



EXPLORING THE ROLE OF MICROFINANCE INSTITUTIONS IN PROMOTING FINANCIAL INCLUSION IN INDIA

S. N. TRIPATHY

Former Professor of Economics, Gokhale Institute of Politics and Economics, Pune,

E-mail: sn_tripathy2004@yahoo.com

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Abstract: Microfinance Institutions (MFIs) are pivotal in promoting financial inclusion by offering diverse products and services, including microloans, savings accounts, insurance, and remittances. On the supply side, MFIs address underserved segments by tailoring services to the socio-economic profiles of low-income groups. Despite progress, challenges like high operational costs, limited technological adoption, and regional disparities persist. Strengthening delivery models through digital platforms and partnerships with banks can enhance outreach. Regulatory support and capacity building are critical to sustaining MFIs' financial viability and scalability, ensuring their role in inclusive growth (RBI, 2021; CGAP, 2023).

The Non-Banking Financial Companies (NBFCs) -MFIs lead the microfinance sector by leveraging extensive networks, efficient staffing, and robust financial disbursement models. Based on secondary data sources, the paper covers trends in the microfinance portfolio, revealing a quarter-on-quarter decline of 4.3% as of September 2024 and rising delinquencies, especially in states like Bihar, Tamil Nadu, Uttar Pradesh, and Odisha. A critical analysis of borrowers exposed to microfinance and retail loans shows an alarming increase in delinquency rates, emphasizing the need for regulatory and structural interventions to safeguard the sector's sustainability.

Keywords: Microfinance, NBFCs, Financial inclusion, Financial Stability, Regulatory Interventions

JEL classifications: G21, O16, D14, E44

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INTRODUCTION

Microfinance, serving as the cornerstone of a diverse array of financial services—including deposits, loans, payment services, money transfers, and insurance—plays a pivotal role in addressing the financial needs of poor and low-income households, along with their micro-enterprises, by equipping them with tools to build assets, stabilize consumption, and mitigate risks. The typical microfinance beneficiaries, often low-income individuals who lack access to conventional financial institutions, are predominantly self-employed, household-based entrepreneurs whose economic activities form the backbone of informal economies. Microfinance as a vital instrument of financial inclusion, effectively bridges the gap left by mainstream banking institutions that often overlook individuals with limited incomes, especially in rural and underserved areas where the exorbitant costs of traditional moneylenders exacerbate economic hardships (Tripathy, 2023).

India's financial inclusion journey highlights key milestones: cooperatives, bank nationalization, priority sector lending, Service Area Approach, differential interest rates, Regional Rural Banks (RRBs), NABARD, SIDBI, SHG-Bank linkage, NBFC-MFI category, Small Finance Banks (SFBs), Banking Correspondents, and the PMJDY scheme. These initiatives have expanded credit access, boosted rural development, and strengthened financial services for underserved population. The growth of microfinance plays an instrumental role in integrating financially excluded populations into the mainstream economy, a necessity that becomes evident when considering their significant contributions to enhancing financial inclusion, particularly in semi-urban and rural regions (Armendáriz & Morduch, 2010).

Microfinance institutions (MFIs) began their operations with a social mission, prioritizing the upliftment of underprivileged segments of society and striving to improve their overall well-being (Ledgerwood, 1999). These institutions have dedicated substantial resources, including time and money, toward their communities' education and skill development, recognizing that empowerment extends beyond financial access (Mayoux, 2001). Moreover, there has been a noticeable increase in the availability of non-MFI loans to improve end customers' livelihoods by addressing diverse needs and fostering sustainable growth within these underserved populations (Littlefield, Morduch, & Hashemi, 2003). The importance of such interventions is further supported

by evidence demonstrating the role of microfinance in poverty reduction and improved access to financial services (Banerjee et al., 2015).

The emergence of microfinance, driven by methodologies like group lending through Self-Help Groups (SHGs), has not only enabled the provision of affordable credit to poor communities but has also fostered entrepreneurship and reduced vulnerability to external shocks, thus transforming the socio-economic landscape of these regions (Tripathy, 2015).

Transaction costs represent a critical aspect of mobile payments technology adoption, given their inherent affordability compared to traditional banking and money transfer mechanisms. The technology acceptance model (TAM) theory, a widely recognized framework in technology adoption, sheds light on how individuals embrace and employ new technologies, including mobile payment procedures, to accelerate financial inclusion and enhance operational efficiency (Tripathy, 2019).

Diana Mitlin (2003) observes that microfinance institutions (MFIs) have significantly evolved beyond traditional microcredit, microenterprise loans, and savings products, diversifying into services like insurance, housing, infrastructure, and micro-leasing loans. This expansion aligns with the substantial demand for financing the purchase of land, infrastructure, and shelter-related investments—areas in which poor households often find formal commercial sector services inaccessible. Consequently, the microfinance sector is transitioning from its roots as a social movement into a more commercially oriented industry, with practitioners and policymakers increasingly focusing on the commercial viability and sustainability of these institutions.

Gary Woller (2002) states commercialization within the microfinance industry as a process underpinned by three key elements: profitability, competition, and regulation. Commercialization involves transforming MFIs into profit-driven, regulated entities, which many believe represents the eventual trajectory of the sector. This shift fosters increased competition, encourages product and service innovation, lowers operational costs, and broadens the outreach of financial services to underserved regions. Empirical evidence suggests that commercially viable MFIs are better positioned to mobilize funds, enforce standards, improve accounting practices, and access both domestic and international capital markets, thus enhancing their capacity to meet client needs.

The International Monetary Fund (2002) emphasizes the critical role of microfinance in fostering overall financial sector development and stable economic growth. The IMF's focus stems from its broader goals of supporting adjustment and reform programs through initiatives like the Poverty Reduction and Growth Facility (PRGF). While the World Bank traditionally oversees microfinance, the IMF recognizes the importance of understanding its implications within PRGF-supported programs.

Microfinance has demonstrated its potential in empowering individuals, particularly women, to become economic agents of change, to alleviate poverty, facilitate community building, and drive sustainable development, as evidenced by its significant impact on income generation and poverty reduction in remote and underserved areas (Tripathy, 2016; Tripathy, 2017). Despite the potential benefits, challenges on the supply side persist, including products not tailored to the informal sector, inflexible and document-intensive processes, and limitations in technology acceptance and availability. To bridge the gap, the prevailing financial inclusion delivery models often converge on handheld devices equipped with wireless connectivity, biometric authentication and micro-printers, facilitating last-mile delivery of financial services.

Microfinance in India is facilitated through various entities, each serving distinct roles in providing financial services to low-income populations and underserved communities, contributing significantly to financial inclusion. Non-Banking Financial Companies (NBFCs) play a pivotal role by offering various financial services, including loans and credit facilities, specifically designed to cater to the needs of low-income groups typically excluded from traditional banking systems. Similarly, NBFC-Microfinance Institutions (MFIs) specialize in providing microloans, targeting populations often overlooked by mainstream financial institutions, focusing on enabling economic independence and self-sufficiency. In addition, various non-profit societies extend credit and savings services, working toward social welfare and community development. Section 8 companies, which are non-profit organizations, also contribute by offering microfinance services that aim to foster sustainable development. At the same time, trusts manage funds dedicated to providing microloans, enhancing livelihoods, and promoting social welfare. Collectively, these entities bridge the financial gaps left by traditional banks, playing a vital role in improving access to finance and empowering economically marginalized groups.

The global demand for digital financial services enablement is witnessing a significant surge. In India, where smartphone penetration is rapidly increasing, Microfinance Institutions (MFIs) clients are poised to align with this trend, underscoring the necessity of adopting digital solutions. Integrating data and digital technologies has begun to play a transformative role across the entire value chain of financial services, encompassing customer origination, underwriting, loan sanctioning, disbursement, collections, and servicing, thereby enhancing efficiency and accessibility (Microfinance Industry Network, 2023). Over the past decade, MFIs have experienced substantial growth, with several institutions maturing and transitioning into small finance banks, prompting them to undergo transformations and adapt to the evolving regulatory landscape. In response to the sector's evolving dynamics and to mitigate the concerns raised by NBFC-MFI players, regulators have proactively amended lending cap restrictions, thereby creating a more equitable framework that enables NBFC-MFIs to compete on a level playing field with small finance banks, which cater to the same customer segment but operate under more favorable lending cap provisions.

A robust microfinance sector, integrated into financial system reforms, can amplify benefits and minimize challenges. The International Monetary Fund (IMF) underlines the need for its policy frameworks, financial sector oversight, and technical assistance, particularly in banking systems, to consider the unique needs of microfinance institutions.

CRIF High Mark, a prominent credit bureau in India, has released the fourth edition of its "How India Lends" report, providing a comprehensive analysis of consumption lending, MSME lending, and microfinance lending over the past five years from FY20 to FY24, with a specific focus on key industry and consumer trends shaping the lending landscape. The report offers detailed insights into the evolution of lending patterns, including comparing trends observed during the last few years against the pre-COVID-19 period, thereby providing an in-depth understanding of the shifts in lending dynamics across various sectors.

The report categorizes consumption lending into distinct subtypes, such as home loans, personal loans, two-wheeler loans, auto loans, consumer durable loans, and credit cards, offering granular insights into each category. MSME loans are divided into two broad types: entity MSME loans, characterized by

credit exposure of up to ₹50 crore, and corporate loans, which pertain to mid- and large-sized entities with credit exposure exceeding ₹50 crore. Moreover, individual MSME loans encompass business loans, loans against property (LAP), commercial vehicle loans (CVL), and construction equipment loans (CEL), reflecting the diverse credit needs within the MSME sector.

Despite micro-lending schemes reaching millions of impoverished individuals, their direct impact on poverty reduction remains contested. Although disentangling the myriad factors influencing poverty is inherently complex, practitioners largely agree that access to credit yields positive outcomes, provided borrowers repay and reborrow, demonstrating the critical role of credit in fostering incremental improvements in livelihoods. Financial inclusion refers to the ability of individuals and businesses to access a range of valuable and affordable financial products and services that are tailored to meet their specific needs—such as transactions, payments, savings, credit, and insurance provided responsibly and sustainably, fostering economic empowerment and resilience. The availability of a transaction account represents a fundamental step toward achieving broader financial inclusion, as it enables individuals to store money securely and conduct essential financial transactions, including sending and receiving payments. Moreover, a transaction account acts as a gateway to additional financial services, underscoring the importance of ensuring universal access to such accounts as a key area of focus for the World Bank Group (WBG), most prominently through its Universal Financial Access 2020 initiative, which, despite its achievements, highlighted the ongoing challenges in addressing global financial exclusion (<https://www.worldbank.org/en/topic/financialinclusion/overview>). Access to financial services plays a transformative role in everyday life, enabling families and businesses to plan for long-term goals and unforeseen emergencies. As accountholders, individuals are more likely to utilize other financial tools, including credit and insurance, which empower them to launch and expand businesses, invest in education and healthcare, manage risks effectively, and mitigate the impact of financial shocks, ultimately enhancing their quality of life and fostering economic growth.

OBJECTIVES

1. To analyze the reach of MFIs in overall microfinancing activity in India by examining the geographical coverage, client base, and penetration of

microfinance institutions in urban and rural areas, identifying regions with low financial inclusion and barriers to expansion.

2. To analyze the growth trends in consumption, MSME, and microfinance lending across various sectors in India.
3. To assess emerging risks, particularly delinquencies in the microfinance sector and the growing overlap between microfinance and retail loans.

METHODOLOGY

The analysis is based on a detailed review of lending trends and delinquency data across different loan segments, such as consumption, MSME, microfinance, and corporate lending, using CRIF High Mark's "How India Lends" report. The data covers loan originations, portfolio growth, and delinquencies from FY20 to FY24, explicitly focusing on state-wise performance, loan ticket size trends, and sectoral shifts in lending patterns. Thus, the study employs an exclusively secondary data approach, utilizing reports published by Sa-Dhan, including the *Directory of MFIs in India* and the *Bharat Microfinance Report*.

CONSUMPTION LENDING

Consumer lending refers to the type of financial assistance extended to individuals to meet their personal financial needs. It encompasses a wide range of purposes, including the purchase of homes and vehicles, funding for education, and other personal expenses.

Table 1: Trends in India's Consumption Lending Ecosystem

Category	Key Highlights	Growth Trends
Consumption Lending	Total portfolio outstanding reached ₹78 lakh crore as of June 2023.	Reflects its pivotal role in financial accessibility and credit penetration.
Home Loans	Shift in originations from ₹5–35 lakh range to ₹35–75 lakh range.	Average ticket size (ATS) grew by 22%, from ₹20.2 lakh (FY20) to ₹24.7 lakh (FY23).
Personal Loans	Originations by volume surged by 150% (FY20–FY23).	Banks drove growth in value, while NBFCs dominated in volume; originations by value grew by 36%.
High-Value Loans	Loans exceeding ₹75,000 grew 130% by value and 220% by volume.	Indicates increased consumer confidence and enhanced credit availability.

<i>Category</i>	<i>Key Highlights</i>	<i>Growth Trends</i>
Auto Loans	Originations (by value) grew by 63% (FY20–FY23).	Shift towards ticket sizes of ₹10 lakh or more since FY22, driven by rising vehicle costs.
Consumer Durable Loans	Originations increased by 57% in value and 51% in volume (FY20–FY23).	NBFCs dominate the segment, while private banks steadily expand their market share.
Credit Cards	New issuances grew by 69% (FY20–FY23).	Private banks gained prominence since FY22, reflecting increased demand for unsecured credit products.

Table 1 reveals that there has been immense significance of consumption lending in India's credit ecosystem, with the total portfolio outstanding of consumption loans reaching an impressive ₹78 lakh crore as of June 2023. This growth drives financial accessibility and credit penetration across diverse segments. A notable shift has been observed in originations, both by value and volume, from loans with ticket sizes between ₹5 lakhs and ₹35 lakhs to a higher range of ₹35 lakhs to ₹75 lakh, indicating evolving consumer preferences and increased borrowing capacity. Specifically, the average ticket size (ATS) for home loans has risen significantly by 22%, from ₹20.2 lakh in FY20 to ₹24.7 lakh in FY23, underlining the robust demand in the housing segment.

In the broader category of consumption lending, personal loans have shown remarkable growth, with originations by volume surging by 150% from FY20 to FY23, predominantly driven by banks in terms of value and non-banking financial companies (NBFCs) in terms of volume. Similarly, originations by value recorded a growth of 36% during the same period, while loans exceeding ₹75,000 witnessed an astounding growth of 130% by value and 220% by volume, reflecting increased consumer confidence and enhanced credit availability. Auto loans demonstrated a 63% growth in originations (by value) between FY20 and FY23, with a distinct shift towards ticket sizes of ₹10 lakh or more since FY22, driven partly by the rising cost of vehicles.

The consumer durable loans segment has also experienced substantial growth, with originations increasing by 57% in value and 51% in volume from FY20 to FY23. While NBFCs continue to dominate this category, private banks have steadily expanded their market share. Similarly, credit card issuances grew by 69% during the same period, with private banks gaining prominence since FY22, signalling a heightened demand for unsecured credit products.

MSME LENDING

MSME loans encompass financial credit extended to two distinct categories: first, to self-employed individuals whose credit transactions are systematically reported to the Consumer Bureau, and second, to business entities that maintain an aggregate credit exposure not exceeding ₹50 crore, with their borrowing details being monitored and reported to the Commercial Bureau. The MSME lending segment, encompassing individual and entity loans, showcased robust growth, reflecting increased financial support for small and medium enterprises that form the backbone of India's economy. The portfolio outstanding for individual MSME loans reached ₹28.5 lakh crore as of June 2023, marking a year-on-year growth of 13.5%. This was accompanied by an increase in the average ticket size from ₹5.8 lakh in FY22 to ₹6.9 lakh in FY23. Furthermore, delinquencies showed improvement across most loan categories, barring construction equipment loans for the Portfolio at Risk (PAR). The proportion of delinquent portfolio outstanding is >0 days (181-360 days segment).

Entity MSME loans, on the other hand, had a portfolio outstanding of ₹26 lakh crore as of June 2023. In terms of originations, private banks are led by value, whereas public sector banks are dominated by volume. The micro-segment emerged as the largest contributor within entity MSME loans, with the sector recording the highest origination value in recent quarters. This demonstrates the critical role of micro-enterprises in driving economic growth.

MICROFINANCE INDUSTRY AND MICROFINANCE LENDING

The microfinance industry serves low-income individuals and small businesses, providing financial services such as microloans, savings, insurance, and remittances to promote financial inclusion. Microfinance products are tailored to meet the needs of the underserved. For instance, microloans offer small, collateral-free credit to entrepreneurs, such as a weaver needing funds for raw materials. Micro-savings accounts encourage saving habits among rural households, and micro-insurance protects against risks like health emergencies or crop failures.

The microfinance sector continues to be a key enabler of financial inclusion, with its portfolio outstanding reaching ₹355.3 thousand crore as of June 2023. NBFC-MFIs lead this segment in terms of originations by

both value and volume, followed by banks. Originations by value recorded an 18% growth from FY20 to FY23, alongside an increase in the average ticket size from ₹34.6 thousand in FY20 to ₹41.1 thousand in FY23, reflecting the growing outreach and evolving needs of borrowers.

CORPORATE LENDING

Corporate loans refer to financial credit facilities provided to medium and large-sized business entities that maintain an aggregate credit exposure exceeding ₹50 crore, with the details of these loans being systematically tracked, recorded, and reported to the Commercial Bureau for monitoring and regulatory purposes. Corporate lending, exclusively for entities, demonstrated a portfolio outstanding of ₹62.2 lakh crore as of June 2023, with a robust 33% growth in originations by value between FY22 and FY23. This growth underscores the sector's vital role in supporting mid- to large-sized enterprises and driving industrial expansion.

Table 2: MFI Size Class and Borrower Base

<i>MFI Size Class</i>	<i>Type of MFI wise % share</i>	<i>No of MFIs under all categories</i>	<i>No. of borrowers/MFI (in lakhs)</i>	<i>No. of branches /State</i>	<i>No of staff/ Branch</i>
Tier-1(>2.5 lakh clients)	NBFC-MFI-94.6%, Sec-8, Company-2.7 %, Trust-2.7%	37	12.46	46.0	9.5
Tier-2(0.5 -2.5 lakh clients)	NBFC-MFI-83%, Sec-8, Company-10 %, Society 3.3 %, Trust-3.3 %	30	1.04	23.2	7.2
Tier-3(< 0.5 lakh clients)	MACS-8.7%, NBFC-MFI-43%, Sec-8, Company-17.3 %, Society 19.3 %, Trust-13.3 %	150	0.11	7.2	7.4
All tiers		217	2.34	16.1	7.7

Source: Data compiled from the reports in Sa-Dhan & the Bharat Microfinance

Table 2 explores the MFI size classes of varying borrower bases and operational scales across different categories. In Tier-1 MFIs with over 2.5 lakh clients, NBFC-MFIs dominate with a 94.6% share, serving an average of 12.46 lakh borrowers per MFI through 46 branches per state, supported by 9.5 staff per branch. Tier-2 MFIs, with 0.5 to 2.5 lakh clients, see a more diversified composition, with 83% of MFIs being NBFC-MFIs, serving fewer borrowers

per MFI (1.04 lakh) across 23.2 branches and 7.2 staff. Tier-3 MFIs, with fewer than 0.5 lakh clients, are more varied, with a larger share of non-NBFC entities, serving 0.11 lakh borrowers per MFI across fewer branches and 7.4 staff. Across all tiers, 217 MFIs serve 2.34 lakh borrowers per MFI, averaging 16.1 branches and 7.7 staff per branch.

EMERGING CONCERNS IN MICROFINANCE

While the report celebrates the resilience and growth of the credit market, it also brings to light critical challenges in the microfinance sector. Approximately 50 lakh borrowers, accounting for 6% of the total client base, have taken loans from four or more microfinance institutions and cannot repay, creating significant pressure on these institutions. This growing delinquency risk directly threatens the financial stability of the sector and the broader financial ecosystem, particularly considering that over 8.5 crore individuals have availed of loans through microfinance channels. If these smaller financial institutions were to fail, the ripple effects could disrupt the entire financial system, emphasizing the urgent need for regulatory and structural interventions.

Table 3: Retail Exposure of MFI Borrowers: June 2024 vs September 2024

Category	As of Jun, '24,	As of Sep, '24,
Total Number of Live MFI Borrowers	8.7 Cr	8.6 Cr
% of Live MFI Borrowers with Active Retail Loans	16.1%	14.3%
Total Number of Active Retail Loans (Lakh) of MFI Borrowers	203.4	178.6
Portfolio Outstanding for Active Retail Loans (₹ Cr)	1,66,560	1,48,562
PAR 91-180%* (Retail delinquencies on Overlap Base)	3.3%	4.3%

Source: Micro Lend Quarterly Publication on Microfinance Lending, Volume xxix, September 2024

Table 3 indicates a slight decline in the total number of live MFI borrowers and those with active retail loans between June and September 2024. The total number of active retail loans and the outstanding portfolio also decreased. However, the PAR 91-180% (delinquencies on overlapping loans) increased from 3.3% to 4.3%, signaling rising delinquency risks.

**Table 4: MFI Portfolio Performance as of September 2024:
(Borrowers with Only MFI Loans (85.7% of MFI Base))**

State	Portfolio (₹ K Cr)	PAR 31-180%
Bihar	2.9	5.3%
Tamil Nadu	2.0	5.9%
Uttar Pradesh	2.5	6.7%
Karnataka	0.9	3.0%
West Bengal	0.9	2.6%
Maharashtra	1.3	5.2%
Orissa	1.5	7.9%
Madhya Pradesh	1.3	6.7%
Rajasthan	1.0	7.4%
Kerala	0.6	7.8%
Remaining States	2.6	4.8%
Pan India	328	5.3%

Source: Micro Lend Quarterly Publication on Microfinance Lending, Volume xxix, September 2024

As of September 2024, the MFI portfolio performance shows varied delinquency rates (PAR 31-180%) across states. Orissa, Kerala, and Rajasthan exhibit the highest delinquency rates, with PAR 31-180% at 7.9%, 7.8%, and 7.4%, respectively, suggesting higher risk in these regions. Uttar Pradesh and Madhya Pradesh also report elevated delinquency rates of 6.7%. Conversely, Karnataka and West Bengal have relatively lower delinquency rates, at 3.0% and 2.6%, respectively. Overall, the national MFI portfolio stands at ₹328 K Cr, with a moderate delinquency rate of 5.3%, reflecting regional variability in loan performance across the country (Table 4).

Table 5: Borrowers with MFI & Retail Loans (14.3% of MFI Base)

State	MFI Portfolio (₹ K Cr)	PAR 31-180%	Retail Portfolio (₹ K Cr)	PAR 31-180%	MFI + Retail Portfolio (₹ K Cr)	PAR 31-180%
Bihar	0.8	9.7%	0.7	9.5%	15.0	12.3%
Tamil Nadu	1.8	8.5%	1.8	10.4%	66.5	11.9%
Uttar Pradesh	0.8	12.6%	1.7	10.8%	16.0	14.8%
Karnataka	0.6	5.2%	1.1	9.5%	30.4	9.8%
West Bengal	0.3	5.5%	0.7	9.4%	9.7	9.0%
Maharashtra	0.4	7.6%	0.6	11.6%	14.8	11.7%

State	MFI Portfolio (₹ K Cr)	PAR 31-180%	Retail Portfolio (₹ K Cr)	PAR 31-180%	MFI + Retail Portfolio (₹ K Cr)	PAR 31-180%
Orissa	0.5	11.9%	0.6	12.5%	8.6	15.0%
Madhya Pradesh	0.4	9.9%	4.7	9.9%	10.6	11.8%
Rajasthan	0.3	11.5%	1.0	10.1%	8.8	13.1%
Kerala	0.6	12.0%	0.5	16.8%	14.4	17.0%
Remaining States	1.1	8.2%	3.0	11.3%	39.8	12.2%
Pan India	85.9	8.7%	148.6	10.9%	234.5	12.2%

Source: Micro Lend Quarterly Publication on Microfinance Lending, Volume xxix, September 2024

Table 5 presents the performance metrics for both the "Only MFI Loans" and "MFI & Retail Loans" categories, highlighting state-level differences in portfolio size and delinquency rates (PAR 31-180%). The analysis of borrowers with both MFI and retail loans reveals significant delinquency variations across states. Uttar Pradesh and Kerala exhibit the highest delinquency rates, with PAR 31-180% at 14.8% and 17.0%, respectively, indicating more significant financial stress. Orissa, Maharashtra, and Rajasthan also show elevated delinquency levels, suggesting challenges in these regions. On the other hand, Karnataka and West Bengal have relatively lower delinquency rates, particularly in MFI loans. The combined MFI and retail portfolios across India exhibit a moderate PAR 31-180% of 12.2%, highlighting the cumulative risk associated with borrowers exposed to both lending types.

Table 6: Showing Portfolio Snapshot

Metric	Mar-22	Mar-23	Mar-24
Portfolio Outstanding (₹ L Cr)	24.1	27.7	35.7
Y-O-Y Growth %	-	14.7%	29.0%
Active Loans (Lakh)	547.1	564.7	672.3
Y-O-Y Growth %	-	3.2%	19.1%
PAR 31-90%	3.6%	3.0%	2.7%
PAR 91-180%	1.9%	1.5%	1.1%
PAR 181-360%	1.2%	0.9%	0.7%
PAR 360+%	11.0%	10.4%	7.3%

Source: How India Lends Credit Landscape in India FY 2024

Table 7: Showing Market Share – By Product Type (March 2024)

Metric	Percentage
Portfolio Outstanding	76.2%
Active Loans	12.4%
Other Types	10.5%
Minor Categories	0.9%

Source: How India Lends Credit Landscape in India FY 2024

The portfolio has shown robust growth, with the outstanding amount rising from ₹24.1 L Cr in March 2022 to ₹35.7 L Cr in March 2024, reflecting a 29% YoY growth in FY24. Active loans grew by 19.1% during the same period. Delinquency rates across all bands have improved, with PAR 360+ reducing significantly to 7.3% in FY24. This indicates strengthened portfolio quality and effective risk management. Portfolio concentration remains strong, with 76.2% of the market share in core product types (Table 6 & 7).

Table 8: Trends in Microfinance: Sustained Growth with Stable Portfolio at Risk (PAR) Metrics

Category	Mar-22	Mar-23	Mar-24
Portfolio Outstanding (₹ K Cr)	287.5	349.1	442.7
Y-o-Y Growth (%)	21.4%	26.8%	-
Active Loans (Cr)	12.4	14.2	16.1
Y-o-Y Growth (%)	14.1%	14.0%	-
Average Balance Per Account (₹ K)	23.2	24.7	27.4
Active Balance Per Borrower (₹ K)	45.7	45.7	45.7
PAR 31-90 (%)	3.3%	1.1%	1.2%
PAR 91-180 (%)	2.7%	1.1%	0.9%
PAR 180+ (%)	8.4%	9.1%	9.6%
Write Off (Amt %)	4.8%	7.7%	8.6%

Source: How India Lends Credit Landscape in India FY 2024, P.65

Table 8 reveals that the microfinance sector demonstrated robust growth, with the portfolio outstanding rising from ₹287.5K Cr in Mar-22 to ₹442.7K Cr in Mar-24, reflecting a consistent upward trajectory. Active loans increased steadily, with a 14% Y-o-Y growth in Mar-23 and Mar-24. Portfolio at Risk (PAR) metrics improved, as PAR 31-90% and PAR 91-180% declined, indicating better repayment behaviour. However, PAR 180+% and write-off

percentages rose, highlighting challenges in delinquent loans. The average balance per account also grew, reflecting higher credit disbursement per borrower.

NON-BANKING FINANCIAL COMPANIES (NBFCs)

Non-Banking Financial Companies (NBFCs) are financial institutions that offer banking-like services without holding a banking license. They are vital in promoting financial inclusion by serving individuals and businesses underserved by traditional banks. NBFCs provide various financial products, including loans, investments, and insurance. For instance, Muthoot Finance is a prominent NBFC specializing in loans against gold, enabling individuals to access quick funds without the complexity of traditional banking procedures. NBFCs have become key players in India's financial landscape by fostering infrastructure, agriculture, and small business growth.

NBFC-MFI (MICROFINANCE INSTITUTIONS)

NBFC-Microfinance Institutions (MFIs) cater to underserved populations, focusing on small-ticket loans to low-income groups. These loans are typically collateral-free, empowering economically disadvantaged individuals to improve their livelihoods. MFIs also promote group lending models, where self-help groups (SHGs) collectively manage loans. An example is Bandhan Bank, which originated as a microfinance institution before evolving into a full-fledged bank. MFIs bridge critical credit gaps, particularly in rural and semi-urban areas, fostering financial independence and economic empowerment. Non-Banking Financial Companies (NBFCs) play a pivotal role in addressing the financing requirements of small and medium-sized enterprises (SMEs), which are critical drivers of economic progress through their capacity to generate employment opportunities, stimulate economic growth, and support business expansion. Moreover, with their customer-centric approach, NBFCs significantly contribute to the housing finance sector by offering loans tailored for home purchases and construction activities, thereby enabling individuals to realize their aspirations of homeownership while simultaneously fostering the growth of the real estate sector.

In addition to their impact on specific sectors, NBFCs infuse innovation and competition into the financial ecosystem, compelling traditional banks to enhance their services and develop more competitive financial products; their

ability to customize offerings to address the unique needs of diverse customer segments, particularly those in underserved or niche markets, highlights their flexibility in adapting to evolving market dynamics and customer preferences, which ultimately provides customers with an expanded array of choices and improved financial services (Tripathy, 2024).

With fewer bank and NBFC branches in rural and semi-urban areas compared to urban regions, the rural market in India remains underpenetrated, presenting significant opportunities for savings and loan products. In financial inclusion efforts, microfinance institutions (MFIs) are crucial in providing credit. The vast market of financially excluded households and MFIs' ability to offer affordable credit create robust growth prospects. Many MFIs have diversified through Microfinance Plus or Credit Plus products, enabling access to necessities such as education, healthcare, power, infrastructure, and insurance, enhancing the standard of living and economic development. A well-diversified portfolio across geographies helps mitigate risks associated with concentration, while broader operations reduce operating costs relative to outstanding loans. Rural-focused MFIs will likely see faster portfolio growth, but their vulnerability to local repayment issues underscores the importance of maintaining asset quality. Regular borrower engagement and analytics are essential for predicting and mitigating asset quality risks. Technology has further accelerated MFI growth by improving efficiency, reducing cash dependence, shortening turnaround times, enhancing product offerings, and enabling better customer service and portfolio monitoring. These advancements strengthen their ability to meet underserved segments' financial needs effectively.

**Table 9: Microfinance Disbursement and Borrower Distribution:
Rural vs. Urban (Fiscal 2023)**

<i>Area</i>	<i>Disbursement (₹ billion)</i>	<i>Share of Disbursement (%)</i>	<i>Portfolio Outstanding (₹ billion)</i>	<i>Share of Gross Loan Portfolio (GLP) (%)</i>	<i>Share of Borrowers (%)</i>
Rural	1,273	72%	1,331	74%	74%
Urban	486	28%	468	26%	26%

Note: Values taken as per Bharat Microfinance Report 2023

Source: Sa-Dhan, CRISIL MI&A

Table 9 reveals that in Fiscal 2023, rural areas dominated microfinance with 72% of disbursements, 74% of borrowers, and 74% of the Gross Loan

Portfolio (GLP). Urban areas accounted for 28% of disbursements and 26% of GLP and borrowers. This highlights the significant focus of microfinance on rural development, driven by the under-penetration of formal financial services in these regions.

FINDINGS AND CONCLUSIONS

The dominance of Non-Banking Financial Companies (NBFCs) and NBFC-microfinance institutions (NBFC-MFIs) highlights their crucial role in advancing microfinance outreach by offering a diverse range of products and services. These institutions consistently maintain the most extensive outreach regarding loan amounts disbursed and borrower base, reinforcing their pivotal position in the microfinance sector.

An analysis of tier-wise MFI distribution reveals that Tier-1 MFIs possess the most extensive branch networks, averaging 46 branches per state, while Tier-3 MFIs, being more localized, operate an average of only 7.2 branches per state. This tiered structure extends to staffing patterns, with Tier-1 MFIs employing an average of 9.5 staff members per branch compared to 7.4 in Tier-3 MFIs. Notably, NBFC/NBFC-MFIs exhibit uniform branch networks across all tiers, emphasizing their significant outreach capacity.

Productivity indicators reflect that MFIs disburse an average of ₹0.5 crore in loans per staff member annually, although substantial variations exist across tiers. Regression analysis highlights a robust positive correlation between staff strength and loan disbursement. Specifically, including one additional staff member enables an MFI to disburse an additional ₹37 lakh in loans, underscoring the critical role of staffing in enhancing loan outreach.

This labour-intensive nature of the microfinance industry becomes evident when staff strength emerges as a statistically significant factor positively influencing loan disbursement. Given the dependence on human resources for client acquisition, loan processing, and credit delivery, MFIs' operational efficiency is closely tied to their workforce capacity. The direct link between staff strength and loan disbursement emphasizes the sector's labor-intensive characteristics, reaffirming the importance of human resources in driving financial inclusion and economic development through microfinance.

In reflecting on the report, Managing Director of CRIF High Mark, emphasized the resilience of the Indian credit market, particularly the robust

growth in consumption loans and the substantial contributions of the micro-segment within MSME lending. These positive trends, coupled with improving delinquency rates, highlight the strength of the Indian economy in navigating challenges. However, the mounting pressures on microfinance institutions demand immediate attention to safeguard their sustainability and mitigate systemic risks that could undermine the broader financial ecosystem.

As of September 2024, the total microfinance portfolio was recorded at ₹414.0K crore, reflecting a quarter-on-quarter (Q-o-Q) decline of 4.3% compared to June 2024. Within this sector, Non-Banking Financial Company Microfinance Institutions (NBFC MFIs) and banks continued to dominate the market, collectively holding a substantial share of 71.3%. Among various types of lenders, NBFCs emerged as the fastest-growing segment, exhibiting an impressive 26.3% year-on-year (Y-o-Y) growth alongside a modest Q-o-Q growth of 0.7%. In contrast, all other lender categories experienced Q-o-Q declines during the same period.

The trend of dampened originations persisted into the second quarter of FY25, marked by a 13.3% decline in value and a 16.1% reduction in volume compared to the first quarter. Concurrently, delinquencies across all Days Past Due (DPD) bands increased during Q2 FY25, with significant spikes observed across all ticket sizes and lender categories, particularly in the top 10 states. Small Finance Banks (SFBs) exhibited higher Portfolio at Risk (PAR) in the 31–180 DPD category compared to other major lenders. In contrast, NBFCs demonstrated the lowest PAR in this segment as of September 2024. Notably, the states of Bihar (BR), Tamil Nadu (TN), Uttar Pradesh (UP), and Odisha (OR) collectively accounted for 62% of the incremental Y-o-Y and Q-o-Q impact on delinquencies.

Moreover, the proportion of borrowers with three or more active lender associations exhibited a Q-o-Q reduction across various states as of September 2024. Correspondingly, the portfolio exposure of borrowers with three or more active lender associations also witnessed a quarterly decline. There was a 10.1% Y-o-Y reduction in the portfolio with credit exposure exceeding ₹1.5 lakh, accompanied by a 25.8% Y-o-Y and 17% Q-o-Q increase in incremental delinquency within this segment.

Analyzing the overlap between microfinance and retail loans, it was observed that 14.3% of active microfinance borrowers had an ongoing retail

loan as of September 2024. Among these borrowers, 37% were in the 30+ DPD category for either microfinance loans, retail loans, or both, underscoring a higher risk of delinquency. Overall, borrowers exposed to both microfinance and retail loans exhibited significantly higher delinquency rates than those with only microfinance loans.

SUGGESTIONS

It is essential to increase staff strength and provide specialized training to improve loan processing efficiency and customer engagement to enhance the effectiveness of microfinance institutions (MFIs). Localized Tier-3 MFIs should be supported with resources and capacity-building initiatives to expand their outreach in underserved regions. Investing in digital infrastructure can complement physical branch networks, enabling cost-effective service delivery.

Adopting AI-driven credit scoring and digital lending platforms can further streamline operations and enhance efficiency. Collaborative partnerships between Tier-1 and Tier-3 MFIs should be encouraged to share best practices and broaden market reach. Moreover, productivity metrics, such as loan disbursement per staff member, should be regularly analyzed to identify and for improvement. These measures will strengthen the microfinance ecosystem, ensuring greater financial inclusion and sustainable growth.

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