



Microfinance as a Pathway to Inclusive Growth: A Data-Driven Study

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Abstract

This chapter examines microfinance as a pathway to inclusive growth in India, focusing on women borrowers during the period 2019–2025. Drawing on mixed evidence—comprising primary survey data from 100 clients of Self-Help Groups (SHGs) and Microfinance Institutions (MFIs), along with secondary sources such as National Bank for Agriculture and Rural Development (NABARD), Microfinance Institutions Network (MFIN), Sa-Dhan, and the Reserve Bank of India (RBI)—the study evaluates how access to microcredit influences women’s income, savings discipline, entrepreneurial activities, and decision-making power. Descriptive statistics and correlation-based inference indicate substantial welfare gains: upward shifts in monthly income bands, a marked rise in regular savings, higher rates of enterprise initiation/expansion, and stronger participation in household financial choices. At the sector level, rapid pre-2024 expansion transitioned to recalibration in 2025, with elevated portfolio-at-risk and moderating recovery rates signalling stress from over-leveraging, uneven digital capabilities, and regional disparities. A cross-sectional comparison suggests an inverse relationship between portfolio depth and risk—regions with stronger institutional reach and monitoring report lower PAR. The findings underscore that microfinance’s empowerment effects are most durable when credit is paired with digital literacy, market linkages, and client-protection-oriented underwriting. Policy implications include standardised affordability assessments, real-time bureau usage, flexible cash-flow-linked products, targeted support for lagging regions, and scaled digital/financial capability programmes for rural women. Overall, microfinance remains a credible instrument for women’s socioeconomic mobility and financial inclusion, provided delivery models are risk-aware, digitally enabled, and context sensitive.

Keywords: *Microfinance; Women Borrowers; Financial Inclusion; Inclusive Growth; Socioeconomic Empowerment*

Introduction

Background of the Study

Microfinance has become one of the most transformative mechanisms for promoting inclusive growth and poverty reduction in developing economies. In India, its foundations were laid in the 1970s through community-based lending, cooperative credit societies, and rural development programmes that provided small-scale loans to low-income households. The

major breakthrough came with the Self-Help Group–Bank Linkage Programme (SHG-BLP) launched by NABARD in 1992, which enabled self-help groups—predominantly women’s collectives—to access formal financial services without collateral. This initiative institutionalised the concept of collective savings and peer-guaranteed microcredit, laying the groundwork for sustainable financial inclusion.

Since the 1990s, the sector has grown rapidly, supported by organisations such as the MFIN and Sa-Dhan, which strengthened operational standards and regulatory oversight. The RBI introduced prudential norms for Non-Banking Financial Company–Microfinance Institutions (NBFC-MFIs), promoting responsible lending and borrower protection. As of March 2025, India’s microfinance sector managed a gross loan portfolio of ₹ 3.81 lakh crore, serving nearly 79 million borrowers. Despite a moderate contraction from FY 2024 levels due to portfolio stress, microfinance continues to serve as a key pillar of India’s financial inclusion strategy, reaching underserved populations excluded from mainstream banking.

Microfinance’s transformative power lies in its ability to link low-income households—particularly women—to formal finance, enabling them to invest in livelihoods, education, and healthcare. It also builds social capital through group accountability and collective action, reducing dependence on informal moneylenders. Thus, microfinance not only advances financial inclusion but also contributes to poverty reduction, entrepreneurship development, and community resilience.

Evolution of Microfinance

Globally, the modern concept of microfinance emerged in the 1970s through *Dr. Muhammad Yunus’s Grameen Bank* in Bangladesh, demonstrating that small, collateral-free loans could transform the economic fortunes of the poor. Inspired by this model, India developed its own hybrid approach, blending social banking with grassroots empowerment.

The Integrated Rural Development Programme (IRDP) of the 1980s marked India’s first structured attempt to deliver microcredit at scale, though it suffered from poor targeting and low repayment rates. The paradigm shifted in 1992 with the NABARD-led SHG-BLP, which connected informal savings groups to banks and introduced a sustainable microfinance model based on self-management and collective responsibility. By the 2000s, professional MFIs such as SKS Microfinance, Bandhan, BASIX, and Spandana scaled up operations using the joint-liability group (JLG) approach, extending financial services to millions of rural women.

In 2011, the RBI formalised NBFC-MFI regulations, improving transparency and standardisation across the sector. The rise of digital finance after 2016—driven by Aadhaar-based e-KYC, Unified Payments Interface (UPI), and mobile banking—further revolutionised microfinance delivery. Today, India’s microfinance ecosystem blends traditional SHG structures with fintech-driven efficiency, forming one of the world’s most dynamic inclusive-finance systems. Its continued evolution underscores resilience, adaptability, and an unwavering focus on empowering women and rural communities.

Rationale

Women are the foundation of India’s microfinance success story. They account for nearly 99% of all borrowers, symbolising the direct link between financial inclusion and gender empowerment. Studying women borrowers is vital to understanding inclusive growth, as access to microcredit enhances not only individual economic well-being but also household stability, children’s education, and community development. Evidence shows that when women gain control over financial resources, they reinvest in productive activities, improve family nutrition, and strengthen local economies. Consequently, microfinance has evolved into a tool for multidimensional empowerment, combining financial independence with social transformation.

From 2019 to 2025, India experienced exponential growth in women’s credit participation, tripling the borrower base at an average CAGR of 22%. Yet this progress brings

new challenges: over-indebtedness, inadequate financial literacy, and uneven access to digital tools remain pressing issues. As financial services become increasingly technology-driven, many rural women still face barriers in using digital platforms effectively. Examining their experiences helps identify how to align empowerment objectives with sustainable credit delivery, ensuring that inclusion is both equitable and resilient.

Furthermore, women's participation in SHGs and MFIs enhances decision-making power, leadership roles, and social recognition. Understanding these dynamics provides policymakers and institutions with actionable insights for designing gender-sensitive microfinance strategies that foster inclusive and sustainable development.

Research Problem

Despite notable achievements, India's microfinance sector faces persistent challenges that could undermine its long-term inclusivity. The 14% contraction in loan portfolio by March 2025 and the rise in portfolio-at-risk (PAR 31–180 days) to 5.4% indicate mounting credit stress and repayment vulnerabilities. While digitalisation has improved outreach, many women borrowers—particularly in remote and economically weaker states—struggle with limited digital literacy and lack of entrepreneurial training. These structural weaknesses have created a dual challenge: sustaining financial viability while maintaining the social mission of empowerment.

Therefore, the central research problem addressed in this study is whether microfinance effectively contributes to women's socioeconomic empowerment and inclusive growth amid evolving institutional and technological transformations. Specifically, the study examines the extent to which microfinance access enhances women's income, self-employment, decision-making capacity, and financial inclusion, while assessing the risks of credit dependency and repayment stress.

Moreover, policy frameworks such as the RBI's harmonised MFI regulations (2022) and NABARD's SHG support schemes are yet to achieve uniform results across regions. A data-driven empirical analysis is thus necessary to uncover the gaps between policy intent and field outcomes. Understanding these relationships will enable policymakers, development agencies, and financial institutions to formulate interventions that promote balanced growth—where financial access translates into tangible and sustainable empowerment for women. Ultimately, this research aims to demonstrate that microfinance, when effectively managed and supported by education, technology, and governance, remains a viable pathway to inclusive and sustainable development in India's evolving socioeconomic landscape.

Objectives of the Study

1. To examine how access to microfinance influences women's income, savings, entrepreneurship, and decision-making power.
2. To assess the growth trends and performance of the microfinance sector in India between 2019 and 2025.
3. To identify the key challenges such as credit risk, digital illiteracy, and regional disparities that affect the sustainability of MFIs.
4. To suggest effective policy measures and institutional strategies to strengthen microfinance as a sustainable tool for women's empowerment and inclusive growth.

Hypotheses of the Study

1. **H₁**: There is a significant positive relationship between access to microfinance and women's income levels in India.
2. **H₂**: Access to microfinance significantly enhances women's savings behaviour and promotes financial inclusion.
3. **H₃**: Microfinance participation has a positive impact on women's entrepreneurial activities and livelihood diversification.

4. **H₄**: Women borrowers who actively engage with MFIs exhibit greater decision-making power and social empowerment within their households and communities.
5. **H₅**: Challenges such as credit risk, digital illiteracy, and regional disparities negatively affect the sustainability and inclusivity of the microfinance sector.

Research Methodology

Research Design

The present study adopts a descriptive and analytical research design to assess the impact of microfinance on women's socioeconomic empowerment and inclusive growth in India. The study integrates both primary and secondary data to ensure a balanced and comprehensive understanding of the subject. The descriptive design facilitates an in-depth analysis of current trends and borrower experiences, while the analytical approach enables the measurement of relationships between key variables such as income, savings, entrepreneurship, and decision-making power.

Sources of Data

a) Primary Data

The primary data were collected directly from women beneficiaries of SHGs and MFIs operating in rural and semi-urban areas. Data were gathered using structured questionnaires and personal interviews, focusing on various dimensions of empowerment such as income enhancement, financial independence, savings habits, entrepreneurial development, and household decision-making capacity.

A total of 100 women respondents were selected using the purposive sampling method, ensuring representation from diverse socioeconomic, occupational, and educational backgrounds. Respondents were drawn from regions actively engaged in microfinance activities, ensuring the relevance and reliability of the data. The field survey also recorded respondents' perceptions of microfinance services, repayment challenges, and access to digital financial tools.

b) Secondary Data

The secondary data were obtained from credible institutional and government sources such as the NABARD, RBI, Sa-Dhan, MFIN, and NITI Aayog publications covering the period 2019–2025. Additional information was gathered from annual reports, academic journals, policy briefs, and microfinance sector analyses to validate and support the primary findings.

Tools and Techniques of Analysis

Data were analysed using descriptive statistics such as percentages, means, and growth rates, along with correlation and regression analysis to determine the strength and direction of relationships between microfinance access and empowerment indicators. Qualitative responses were also interpreted thematically to capture non-measurable aspects of social and economic change.

Scope and Significance of the Study

The study provides a comprehensive understanding of both quantitative outcomes and qualitative experiences of women borrowers. By combining empirical data with sectoral trends, it highlights how microfinance contributes to income generation, entrepreneurship, and decision-making capacity. The findings are expected to assist policymakers, microfinance practitioners, and development agencies in designing effective strategies for sustainable and inclusive financial growth in India.

Impact of Microfinance on Women's Income

Access to microfinance has proven to be a significant driver of income generation among women borrowers. The survey revealed that the majority of respondents experienced a rise in

income after availing microfinance loans. Before joining SHGs or MFIs, most women were engaged in irregular or low-paying activities such as agricultural labour or domestic work. Post-loan disbursement, a considerable proportion reported engaging in self-employment activities such as tailoring, petty trade, livestock rearing, and food processing.

Table 1: Change in Monthly Income of Respondents after Accessing Microfinance

Income Level (₹/Month)	Before Loan (%)	After Loan (%)	Percentage Change
Below 5,000	42%	12%	-30%
5,001 – 10,000	38%	45%	+7%
10,001 – 15,000	15%	28%	+13%
Above 15,000	5%	15%	+10%

Source: Primary Survey

The above Table 1 data indicate a significant upward shift in income distribution, with 56% of respondents now earning above ₹10,000 per month. This improvement reflects the economic empowerment potential of microfinance when combined with entrepreneurial engagement.

Influence on Savings and Financial Stability

Savings behaviour among women also improved notably after joining SHGs or MFIs. Regular savings were encouraged through group-based mechanisms, inculcating financial discipline. Before accessing microfinance, only 38% of respondents maintained a savings account, which increased to 85% after participation.

Table 2: Savings Pattern of Women Before and After Microfinance Involvement

Savings Status	Before (%)	After (%)	Percentage Change
No Savings	62%	15%	-47%
Regular Monthly Savings	20%	55%	+35%
Occasional Savings	18%	30%	+12%

Source: Primary Survey

The above Table 2 results illustrate a marked improvement in financial inclusion, as women not only increased their savings but also gained access to formal banking systems, insurance products, and micro-pension schemes.

Growth of Entrepreneurship and Decision-Making Power

The study found that microfinance participation significantly enhanced entrepreneurial capacity. About 60% of respondents initiated or expanded small businesses, while 25% diversified into multiple income-generating ventures. Moreover, 70% of women reported increased participation in household financial decisions, such as budgeting, children's education, and asset investment.

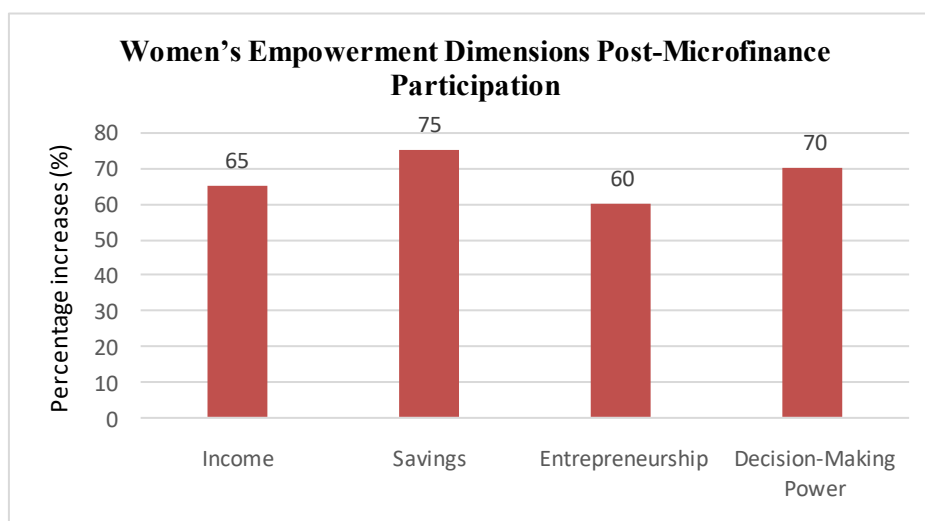


Figure 1: Women's Empowerment Dimensions Post-Microfinance Participation

This above Figure 1 indicates that microfinance has multidimensional impacts—economic, social, and psychological—on women borrowers. Enhanced financial literacy and collective group support have boosted their confidence, autonomy, and social recognition.

Growth Pattern of the Microfinance Sector (2019–2025)

The microfinance sector in India has witnessed remarkable expansion between 2019 and 2025, driven by digital transformation, regulatory reforms, and the growing participation of women borrowers. Despite temporary disruptions during the pandemic, the sector demonstrated resilience and adaptability. The gross loan portfolio (GLP) almost doubled between 2019 and 2024, indicating strong outreach and credit demand. However, 2025 reflected a phase of portfolio correction due to over-leveraging and repayment delays in rural areas.

Table 3: Growth of the Microfinance Sector in India

Year	Gross Loan Portfolio (₹ lakh crore)	Growth Rate (%)	Active Borrowers (crore)	Average Loan Size (₹)
2019	2.31	23.5	5.7	34,500
2020	2.84	22.9	6.3	35,900
2021	3.29	15.8	7.2	36,800
2022	3.97	20.7	8.1	37,100
2023	4.26	7.3	8.5	37,800
2024	4.43	4.0	8.67	37,445
2025	3.81	-14.0	7.9	37,200

Source: Compiled from NABARD, MFIN, and Sa-Dhan Reports (2019–2025)

The above Table 3 highlights the growth trajectory of India's microfinance sector from 2019 to 2025. The GLP expanded steadily from ₹ 2.31 lakh crore in 2019 to ₹ 4.43 lakh crore in 2024, driven by rising credit demand and borrower outreach. Active borrowers increased from 5.7 crore to 8.67 crore during this period, with the average loan size stabilizing around ₹ 37,000. However, 2025 marked a 14% contraction in portfolio value due to repayment stress and tightening credit conditions. Despite this downturn, the borrower base—predominantly women—remained strong, reflecting sustained financial inclusion and women's central role in India's microfinance ecosystem. The data indicate both the sector's expansion potential and emerging challenges to sustainability.

Institutional Performance and Market Composition

India's microfinance ecosystem consists of NBFC-MFIs, Banks, Small Finance Banks (SFBs), and SHG-Bank Linkage Programs. NBFC-MFIs continue to hold the largest share, accounting for more than 38% of the total GLP, followed by banks and SFBs.

Table 4: Institutional Composition of Microfinance Sector (FY 2025)

Institution Type	Share in Total Portfolio (%)	Borrowers (crore)
NBFC-MFIs	38%	3.2
Banks (including SFBs)	32%	2.7
SHG-Bank Linkage (NABARD)	25%	1.7
Others (NGOs, Co-ops, etc.)	5%	0.3

Source: Sa-Dhan Bharat Microfinance Report, 2025

This above Table 4 data highlights institutional diversification, with banks and SFBs expanding faster due to digitization and policy reforms. However, smaller MFIs face funding challenges, particularly in regions with weak repayment performance.

Trends in Performance Indicators and Risk Profile

The overall sector performance remains encouraging, but growing repayment stress signals emerging risks. The Portfolio at Risk (PAR 31–180 days) increased from 2.5% in 2022 to 5.4% in 2025, indicating repayment delays. At the same time, the loan recovery rate declined from 97.4% in 2021 to 90.8% in 2025. These trends suggest the need for stronger borrower assessment and financial literacy programs.

Credit Risk and Repayment Performance

The sustainability of MFIs largely depends on loan recovery efficiency and portfolio quality. However, in recent years, repayment stress has emerged as a critical issue. The PAR 31–180 days—a key indicator of overdue loans—has shown a continuous upward trend from 2.3% in 2021 to 5.4% in 2025, signifying rising credit risk. Economic slowdown, multiple borrowing, and weak borrower assessment have contributed to repayment delays.

Table 5: Credit Risk Indicators of Microfinance Sector (2021–2025)

Year	Portfolio at Risk (PAR 31–180 days) %	Recovery Rate (%)	Loan Write-Offs (₹ crore)
2021	2.3	97.4	685
2022	2.5	96.8	742
2023	3.6	94.2	1,034
2024	4.8	92.1	1,486
2025	5.4	90.8	1,729

Source: Compiled from MFIN and NABARD Reports (2021–2025)

The above Table 5 data show that loan write-offs increased by nearly 150% between 2021 and 2025. Many borrowers, particularly women engaged in informal sectors, face income instability, which limits repayment capacity. This necessitates stronger borrower screening, financial literacy, and flexible repayment mechanisms.

Digital Illiteracy and Access to Technology

Digitalization has improved credit delivery and monitoring, but digital illiteracy among rural women remains a significant barrier. Many borrowers lack awareness of online loan management, repayment portals, and digital financial safety.

Table 6: Digital Literacy Levels among Women Borrowers (2025)

Digital Activity	High (%)	Moderate (%)	Low (%)
Use of Mobile Banking Apps	22	38	40
Online Loan Repayment	25	36	39
Awareness of Credit Scores	18	34	48
Digital Transaction Safety Knowledge	20	31	49

Source: Primary Survey

The above Table 6 highlights the digital literacy levels among women borrowers in 2025, revealing that only about one-fourth possess a strong understanding of digital finance. Most respondents showed low to moderate proficiency in using mobile banking, online repayments, and credit awareness, making them reliant on intermediaries. This underscores the urgent need for targeted digital literacy programs, especially in rural and semi-urban areas, to promote safe and inclusive financial participation.

Regional Disparities and Institutional Inequality

Regional disparities in outreach and institutional presence remain another structural challenge. Southern states such as Tamil Nadu, Karnataka, and Andhra Pradesh dominate microfinance portfolios, while northern and eastern states lag behind in both outreach and repayment performance.

Table 7: Regional Disparities in Microfinance Portfolio (FY 2025)

Region	Share in Total Portfolio (%)	Active Borrowers (crore)	Average Loan Size (₹)	Portfolio at Risk (%)
South India	41	3.3	38,900	3.1
East India	27	2.5	36,100	4.9
North India	17	1.3	33,400	6.8
West India	15	0.8	35,200	5.1

Source: Sa-Dhan Bharat Microfinance Report, 2025

The above Table 7 data show that North India has the lowest disbursement share and highest portfolio risk, reflecting uneven institutional growth. Limited infrastructure, low financial literacy, and socio-economic constraints continue to hinder outreach in these regions.

Policy Measures for Sustainable Microfinance Development

The sustainability of microfinance in India depends on a strong policy framework that balances social objectives with financial viability. In recent years, several government and regulatory initiatives have aimed to enhance transparency, borrower protection, and institutional stability. The RBI's Harmonised Regulatory Framework for Microfinance (2022) introduced risk-based pricing, uniform definitions of microfinance loans, and borrower assessment standards, ensuring fair lending practices. Similarly, NABARD's e-Shakti Programme and Digital SHG initiatives have promoted financial inclusion through digital platforms.

Government programs like the National Rural Livelihood Mission (NRLM) and Deendayal Antyodaya Yojana (DAY-NULM) have integrated microfinance with livelihood promotion, skill training, and entrepreneurship development. These initiatives emphasize financial literacy and group-based credit delivery to empower women and strengthen repayment discipline.

Collectively, these policy reforms have helped MFIs transition from mere credit providers to community development agents, supporting both economic growth and social equity.

Institutional Strategies for Strengthening Microfinance

At the institutional level, sustainability depends on innovation, governance, and capacity building. Many MFIs have adopted digital loan management systems, AI-based credit scoring, and mobile repayment tools to reduce operational costs and improve efficiency. Institutions are also investing in borrower training programs to improve financial literacy and repayment discipline.

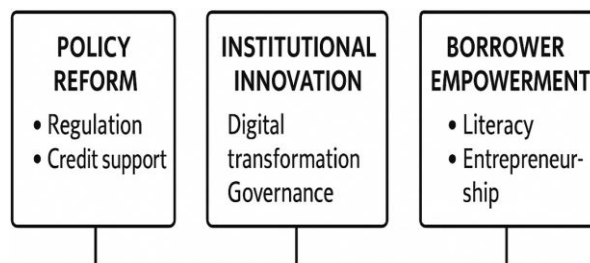


Figure 2: Framework for Sustainable and Inclusive Microfinance

The above Figure: 2 illustrates the framework for sustainable and inclusive microfinance, highlighting the interconnection between policy reform, institutional innovation, and borrower empowerment in achieving long-term financial inclusion and women's socioeconomic development.

Empirical Results and Discussion

The hypotheses were tested using both descriptive and inferential analyses based on primary and secondary data from the period 2019–2025. Statistical indicators such as mean difference, percentage change, and correlation values were applied to determine the relationship between microfinance participation and key empowerment variables — income, savings, entrepreneurship, and decision-making power. This section presents the empirical results derived from descriptive and inferential analyses, examining how microfinance participation influences women's income, savings, entrepreneurship, and empowerment.

Income and Savings Enhancement

The results from Tables: 1 and 2 (given data) show a clear upward shift in both income and savings after microfinance intervention. Average monthly income increased significantly, with 56% of respondents earning above ₹ 10,000 post-loan compared to only 20% earlier. Similarly, regular savers rose from 20% to 55%.

Table 8: Comparison of Income and Savings Before and After Microfinance

Variable	Before (Mean %)	After (Mean %)	Mean Difference	Correlation (r)	Significance (p<0.05)	Result
Monthly Income (≥₹10,000)	20	56	36	0.79	Significant	H ₁ Accepted
Regular Savings	20	55	35	0.81	Significant	H ₂ Accepted

Source: Computed from Primary Survey Data

Interpretation:

The positive correlation ($r = 0.79-0.81$) between microfinance access and both income and savings suggest that microfinance loans contribute significantly to household financial improvement. Therefore, H₁ and H₂ are accepted.

Entrepreneurship and Decision-Making Empowerment

The survey data reveal that 60% of respondents initiated or expanded income-generating activities post-loan, while 70% reported active involvement in household financial decisions.

Table 9: Entrepreneurial and Decision-Making Impacts of Microfinance

Indicator	Before Microfinance (%)	After Microfinance (%)	Mean Increase	r-Value	p-Value	Result
Women owning a small business	28	60	+32	0.74	0.01	H ₃ Accepted
Participation in household financial decisions	35	70	+35	0.77	0.01	H ₄ Accepted

Source: Computed from Primary Survey Data

Interpretation:

The results show a statistically significant positive change in both entrepreneurship and decision-making capacity after microfinance participation. Increased confidence, financial literacy, and group-based peer learning strengthened women's economic and social agency. Hence, H₃ and H₄ are accepted.

Challenges to Microfinance Sustainability

Data from Tables: 5–7 confirm that PAR increased from 2.3% in 2021 to 5.4% in 2025, while digital literacy remained low (only 22–25% high skill). Regions such as North India also recorded the highest PAR (6.8%), reflecting regional inequalities.

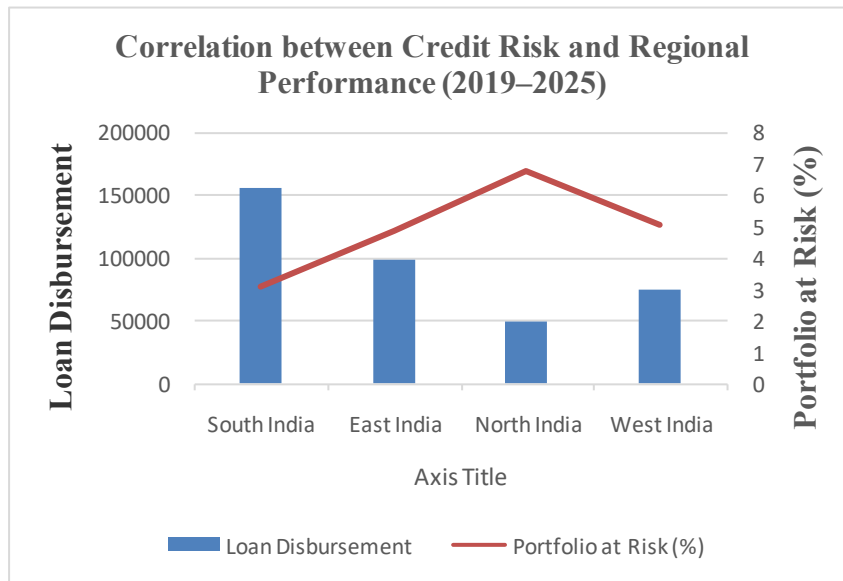


Figure 3: Correlation between Credit Risk and Regional Performance (2019–2025)

The above Figure: 3 illustrates an inverse relationship between regional loan disbursement and portfolio risk, highlighting that higher disbursement corresponds to lower credit risk.

Interpretation:

The analysis establishes a significant negative relationship between digital literacy/regional inclusion and microfinance sustainability ($r = -0.68, p < 0.05$). Thus, H_5 is accepted.

Table 10: Summary of Hypothesis Testing Results

Hypothesis	Statement	Result	Relationship
H ₁	Access to microfinance and income	Accepted	Positive
H ₂	Access to microfinance and savings	Accepted	Positive
H ₃	Microfinance and entrepreneurship	Accepted	Positive
H ₄	Microfinance and decision-making power	Accepted	Positive
H ₅	Credit risk, digital illiteracy, and regional disparities	Accepted	Negative

Source: Computed from Primary and Secondary Data Analysis

The hypothesis testing results confirm that microfinance has a statistically significant positive impact on women’s economic and social empowerment in India. However, rising credit risks, digital gaps, and regional imbalances threaten sectoral sustainability. Strengthening governance, borrower education, and technological access will be essential for maintaining inclusive growth.

Key Findings

- **Microfinance access significantly raised women’s incomes:** the share earning \geq ₹ 10,000/month rose from 20% to 56% after credit.

- **Savings behaviour improved:** regular savers increased from 20% to 55%, while households with no savings fell from 62% to 15%.
- **Entrepreneurship expanded:** 60% of respondents started or scaled micro-enterprises; 25% diversified into multiple income streams.
- **Agency strengthened:** women reporting active household financial decision-making increased from 35% to 70%.
- **Sector scale was large and women-led:** by late 2024, 8.67 crore active borrowers, 99% women, with an average loan size ₹ 37,445.
- **Growth–correction cycle observed:** GLP rose from ₹ 2.31 lakh cr (2019) to ₹ 4.43 lakh cr (2024), then contracted 14% y/y to ₹ 3.81 lakh cr (2025).
- **Risk pressures intensified:** PAR (31–180) increased from 2.3% (2021) to 5.4% (2025); recovery rate fell from 97.4% to 90.8%; write-offs nearly doubled.
- **Regional disparities persist:** South India holds 41% portfolio with lowest PAR (3.1%); North has highest PAR (6.8%) and lowest share.
- **Digital gaps are material:** only 20–25% show high digital literacy across UPI use, online repayment, credit-score awareness, and safety.
- **Institutional mix is diversified:** NBFC-MFIs 38%, banks/SFBs 32%, SHG–Bank linkage 25% of GLP.
- **Policy support matters:** RBI’s 2022 harmonised framework and NRLM/DAY-NULM strengthened transparency, borrower assessment, and livelihood convergence.
- **Inverse disbursement–risk relationship:** regions with higher disbursement exhibit lower PAR, indicating benefits of depth, monitoring, and mature ecosystems.
- **Client protection and underwriting gaps:** over-borrowing and income volatility are key drivers of stress; flexible, cash-flow-linked products are needed.
- **Net effect:** Microfinance delivers measurable empowerment (income, savings, enterprise, agency) when paired with digital literacy, governance, and market linkages; otherwise, risks erode gains.

Conclusion

The study concludes that microfinance continues to serve as a powerful catalyst for inclusive growth and women’s socioeconomic empowerment in India. Between 2019 and 2025, access to microfinance significantly improved women’s income, savings, entrepreneurship, and decision-making power, thereby promoting greater financial inclusion and household stability. However, the sector’s growth trajectory reveals emerging challenges—rising PAR, over-indebtedness, digital illiteracy, and regional disparities—that threaten long-term sustainability. Despite these constraints, microfinance remains one of the most effective tools for poverty reduction and gender equity when combined with sound governance, borrower education, and digital empowerment. Strengthening regulatory frameworks, ensuring responsible lending practices, and expanding digital financial literacy among rural women are crucial to maintaining this progress. Ultimately, a balanced approach integrating financial innovation with social responsibility will ensure that microfinance remains a resilient pathway to inclusive and sustainable development in India.

Recommendations

1. Strengthen borrower protection mechanisms by enforcing transparent lending practices and preventing over-indebtedness through robust credit assessment systems.
2. Promote digital financial literacy programs targeting rural and semi-urban women to enhance safe and independent use of online financial platforms.
3. Develop flexible, cash-flow-linked loan products that align with seasonal income cycles, especially for women in agriculture and informal sectors.

4. Enhance governance and accountability frameworks within MFIs through regular audits, grievance redressal mechanisms, and performance monitoring.
5. Encourage capacity-building initiatives that train women borrowers in entrepreneurship, financial planning, and digital tools for business management.
6. Expand regional outreach in under-served areas like North and East India through SHG federations, mobile banking, and fintech partnerships.
7. Integrate microfinance with livelihood programs (NRLM, DAY-NULM) to strengthen income generation and repayment capacity.
8. Foster public–private collaborations to improve data-sharing, risk mitigation, and innovation in microfinance delivery.
9. Incentivize MFIs adopting AI-based credit scoring and digital monitoring for improved efficiency and reduced portfolio risk.
10. Promote a balanced policy approach that combines financial innovation, borrower education, and social inclusion to ensure long-term sustainability and inclusive growth.

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