



**IMPACTS OF MICROFINANCE IN POVERTY  
ALLEVIATION IN RURAL AREAS**

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## **Abstract**

Microfinance has emerged as a critical instrument for poverty alleviation and financial inclusion in rural India, where traditional banking systems have historically failed to serve low-income households due to lack of collateral, irregular incomes, and geographical remoteness. This study examines the impact of microfinance on poverty alleviation in rural areas through a qualitative secondary research methodology, drawing on peer-reviewed literature, institutional reports, and a longitudinal dataset of loan disbursements from 2012 to 2024. The analysis reveals that India's microfinance sector grew by approximately 2,270 percent over this period, expanding from ₹17,264 crore to ₹4.09 lakh crore in gross loan portfolio, with over 64 million active borrowers. Evidence suggests that microfinance has contributed positively to household income generation, self-employment, women's empowerment, and financial inclusion — particularly through the SHG-Bank Linkage Programme. However, the study also identifies significant limitations, including high interest rates, over-indebtedness, regional disparities, and the risk of debt traps among the most vulnerable households. The findings highlight that microfinance alone is insufficient for sustained poverty reduction and must be complemented by financial literacy, market linkages, regulatory oversight, and targeted government support. The study concludes with policy recommendations aimed at strengthening the microfinance ecosystem to better serve the rural poor in India.

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## **Problem Statement**

The core problem is: rural poverty in India is multidimensional — low income, no collateral, no formal credit access, geographic remoteness — and traditional banks have consistently failed to serve this population. Microfinance emerged as a solution, but whether it genuinely reduces long-term poverty or just provides short-term relief (and sometimes pushes households into debt traps) remains contested. The paper essentially sets out to critically evaluate this.

## **Introduction**

Poverty in India is one of the most persistent socio-economic challenge especially in the rural areas. India encompasses a large population which depends directly on agriculture and informal



employment for their survival. Rural poverty is not just the condition of low income but it is rather a multidimensional phenomenon which is characterized by limited access to credit, inadequate employment opportunities, lack of assets, poor health, low educational attainment and social exclusion. And one of the major constraints faced by rural households is the absence of access to formal financial services. If we look into traditional banking systems, they have often failed to cater to the needs of the rural poor due to the lack of collateral, irregular incomes, high transaction costs and geographical remoteness. This help us understand that microfinance is a significant way for rural development which is aimed at promoting financial inclusion and poverty alleviation in the deprived areas.

The main function of microfinance is to provide low-income households and individuals excluded from conventional banking systems with small amount of financial support including microcredit, savings and insurance, as well as providing financial facilities. Microfinance is intended to help the poorest of the poor, those living in the remote rural areas of our country and other marginalized groups to gain economic independence through access to low-cost financial services. Self-help groups (SHGs), joint liability groups (JLGs), microfinance institutions (MFIs), and non-governmental organizations (NGOs) are the primary sources of microfinance in rural areas. One institution, NABARD, has played a significant role in promoting the SHG–Bank Linkage Programme that has led to India being one of the leaders in global financial inclusion through microfinance.

The using of microfinance as a poverty alleviation tool is to be able to empower the poor both economically and socially. By providing access to credit, microfinance help rural households to invest in income-generating activities such as agriculture, livestock rearing, trade, handicrafts and small-scale enterprises. These activities in return can increase household income, reduce dependency on exploitative moneylenders and promote smooth consumption during economic shocks and enhance overall livelihood security. Moreover, microfinance promotes and inculcates saving habits amongst the rural poor which helps them build assets and cope with emergencies. Thus, microfinance should be viewed not only as a credit mechanism but also as a proper approach to rural socio-economic development.

A key dimension of microfinance in rural poverty alleviation is its focus on women and its impact on the gender dynamics in the rural areas. A large proportion of microfinance beneficiaries are rural women and they have benefitted especially from SHGs. Access to microfinance has helped in increasing participation of women in economic activities, improved decision-making power within households, enhance self-confidence and greater social mobility. There are also microfinance programmes which are especially women centric such as Mahila Samridhi Yojana, Pradhan Mantri Mudra Yojana and they are often justified on the grounds that women are more reliable borrowers and that they are more likely to invest income in household welfare, including nutrition, health and education. As a result, microfinance has been proved to be an important tool for enhancing poverty alleviation and women's empowerment within rural areas. Despite the widespread adoption and support, the impact of microfinance on poverty alleviation remains a subject of intense academic and policy debate. While there are several studies which suggest that microfinance has contributed positively to income generation and financial inclusion, but there are critics who argue that its impact on



long-term poverty reduction is limited. Critics argue over the high interest rates, multiple borrowing, over-indebtedness, loan misuse and the social pressure within group lending models. In some instances, the critics argue that microfinance has also pushed the vulnerable households into debt traps rather than lifting them out of poverty. These concerns highlight that there is a need for a critical and evidence-based assessment of microfinance programmes in rural context where livelihoods are highly uncertain and market access is limited.

In India, microfinance has been operating within a broader policy framework which is aimed at rural development and financial inclusion and is supported by regulatory institutions such as the Reserve Bank of India. The expansion of microfinance has led to promotion of digital payments, direct benefit transfers and financial literacy. However, there are certain challenges such as the regional disparities, institutional inefficiencies and socio-cultural factors which continue to influence the effectiveness of microfinance interventions across rural areas.

This research help would analyze the impact of microfinance on poverty alleviation in rural areas. This study helps in understanding whether microfinance genuinely improves the socio-economic conditions of rural households or if it just merely provides short-term financial relief. It also highlights different impacts on various groups, particularly women, marginal farmers and the landless laborers. At the same time, this research would be examining the challenges and limitations of microfinance which would help plan better policy design, stronger regulation and more inclusive financial practices for the future.

### **Research Objectives**

1. Analyze the impact of microfinance on poverty alleviation in rural areas



2. Determine whether microfinance genuinely improves socio-economic conditions or merely provides short-term financial relief
3. Highlight differential impacts on specific groups — women, marginal farmers, landless labourers
4. Examine the challenges and limitations of microfinance to inform better policy, regulation, and more inclusive financial practices

### **Literature review**

Recent studies show that microfinance can contribute to poverty reduction and women's empowerment in rural areas, but outcomes depend on context and implementation.

Fonseca et al. (2024) synthesize dozens of studies and emphasize that sustained poverty reduction via microfinance requires integrated efforts by both institutions and borrowers: programs must both empower clients and remain financially viable. When these conditions are met, microcredit enables self-employment and higher incomes, reducing long-term dependency on aid. Industry reports likewise note broad benefits of credit access: a 2023 Microfinance Industry Network (MFIN) report cites multiple studies linking expanded microcredit to poverty reduction, women's empowerment, better health, and education. However, mere access to loans is not a "silver bullet." Credit must be accompanied by training, market linkages and sensible regulation. For instance, Fonseca et al. find that borrower empowerment (skills, business support) and MFI profitability are key "success factors" for lasting poverty reduction.

In India, microfinance has expanded massively. NABARD reports over 64 million active borrowers, nearly all rural, and NCAER (2024) estimates MFIs have created 13 million jobs (2% of national income). This scale reflects government support via SHG-bank linkage programs and rural banks. The MFIN review (2023) notes that India's microcredit evolution has given millions formal financial access. Empirical evidence suggests generally positive effects on household welfare: many rural women transition from dependence to contributing earners.

Lakshmi (2020) documents that Indian women in SHGs and MFIs gain income stability, savings habits, and entrepreneurial skills. Participants often report higher self-esteem, greater participation in decisions, and better status in the community. A quantitative study of 300 rural borrowers found significant gains in economic and social empowerment after taking microloans. Indeed, microfinance has been credited with strengthening rural autonomy and development when combined with other support.

Women's Empowerment Through Microfinance



A systematic review by Khursheed et al. (2021) of 54 studies finds that most research reports positive links between microcredit and women's empowerment. Women borrowers typically gain financial literacy, decision-making power, and social networks.

Lakshmi (2020) similarly emphasizes that group lending builds peer support and confidence, enabling many women to “acquire resource control” and challenge traditional norms. Industry reports concur: the MFIN review cites evidence that credit growth raises female labour participation and can narrow gender gaps. In India, targeted SHG programs have propelled countless women into entrepreneurship. A NABARD special issue (2024) notes that these initiatives transformed “millions of women from an economically dependent status to contributors to household income”. However, outcomes vary: empowerment often hinges on complementary factors (education, mobility, cultural context)

### Impact on Rural Household Income

Several empirical studies find that microfinance loans translate directly into higher household income and consumption. Access to credit allows small farmers and entrepreneurs to invest in productive activities for instance purchasing inputs, livestock or machinery which raises their returns.

A cross-country analysis by Hermes and Lensink (2011) and field surveys (e.g. Ahmad et al., 2021) link microfinance to “tangible improvements in household well-being and economic security”. In Bangladesh, for example, Khandker (2005) reported significant gains in income and savings for borrowing households. The pattern holds in Africa and Asia: one review notes that microfinance in rural areas “provided financial resources that facilitated income-generating ventures, improved household incomes, and enhanced living standards”.

Studies also point to multiplier effects of this income boost. As poor families earn more, they tend to spend on education, health and nutrition, which further reduces poverty. For instance, Banerjee et al. (2015) emphasize that when households have more income through microloans, they invest in children's schooling and health, creating a virtuous cycle of development. These improvements in human capital raise long-term earning potential. Overall, the literature indicates that microfinance contributes to higher incomes and better welfare in rural settings

### Risks and vulnerabilities

Over-indebtedness and aggressive lending have surfaced as concerns. In some contexts, microloans taken for emergencies (health, food) can backfire.

For instance, Iskander et al. (2025) document in rural Cambodia that the poor “resort to debt from multiple sources, including microfinance” to pay for illness or food. Short-term relief comes at the cost of over-indebtedness that ultimately undermines health: borrowers sacrifice nutrition and care to service debt, creating long-term suffering.

Sandberg et al. (2020) warn that during crises (e.g. COVID-19), expanding microcredit can “compound crises of social reproduction.” They argue that growing reliance on debt leaves households undernourished and more vulnerable to shocks, particularly harming women's well-being. These studies emphasize that unchecked credit expansion especially via high-



interest loans can “be a source of concern, not comfort,” necessitating debt relief and welfare support.

### Role in Employment and Self-Employment Generation

Microfinance is widely credited with stimulating job creation and self-employment in rural communities. By funding small businesses and farm improvements, micro-loans help borrowers start or expand enterprises.

Ahmad et al. (2021) find that village-level microfinance initiatives supported business growth, which “directly improves living standards” through increased employment. Similarly, a field study in India reports that microcredit was associated with a statistically significant rise in self-employment activities among rural households (rejecting a null hypothesis of no effect). In short, many microfinance programs lead to new or expanded small enterprises, so that more people generate income on their own rather than relying solely on subsistence farming or casual labor.

The literature distinguishes formal wage employment (often scarce in rural areas) from informal or household enterprises. Most evidence suggests microfinance mainly boosts informal/self-employment (shops, handicrafts, trades, small-scale agriculture). This creates income for borrowers and sometimes for others they hire. For example, one Indian study found microfinance had a “significant impact on employment generation for people living in rural areas”. In effect, microcredit acts as an informal jobs program, enabling each borrower to become a mini-entrepreneur. The empirical reviews note that when well-implemented, microfinance “supports job creation and business growth” in remote villages. Thus, boosting self-employment through credit is a key mechanism by which microfinance reduces rural poverty.

### Challenges Faced by Rural Microfinance Beneficiaries

Despite its benefits, microfinance in rural areas faces several serious challenges. High interest rates and debt burdens are among the most cited issues. Because MFIs must cover high operational costs in remote regions, loan rates can be steep. Critics warn that “high interest rates, over-indebtedness, and inadequate regulation can undermine the positive impacts of microfinance”. High rates help MFIs survive but can leave borrowers struggling to repay. Over-indebtedness often arises when poor clients take multiple small loans from different sources; studies report this cycle can trap families in debt despite rising incomes.

Other challenges include limited outreach and sustainability. In some cases, microfinance “fails to reach the poorest” the very bottom of the pyramid may remain excluded due to lack of collateral, illiteracy, or distance. There are also reports that in fragile economies (e.g. Zimbabwe), rapid expansion of microcredit was paradoxically linked to higher poverty rates. This suggests that context matters: without complementary services (education, markets, infrastructure), credit alone may not suffice. Finally, mission drift is a concern: as MFIs grow, they may prioritize financial sustainability over social goals (charging higher rates, cutting back on training). In summary, the literature identifies multiple constraints high costs, indebtedness,



outreach gaps, and institutional weaknesses that can limit microfinance's effectiveness in rural poverty alleviation.

## **Research Methodology**

### Research design

This study adapts a Qualitative Secondary data research methodology, which is basically compiling data from secondary sources, which is not only cost-efficient but also reliable. The data is collected from pre-existing sources like journals, articles, reports and statistics.

The study helps us examine how microfinance affects rural poverty outcomes, focusing on mechanisms and analysis of prior work.

The analysis is supported by descriptive interpretation of a long- run administrative time series on loans sanctioned/ disbursed under a microfinance scheme (as on 26.11.2025) to contextualise the sector's scale and delivery trends.

### Study Area/ Context

The study is situated in the broader context of rural India's financial inclusion ecosystem, where microfinance is delivered through microfinance Institutions and SHGs. Where poverty outcomes are often discussed not only in terms of income but also vulnerability reduction, women's empowerment, and reduced dependence on informal credit

The secondary "**year wise achievements**" dataset provides a long- run view of scheme level credit delivery and beneficiary coverage across **from year 1997-98 to 2025-26**

**(partial year upto 26.11.2025 taken into account)**

### Participants and Sampling

As the work is secondary and qualitative, the participants here are selected with relevance to rural poverty and indulging in microfinance mechanisms, **(targeting loan use, group processes, repayment, empowerment and exclusion)**

The loan dataset is treated as a complete secondary series for the scheme period provided **(from year 1997-98 to 2025-26 upto 26.11.2025)** and detailed indicators are computed for interpretation

### Data collection procedures

Secondary documents (research papers, evaluation reports, institutional publications) are compiled into a document containing year, geography, intervention type, outcomes covered, and key findings relevant to poverty alleviation.

The "year wise achievements" loan table is transcribed into a structured dataset with variables- year, amount sanctioned (in lakhs), beneficiaries sanctioned, amount disbursed (in lakhs) and beneficiaries released, with 2025-26 recorded as partial **(as on 26.11.2025)**.



Period	Years covered	Total sanctioned (₹ crore)	Total disbursed (₹ crore)	Beneficiaries (release)	Mean disbursed/sanctioned ratio	Avg disbursement per beneficiary (₹)	Share of total disbursement (%)
1997 - 2000	3	7.97	6.95	1,405	0.851	49,445	0.4
2000 - 2004	5	97.80	87.57	18,923	0.897	46,275	5.1
2005 - 2009	5	159.78	138.91	27,076	0.909	51,305	8.0
2010 - 2014	5	325.65	329.64	58,292	1.000	56,550	19.1
2015 - 2019	5	536.92	537.94	77,576	1.002	69,343	31.2
2020 - 2024	5	638.52	625.64	87,847	0.981	71,219	36.2

The scheme scaled over sharply from the year 2015-19 and 2020-24 accounting two thirds of total disbursement. Average disbursement per beneficiary rises notably in later periods (about ₹69-71k in 2015-24) which can be discussed alongside qualitative elements like livelihood investment, debt substitution, and women's bargaining power

#### Data analysis

Using the year wise dataset, the study reports indicators like scale, delivery efficacy and beneficiary coverage

From the table we can infer that it shows a steady growth in both sanctioned and disbursed amounts under the microfinance scheme, and we can also note the increase in number of beneficiaries.



Total sanctions over the period amount to ₹1,83,459.75 lakh and total disbursements ₹1,78,495.79 lakh, reaching 2,78,872 sanctioned beneficiaries and 2,73,636 released beneficiaries, with an overall disbursed-to-sanctioned ratio of 0.97

It is also observed that disbursement grows from ₹25.55 lakh in 1997-98 to ₹13,409.20 lakh in 2024-25 alongwith a steady growth in the beneficiaries from 11 to 17,649 over the same span. The time pans 2015-2019 and 2020-24 together making up two-thirds of total disbursement and offering average disbursements per beneficiary ₹69,000- 71,000 compared to below ₹50,000 in earlier periods

The data we have gathered reflects the information only till 26-11-2025, so it is therefore not directly comparable with complete financial years.

#### Limitations

In secondary qualitative research, confirmability is not ensured. The results shown within the document on financing may be exacerbated due to other programs.

The scheme dataset is capturing both sanction/disbursement numbers and beneficiary numbers but is not capturing poverty numbers

It is primarily used for the interpretation of outreach rather than for the magnitude of impact

The year 2025-26 represents incomplete data since we have to consider data up to 26.11.2025.

### **Data Analysis**

#### 1. Portfolio Growth and Sector Expansion

The Indian microfinance sector did well when we looked at the Indian microfinance sector. The Indian microfinance sector loaned out a lot of money over time. The total amount of money the Indian microfinance sector loaned out was ₹17,264 crores in 2012. Then it grew to ₹4.09 lakh crore in 2024. That is an increase, for the Indian microfinance sector. The Indian microfinance sector increased by 2,270 percent. The Indian microfinance sector grew at a rate of 28.5 percent every year.

The Indian microfinance sector is. You can see this in Figure 1. This figure shows the stages of growth that the Indian microfinance sector has gone through. The Indian microfinance sector started to do from 2012 to 2015. This was after the Indian microfinance sector faced a lot of problems, in Andhra Pradesh. The Indian microfinance sector loaned out a total of ₹50,392 crores.

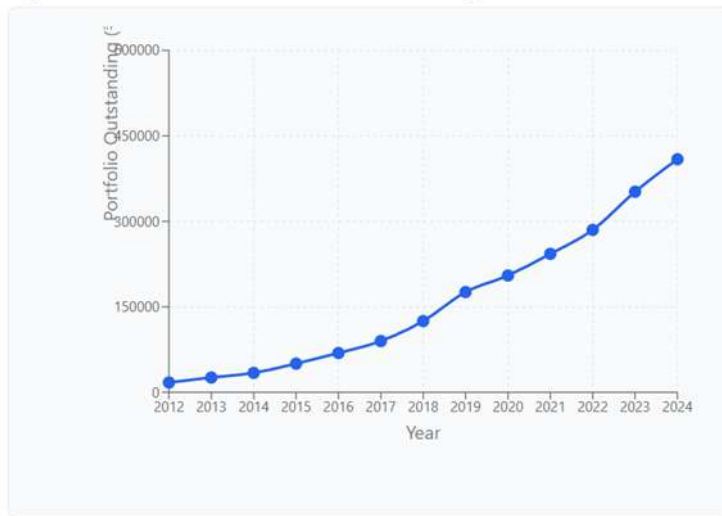
The Indian microfinance sector had a good year in 2013. The Indian microfinance sector grew by 50.6 percent that year. This happened because the government made some things clear. The government made it clear what the rules were. This made investors feel safe to put their money in the microfinance sector again. The time from 2016 to 2019 was really good for growth. This



period saw the company get bigger every year. The growth was around 30 to 41 percent each year. The company did well because of rules and being in more places. The rules. So did being in more countries. This was a deal for the company during the sustained expansion phase from 2016, to 2019.

Figure 1. Gross loan portfolio outstanding trend from 2012 to 2024 (₹ Crore). Data source: RBI and NABARD annual reports.

**Figure 1: Gross Loan Portfolio Outstanding (2012-2024)**

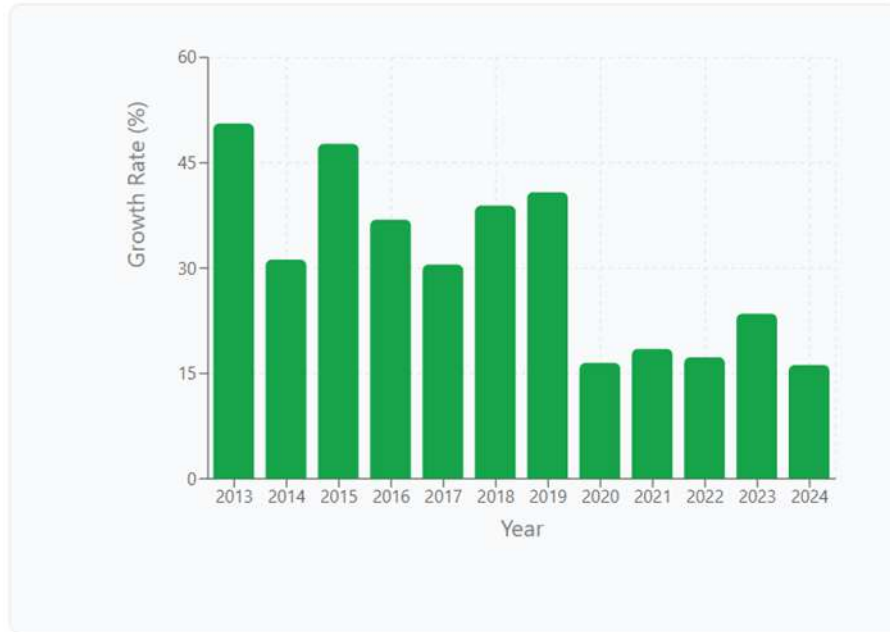


*Trend in microfinance gross loan portfolio outstanding across rural India from 2012 to 2024. Values shown in ₹ Crore.*

The year to year growth analysis, which is shown in Figure 2 tells us that the sector is really up and down. The COVID-19 pandemic was a reason for this. It made the growth slow down a lot to 16.5 percent in 2020. Then the growth bounced back up to 23.5 percent in 2023. This shows that the sector is strong and can handle problems. It was able to do this by using technology and making its risk frameworks better. The COVID-19 pandemic had an impact, on the sector but the sector was able to recover because of its digital adaptation and enhanced risk frameworks. Figure 2. Annual portfolio growth rates (2013-2024). Data source: RBI and MFIN reports.



**Figure 2: Year-on-Year Portfolio Growth Rates (2013-2024)**



*Annual portfolio growth rates from 2013 to 2024, demonstrating sector volatility, COVID-19 impact, and subsequent recovery.*

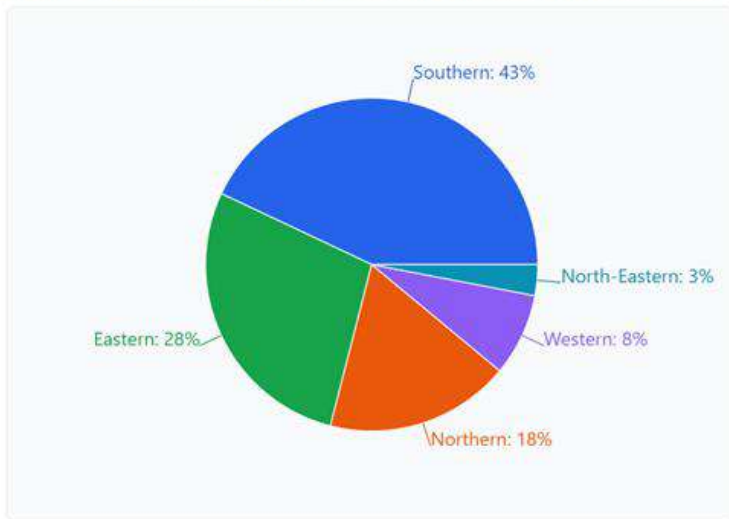
## 2. Regional Distribution and State-Level Performance

Geographic analysis shows that there are patterns when it comes to where things are concentrated. The southern region has a part of the market with 43 percent share, which is ₹1.76 lakh crore. This is actually down from 48 percent in 2015. On the hand the eastern region is growing really fast and now has a 28 percent share, which is ₹1.15 lakh crore. This is because Bihar and West Bengal are expanding. The northern region has 18 percent and the western region has 8 percent. The north-eastern region has 3 percent. This means that there are a lot of opportunities that have not been used yet in these areas as we can see in Figure 3. Geographic analysis of the market share in regions, like the southern region and the eastern region is really important. The southern region and the eastern region are two areas that're really significant when we look at geographic analysis.

Figure 3. Regional microfinance portfolio distribution (2024). Data source: MFIN Micrometer.



**Figure 3: Regional Distribution of Microfinance Portfolio (2024)**



Percentage distribution of microfinance gross loan portfolio across five major regions of India as of March 2024. Total portfolio: ₹4.09 lakh crore.

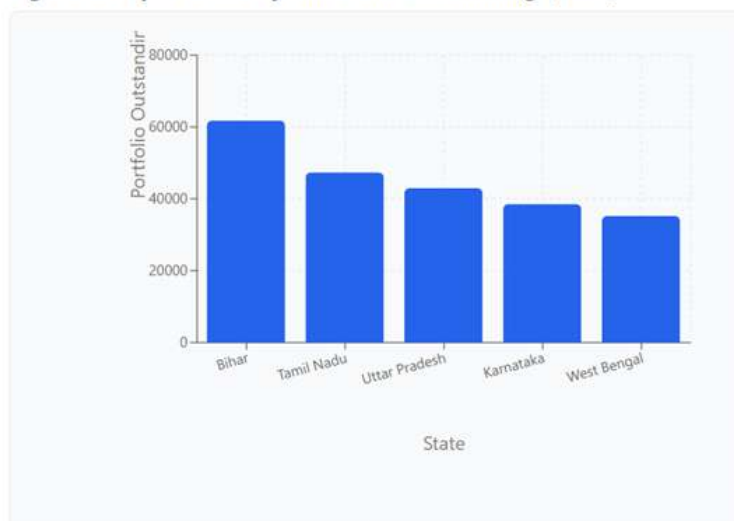
If we look at the states one by one Bihar is the leader. It has a portfolio of ₹61,755 crores. Its growth rate is the highest at 29 percent.

Tamil Nadu comes next with a portfolio of ₹47,327 crores. It has grown by 18 percent.

Uttar Pradesh is also there with a portfolio of ₹42,949 crores and it has grown by 22 percent.

These top five states are really important because they make up 58 percent of the portfolio as we can see in Figures 4 and 5. Bihar and the other top states, like Tamil Nadu and Uttar Pradesh are doing well.

**Figure 4: Top 5 States by Portfolio Outstanding (2024)**

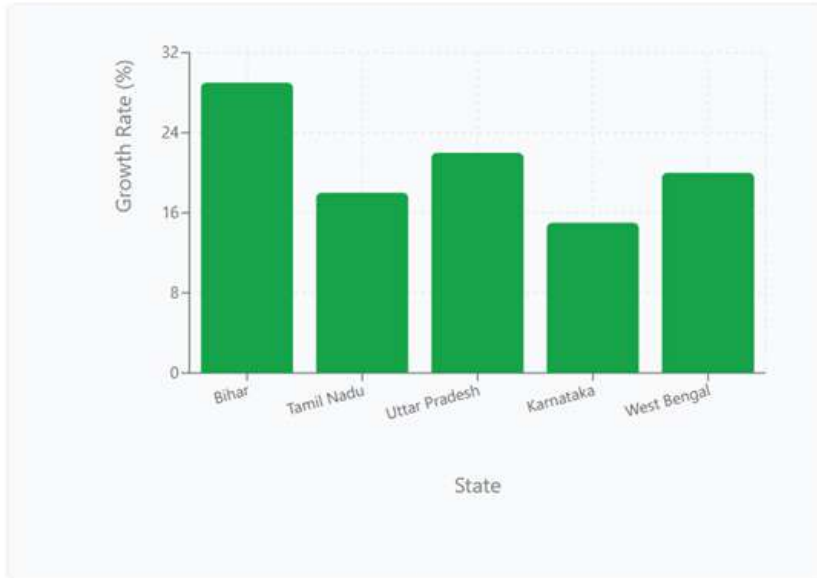


Portfolio outstanding (₹ Crore) for the five largest microfinance states in India as of March 2024.



Figure 4. Portfolio outstanding for top five states (2024).

Figure 5: State-wise Growth Rate Comparison (2024)



Year-on-year portfolio growth rates (2024) for top five microfinance states, showing Bihar's leadership in expansion velocity.

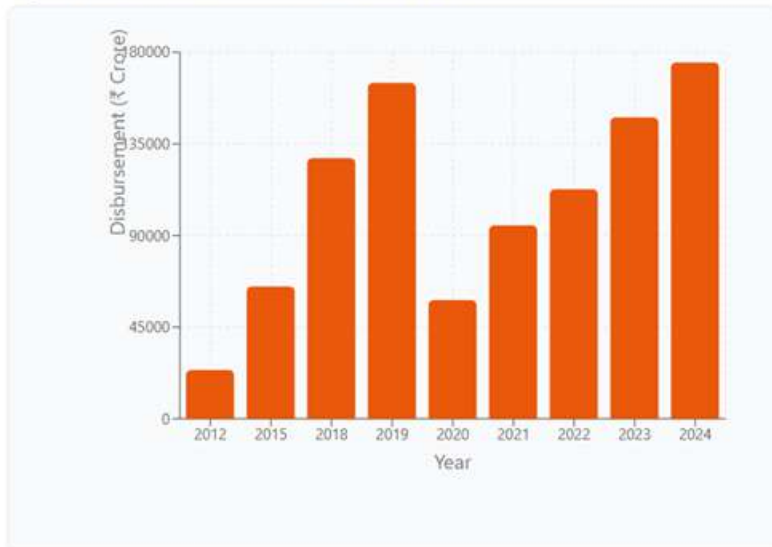
Figure 5. State-wise growth comparison (2024). Data source: MFIN reports.

### 3. Asset Quality and COVID-19 Impact

Loan disbursements went down by 49 percent to ₹58,312 crores in the year 2020. Then they started to go up and reached ₹1.75 lakh crore by the year 2024 as you can see in Figure 6. The pandemic had an effect on everything at the same time. It made growth slower assets not good and credit not as easy to get. This was a test for the loan sector. It was able to recover because of digital transformation. By 2024 85 percent of collections were done digitally. Also the rules, for giving loans were made stronger. Loan disbursements and digital transformation are what helped the sector to get better.



**Figure 6: Annual Loan Disbursements (2012-2024)**

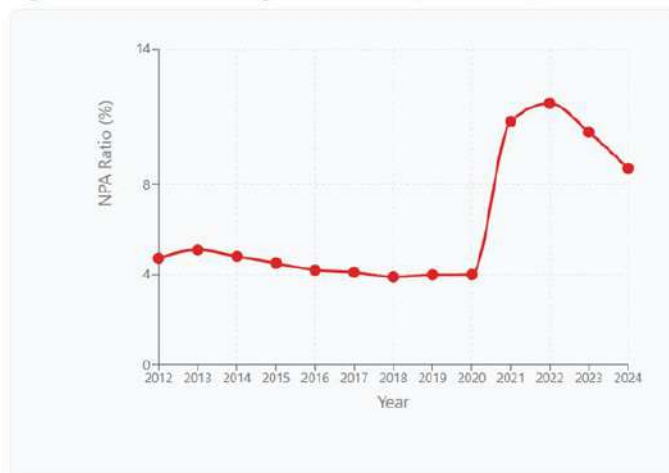


Total annual microfinance loan disbursements from 2012 to 2024, showing COVID-19 disruption in 2020 and subsequent recovery. Values in ₹ Crore.

Figure 6 is about the money that was given out as loans every year from 2012, to 2024. You can see how COVID-19 affected this. The information came from NABARD and MFIN.

The non-performing assets were steady at 3.9 to 4.7 percent from 2012 to 2020. This shows that the joint liability group model was working well. Then the COVID-19 pandemic caused a lot of problems. The non-performing assets jumped up to 10.8 percent in 2021. Got even worse at 11.6 percent in 2022. This happened because people's income was disrupted and it was hard to collect money. Things started to get better in 2023 when non-performing assets went down to 10.31 percent. The non-performing assets continued to go down in 2024 to 8.72 percent. They are still higher than they were, before the pandemic as you can see in Figure 7.

**Figure 7: Non-Performing Assets Trend (2012-2024)**



Percentage of gross loan portfolio classified as non-performing assets from 2012 to 2024, showing COVID-19 spike and subsequent recovery.



Figure 7. Non-performing assets percentage (2012-2024). Data source: RBI and MFIN.

#### 4. SHG Progress and Gender Focus

The Self Help Group Bank Linkage Programme started with 119 lakh savings linked groups in 2012. By 2024 it grew to 144.21 lakh groups. The Self Help Group Bank Linkage Programme also had credit linked Self Help Groups and these reached 77.41 lakh. This meant the linkage ratio of the Self Help Group Bank Linkage Programme improved from 36.7 percent to 53.7 percent.

The Self Help Group Bank Linkage Programme did well during the pandemic. It had good repayment rates, over 96 percent even when other parts of the banking system were not doing well.

**Figure 8: SHG Progress - Savings and Credit Linkage (2012-2024)**



Number of Self-Help Groups (in lakhs) that are savings-linked and credit-linked with banks from 2012 to 2024.

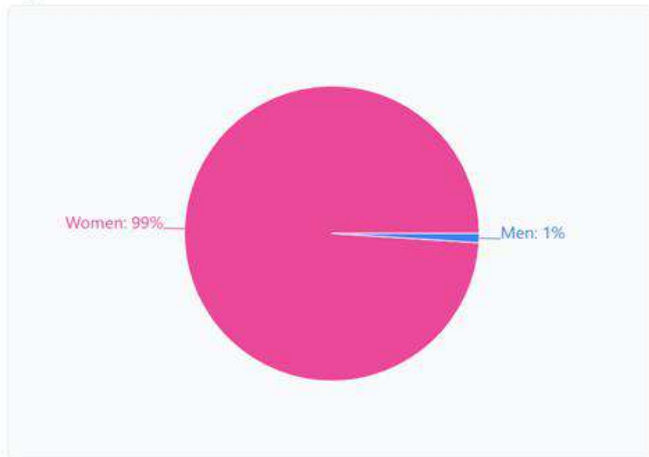
Figure 8. Savings-linked and credit-linked SHG growth (2012-2024). Data source: NABARD.

Women make up a part of the people who borrow money, which is 99 percent of all borrowers that is 8.67 crore women. This is because the government has made it a point to help women become financially independent through schemes, like Deendayal Antyodaya Yojana and Lakhpati Didi. The fact that women are borrowing much is a good thing because they are paying back the money on time. Women who borrow money are also seeing a lot of things happen, like their household income going up by 15 to 18 percent and they are taking part in



making more decisions. Women are really benefiting from these schemes. That is why women are such a big part of the borrowing process.

**Figure 9: Gender Distribution of Microfinance Borrowers (2024)**



*Percentage distribution of microfinance borrowers by gender, showing dominant focus on women's financial inclusion. Total borrowers: 8.67 crore.*

Figure 9. Gender distribution of microfinance borrowers (2024). Data source: MFIN.

## 5. Key Findings

This analysis shows us five things about financial inclusion:

1. The portfolio grew by a 2,270 percent over twelve years with a 28.5 percent growth rate each year which means financial inclusion is working well and getting bigger.
2. Financial inclusion is spreading from the areas to the eastern areas but the northern and north-eastern regions still do not have enough access to these services.
3. When COVID-19 caused problems the financial inclusion sector was able to survive although there were some temporary issues with the quality of assets.
4. Lending to women is an idea because 99 percent of the borrowers are women and they repay their loans well which also improves their well-being.
5. Using two channels, like financial institutions and small community-based groups helps make the financial system stronger and help able to withstand problems, which is what financial inclusion is all, about and that is why financial inclusion is important for financial inclusion to work.

## COMPLETE DATA TABLES

Table 1 Year-wise Portfolio Growth and Key Performance Indicators (2012-2024)



Year	Portfolio (₹ Cr)	Growth (%)	NPA (%)	Disbursement (₹ Cr)
2012	17,264	-	4.72	24,000
2013	26,000	50.6	5.10	36,000
2014	34,112	31.2	4.80	47,000
2015	50,392	47.7	4.50	65,000
2016	68,980	36.9	4.20	82,000
2017	90,000	30.5	4.10	98,000
2018	125,000	38.9	3.90	128,000
2019	176,000	40.8	3.99	165,000
2020	205,000	16.5	4.00	58,312
2021	243,000	18.5	10.80	95,000
2022	285,000	17.3	11.60	112,773
2023	352,000	23.5	10.31	148,000
2024	409,000	16.2	8.72	175,000

I want to note that the information I have was taken from reports by the Reserve Bank of India the National Bank, for Agriculture and Rural Development and the Microfinance Institutions Network.

Table 2 State-wise Distribution (Top 5 States, 2024)

State	Portfolio (₹ Cr)	Market Share (%)	Growth (%)
Bihar	61,755	15.1	29.0
Tamil Nadu	47,327	11.6	18.0
Uttar Pradesh	42,949	10.5	22.0
Karnataka	38,500	9.4	15.0
West Bengal	35,200	8.6	20.0

Note. Data from MFIN Micrometer Q2 FY 2024-25.

### **Discussion on findings**

Financial inclusion



Microfinance has transformed the rural financial access in India. As of March 31, 2024, the microfinance sector serves 7.8 crore borrowers through a gross loan portfolio of Rs. 4,33,697 crores across 14.9 crore loan accounts (MFIN, 2024). The SHG Bank Linkage program, which serves as a principal mechanism for credit delivery, has linked 17.75 crore rural households through 144.21 lakh SHG bank accounts, which accumulated savings of Rs. 2,65,089 crores (NABARD, 2024). This expansion addresses the historical credit exclusion of rural poor i.e. their dependence on informal credit sources at exorbitant interest rates. Research shows that after SHG participation, average interest rate dropped from 81% to 31%, indicating substantial reduction in credit costs. Additionally, loan utilization patterns indicate the shift from consumption oriented to production-oriented borrowing.

Government's flagship schemes have increased the reach of microfinance manifold. The Pradhan Mantri Mudra Yojana (PMMY), launched in April 2025, has sanctioned over 52 crore loans worth Rs. 32.16 lakh crores as of 2025 (PIB, 2025a). The Deendayal Antyodaya Yojana has mobilised 10.05 crore rural households into 91 lakh SHGs (PIB, 2025b). This data demonstrates the government's dedication to closing rural credit gaps, though infrastructure and implementation quality remain uneven across states, with Bihar and Jharkhand showing low per-SHG credit disbursement than Tamil Nadu and Andhra Pradesh (JETEMS, 2024).

#### Income generation and Employment creation

Microfinance has been shown to increase income in all regions. An analysis of Tamil Nadu and Uttar Pradesh revealed an average income increase of 31.9%, with 62% of beneficiaries in Tamil Nadu and 47% in UP switching to self-employment (JETEMS, 2024). Microfinance interventions in northern India resulted in a 22.28% increase in borrowers' mean income. According to a NABARD impact assessment of the SHG Linkage program, the average annual income per household rose by 23% after the intervention, with small-scale trading and agriculture producing most of the marginal income. Employment outcomes and the growth of microfinance portfolios are positively correlated, according to statistical analyses.

However, employment generation occurs primarily through self-employment rather than wage employment. Microfinance enables borrowers to invest in productive assets like livestock, agricultural inputs, equipments etc. thereby creating both wage and self-employment. Importantly, studies reveal that in many cases borrowers utilize loans for self-consumption and financing gaps rather than transformative productive investments. As economist Jonathan Morduch concluded via extensive study of 250 poor families in India, Bangladesh and South Africa, microfinance's essential contribution would seem to be modest: help recipients cope up with the ups and downs of poverty. So, we can say that while income improvements occur, they may reflect coping mechanisms instead of sustained poverty reduction (Access Development Services, 2017).

#### Women's empowerment and economic agency

Women's economic and social empowerment has been the most notable effect of microfinance. By 2024, over 91.75 lakh SHGs covered 10 crore rural households with women being majority of the participants. Women's involvement in household financial decision-making rose from



18% to 62%, and their access to formal credit increased from 9% to 71% among rural women. In 2023–2024, the average credit per female SHG member was 46,000, indicating increasing creditworthiness (NABARD, 2024).

According to research, more than 40% of women in rural microfinance programs took on leadership roles impacting social processes and local governance, which improved their communication and self-confidence (IJNRD, 2015).

However, issues with sustainability and the reach of empowerment still exist. Social norms, low literacy and male dominated household decision making continue to limit the effects of empowerment gains (ICED, 2024). Gender disaggregated analysis reveals that female borrowers (concentrated in agriculture dependent activities) experience higher repayment stress than males, suggesting different vulnerabilities. World Bank evaluations noted women's empowerment across multiple dimensions regardless of whether desired economic outcomes were achieved, thus indicating that empowerment operates independently of income gains.

#### Diversification of livelihoods and agricultural productivity

The increase in agricultural productivity has been greatly aided by microfinance. Research from western Tamil Nadu has demonstrated that farmers who are members of Self-Help Groups (SHGs) have substantially higher agricultural incomes than those who are not, with credit facilitating timely investments in high-quality inputs (NABARD, 2024). According to a study conducted on 500 farmers in Odisha, the availability of agricultural credit greatly increased crop yields and farmer incomes (IJFMR, 2025). However, agricultural vulnerability is still quite high. Rural borrowers operating agriculture dependent microenterprises face production risks from climate variability and pests that generate income fluctuations and repayment issues (Finezza, 2023).

Income diversification away from subsistence farming has occurred in well developed microfinance infrastructure regions, notably Andhra Pradesh, Tamil Nadu and Kerala, which has enabled transitions towards trading, food processing and service sector activities (JETEMS, 2024). However, region inequality persists in implementation quality and institutional capacity, limiting realization of success across large rural populations.

#### Positive impact on Poverty Reduction

World Bank evaluations provide encouraging evidence. In MFI covered villages, the proportion of households below poverty line decreased from 42.5% to 28.3% while enterprises owned by women expanded from 8.9% to 24.1% (ICED, 2024). National level data indicates rural poverty rates declined from 25.7% in 2011-2012 to 7.2% in 2022-2023, though this is a result of multiple policy interventions beyond microfinance. It has facilitated asset creation, household assets increased from Rs. 4498 to Rs. 5827 after program participation with borrowers investing in productive assets and consumer durables that improve household welfare (NABARD, 2024).

### **Conclusion**



Microfinance has improved the incomes of thousands of people in rural areas of India, in a study of Tamil Nadu and Uttar Pradesh, it was found that the average income of households increased by 31.9% after receiving microfinance services. In addition to this, in the Northern region of India, beneficiaries of microfinance interventions recorded an average increase in income of 22.28%. An independent study conducted by NABARD, the National Bank for Agriculture and Rural Development, determined that households benefiting from these interventions saw an average annual increase of 23% in net household income. The majority of this increase was seen by households involved in agricultural production and small-scale trade. Participation in a Self-Help Group (SHG) reduced the average cost of informal credit from 81% to 31% and has improved access to the formal credit market for households.

Microfinance has also enabled the creation of significant numbers of jobs through self-employment. In Tamil Nadu, 62% of participants became self-employed after receiving microfinance and in Uttar Pradesh, 47% became self-employed. Microfinance enables self-employment through the building of productive assets such as livestock, agricultural tools, and inputs for production. Borrowers frequently use microfinance for consumption smoothing and to fill temporary financing gaps instead of productive investments.

Microfinance has a proved women's economic and social empowerment. In rural areas, the proportion of women who had access to formal credit increased from 9% to 71%. Women [involved in decision-making regarding household finances also grew from 18% to 62%. Women represent the majority of participants in over 9.175 million SHGs for approximately 100 million rural households. The average amount of credit granted to each woman member of SHGs is Rs 46000 in FY 2023-24, which means the increased availability of credit has improved the worthiness of female microfinance customers. Over 40% of the women who are involved in consumer-focused microfinance programs have assumed leadership positions in their local communities to advocate for change through influence on local governance and societal shifts. Each of these barriers remains significant in terms of the challenges faced by women, where social barriers, lack of education, and male-driven family financial decision-making continue to significantly narrow the opportunities available for their empowerment. In addition, women microfinance borrowers engaged in agriculture-based micro-enterprise business face pressures when they need to repay loans due to their vulnerability compared to their male counterparts.

Women who are beneficiaries of rural microfinance programs face numerous interconnected challenges that prevent the program from reaching its full potential. Agricultural vulnerability is the leading challenge, because microfinance borrowers who operate agricultural-based microenterprises are at risk of losing product due to the climate's unpredictability and pests, resulting in income instability and difficulty in repaying loans. There are also differences in implementation by region within India, with Bihar and Jharkhand having much lower levels of credit dispersed per SHG compared to Tamil Nadu and Andhra Pradesh (more developed regions). Over-lending and a significant increase in non-performing loans in some



Microfinance Institutions' portfolios raise new and emerging questions about the sustainability of MFI operations.

To have a sustainable impact on poverty reduction, it is necessary to implement strategic policies. By integrating microfinance with skill development and market linkages, the transition from consumption-based entrepreneurship can be made into sustainable productive ones. Improving agricultural extension services, providing climate-resilient practices, and offering agricultural credit will reduce the risk of production and borrower sustainability.

Creating region-specific implementation frameworks that include a focus on building capacity within institutions is fundamental to developing regions that have low capacity. The implementation of gender-transformative programming will increase the empowerment gains of women through addressing the underlying sociocultural norms and household decision-making patterns. To ensure access to credit can strengthen the financial resilience of households, it is critical to establish mechanisms that monitor borrower over-indebtedness, along with protections for borrowers.

To maximize the synergistic result of microfinance in reducing poverty through integrating microfinance with other comprehensive rural development strategies, "education", "health", and "marketplaces" must be considered.

Microfinance will provide contextually limited, but substantive value as a tool in alleviating poverty in rural India. Through data gathering, it has been demonstrated that MFIs have significantly reduced poverty rates from 42.5% in MFI coverage areas to 28.3%, with female-owned small businesses expanding from 8.9% to 24.1%. In summary, microfinance will best serve as a complementary, rather than a stand-alone, poverty reduction tool. The evidence for this assertion includes the seasonal consumption of microloans for smooth consumption, only small increases in income, limited agricultural security, and the impact of regional differences in developing microfinance programs. The focus of microfinance is to enhance households' ability to deal with economic shocks and improve the stability of their livelihoods to help them progressively escape poverty, rather than be a vehicle for transforming the underlying structure of the economy. Accordingly, the future success of microfinance will depend upon recognizing that while it is an appropriate and useful tool, it operates in a limited way as part of a comprehensive rural development system addressing the various dimensions of poverty in rural India.

### **Policy Recommendations:**

Microfinance plays a big role in promoting financial inclusion and reducing poverty in rural India. It addresses the limitations of the formal banking system, which often fails to reach rural populations. Evidence shows that the impact of microfinance is dependent on many factors, such as regulatory mechanisms, institutional practices and development efforts. The following policy recommendations are suggested in this context:



- **The need to strengthen supervision of Microfinance Institutions (MFI):**

Weak regulations of MFIS have caused high interest rates across rural India, causing distress to borrowers. So stricter enforcement of norms is essential to ensure ethical lending, while also safeguarding rural borrowers. The RBI has always stressed the importance of responsible lending practices, along with protection of borrowers.
- **Promotion of financial literacy in rural areas:**

Studies suggest that limited financial awareness causes lesser usage of microfinance services. It also increases the chance of customers to get trapped in vicious debt cycles. Financial literacy programs should be provided. Important topics like savings behavior, interest calculations, repayment planning and risk management should be taught to the public. These programs can be conducted by NGOs, self help groups and panchayats. The training should be done in local languages for better understanding, especially among women and marginalized communities.
- **Integration of microfinance with livelihood and skill development programs**

Access to credit does not guarantee stable income. Borrowers need to have employment opportunities. It is thus essential to link microfinance with skill training, agricultural services and encouragement of entrepreneurship. For example, initiatives under the Natural Rural Livelihood Mission can promote better use of loans. This can enhance employment.
- **Women- centric microfinance initiatives:**

Women are the major microfinance borrowers in rural India, particularly under the SHG-Bank Linkage Program. But they are often excluded from decisions and often have no control over the finance of the household. Interventions such as special leadership trainings, legal awareness campaigns and financial education can work wonders to include women in India's financial landscape.
- **Diversifying the range of products offered by MFIs:**

Rural economies have uncertainty of employment, and seasonal incomes based on agricultures, etc. So, an excessive focus on microcredit can increase their vulnerability. Thus, products such as micro-savings, micro-insurance and pension schemes should be employed to help rural households manage risks. These risks include health risks, especially for older citizens. These products should be designed specifically to cater to the rural landscape of India.
- **Adoption of digital and mobile banking solutions:**

Digital payments reduce transaction costs and minimize leakages. Digital expansion through fintech solutions can prove effective to provide financial services in areas where physical bank infrastructure is weak. However, the problem of digital illiteracy hinders this. So digital expansion must be accompanied by digital education, in a community-driven and inclusive way.
- **Collaboration between government agencies and MFIs:**

Government schemes and microfinance schemes should be aligned to produce maximum impact. Government support in the form of interest subventions, credit



guarantees or targeted subsidies will reduce the burden on poor households. At the same time MFI schemes will encourage responsible lending practices.

- **Shifting the focus of policymakers:**

Policymakers should measure success not only through outreach, such as borrower numbers or loan disbursement volumes. They should assess long term indicators such as asset creation, diversification of income and betterment of living standards. These indicators reflect the ground reality or rural India better.

### Limitations of Study

- **Restricted geographical coverage:**

Since the study can be feasibly conducted only on selected rural regions, the findings may not be applicable across India, due to the socio-economic and cultural differences within our country.

- **Small sample size:**

A larger and more diverse sample would ensure deeper analysis and more accurate conclusions.

- **Reliance on self-reported data:**

Information about income, expenditure and savings are mostly self-reported in this case. Under-reporting, exaggeration and other human errors are possible, especially in rural setting where financial records are limited.

- **Short-term nature of the impact assessment:**

This restricts the ability to record long-term outcomes of microfinance. Poverty reduction and other empowerment effects often take time, so short study periods may not reflect actual changes within the limited time.

- **Not considering external influences:**

Factors such as government welfare schemes, migration, remittances and broader economic changes also affect household outcomes, which are not covered by the study.

- **Gender and social norms:**

Even though women are the primary borrowers, they have less control over the borrowed funds, which greatly reduces the intended impact.

- **Informal financial sources:**

The study does not take into account informal financial sources such as moneylenders, who continue to have an important role in rural finance.

- **Time and resource constraints:**

These constraints can limit the scope of fieldwork, which impacts the depth and richness of the collected data.



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