach.

The above study makes it clear that there has been growth in the number of MFIs over the years. However, it is evident that MFIs need to expand both regionally and at the state/UT level. The client outreach is the maximum in the South region, and the Northeast region has the lowest client outreach. We must take steps to promote MFIs in the Northeast region through policy support, financial infrastructure development, and technological integration. Constant monitoring, technological affiliation, and the latest technologies should be adopted to enhance profitability. Risk management strategies, including credit monitoring and tailored insurance products, will ensure financial stability. The concerned authorities must take into account and take/initiate necessary action plans for at-par growth of MFIs in all the regions and states/UT. The central and state governments are also expected to take the measures required to sustain the development of the microfinance sector in India. It is also recommended to conduct workshops, seminars, and awareness camps to educate the importance of microfinance institutions to the people, especially the rural poor, and to avail the various financial services provided by such institutions. Finally, we must initiate schemes to enhance the microfinance sector in India.



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