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Growth Dynamics of Microfinance Institutions in India

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Abstract: ***The mainstreaming of microfinance in India as a means of financial inclusion and poverty alleviation is a harmful and mostly unacknowledged obstacle to the complete financial inclusion of low-income and rural residents of India in the conventional banking system. We examine how microfinance institutions in India have grown over the last 10 years, as evidenced by changes in asset quality, loan disbursement, and savings mobilization. According to the study, which uses reference year data from NABARD reports, microfinance outreach is expanding rapidly. Savings have nearly doubled, and loan disbursements have climbed from ₹24.01 lakhs crore in 2013–14 to ₹145.20 lakhs crore in 2022–23, at a compound annual growth rate of more than 21%. Thanks to legislative support and digital innovation, the industry demonstrated resilience during COVID-19. The sector's maturity is further demonstrated by the decline in non-performing assets and the growing influence of Self Help Groups (SHGs). The findings further highlight the significance of MFIs for inclusive growth in the face of sustainability and regional inequality issues.***
Keywords: Microfinance, Self-help groups,

I. INTRODUCTION

One of the most effective strategies for advancing financial services among low-income and impoverished families in developing countries is microfinance, which India is leading the way in implementing. Due to a lack of collateral, unpredictable income and savings patterns, geographic separation, and socioeconomic marginalization, the vast majority of India's rural population has up to now been excluded from the official banking system. Due to this financial restriction, impoverished families were forced to turn to unofficial moneylenders, who typically charged exorbitant interest rates, which increased their debt load.

The idea of microfinance attempted to close this gap by offering low-income individuals—especially women—small-interest-free loans, savings accounts, and other financial services in an effort to help them earn money and raise their standard of living. The success of the Grameen Bank model in Bangladesh, which was developed by Dr. Muhammad Yunus, contributed to the rise in popularity of microfinance in India in the late 1970s and early 1980s.

In India, NABARD is arguably the organization that has done the most to institutionalize microfinance in India. In 1992, NABARD launched the Self-Help Group (SHG)–Bank Linkage Programme (SBLP), which served as the foundation for the microfinance revolution in India. A few women were encouraged to save money under this strategy, and they were able to obtain a bank loan without any collateral. In addition to making formal financial services more accessible, this initiative gave women more social and economic influence. Millions of SHGs have emerged in states like Andhra Pradesh, Tamil Nadu, and Karnataka as a result of the SHG model's rapid growth over time.

The Microfinance Institution (MFI) model, which emerged in the 1990s, was comparable to the Self-Help Group model. Microcredit was distributed directly to borrowers by NGOs and private organizations, either individually or through joint liability groups (JLGs). The Reserve Bank of India (RBI) controlled many MFIs, which ultimately changed their name to Non-Banking Financial Companies—Microfinance Institutions (NBFC-MFIs). Big MFIs led this market, including Bandhan, Spandana, Ujjivan, and SKS Microfinance (now Bharat Financial Inclusion). In 2015, Bandhan also became a universal bank, influencing the course of Indian MFI development.

In India, microfinance has experienced tremendous expansion as well as significant hardship. The early 2000s saw a significant increase in microfinance outreach, with southern states in particular becoming the core of microfinance activity. However, the business was rocked by a massive crisis in 2010, when claims of serial borrowing in Andhra Pradesh and bullying tactics used to recover loans drove borrowers to the verge of despair and even to death. It compelled the creation of a more robust regulatory structure and exposed MFIs to more scrutiny. Interest rate ceilings, openness, and customer safety.

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We are a step closer to re-regulating and restoring confidence in the long-harmed industry thanks to the RBI's subsequent implementation of the Malegam Committee Report's groundbreaking recommendations on interest rate ceilings, transparency, and customer safety. In recent years, India's microfinance sector has undergone significant change due to the digital revolution. Three public initiatives have improved financial inclusion and given MFIs new ways to provide services at a reasonable cost: PMJDY, Aadhaar-enabled payments, and the growth of mobile banking and UPI. Modern digital platforms have improved monitoring, expanded coverage, and sped up loan disbursement, especially in the hinterland.

A. Importance of MFIs in Financial Inclusion and Poverty Alleviation

In the Indian financial industry, microfinance institutions (MFIs) have played a crucial role, particularly in addressing the issues of financial exclusion and poverty. A sizable portion of Indians, particularly those living in rural and semi-urban areas, have long been excluded from formal banking because they were unable to provide collateral, had inconsistent sources of income, or resided in remote locations. MFIs bridge this gap by offering low-income households vital assistance in the form of small, uncollateralized loans, insurance, savings plans, and a variety of other financial services. They allow the impoverished to respond to emergencies, manage spending, and save and invest in sources of income without falling victim to predatory moneylenders.

The role that MFIs play in financial inclusion initiatives is an impressive achievement. MFIs have expanded access to lending and savings programs by focusing on areas that traditional banks overlook. Since women make up the majority of MFI borrowers and credit has given them more decision-making power at the home level, it has also resulted in economic and social empowerment. Furthermore, MFIs usually combine loans with capacity-building initiatives (such as entrepreneurship, financial literacy, and skill-building training) to encourage more productive credit utilization and, consequently, lower default rates.

Microfinance institutions (MFIs) serve as intermediaries for the impoverished and provide them with resources to improve their standard of living. With the assistance of small loans, rural households have been able to invest in microenterprises, petty trade, livestock, and agriculture, resulting in consistent revenues. Additionally, MFIs support collaborative lending arrangements that foster social harmony and shared accountability, such as SHGs and JLGs. In addition to reducing default risk, this communitarian structure strengthens communal relationships. Microfinance has undoubtedly contributed to lowering vulnerability, boosting resilience, and promoting inclusive growth, even though it may not be the only solution to eradicating poverty..

B. Rationale for Studying Growth Dynamics of MFIs

It is crucial to examine the growth dynamics of MFIs in India for several reasons. First, the business has changed dramatically over the last thirty years, going from little NGO interventions to a thriving sector run by the RBI. The changes that have occurred in outreach, loan volumes, regional distribution, and institutional structures are included in this trajectory; these changes necessitate a more thorough examination in order to fully understand the sector's recent history.

Second, growth trends reveal information about MFIs' scale and sustainability. Furthermore, the industry has seen over-indebtedness, repayment difficulties, and inefficiencies despite rapid outreach and loan provision expansion. For example, the 2010 Andhra Pradesh crisis highlighted the risks associated with aggressive lending and lax regulation. Analyzing growth dynamics makes it easier to identify the factors that are promoting sustainable growth and those that pose a threat to the stability of the industry.

Third, in order to assess regional differences in MF penetration, growth dynamics must be looked at. Even though southern states like Andhra Pradesh, Tamil Nadu, and Karnataka are at the forefront of microfinance activity, the north and east feel as though their efforts are being squandered. Policymakers must understand these differences in order to create policies that support equitable and balanced growth as well as nationwide access to microfinance services.

Fourth, a new stage of MFI growth has been made possible by the digital revolution. MFIs now have more opportunities than ever before to connect with customers and run their businesses effectively due to the rise of mobile banking, UPI, Aadhaar-based services, and collaborations with fintech firms. But it also carries with it new difficulties, including cybersecurity, digital literacy, and regulatory preparedness. It is possible to determine the extent to which technological innovation has influenced the sector's future course by examining growth dynamics in this setting.

Lastly, evaluating the social impact resulting from MFI expansion provides reason. We must measure the impact of MFI expansion on poverty alleviation, women's empowerment, and community development in addition to financial performance. This type of analysis provides a comprehensive understanding of the sector's contribution to India's inclusive growth goals.

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II. OBJECTIVES

1) To examine the historical evolution and current status of Microfinance Institutions (MFIs) in India.
2) To analyze the trends and growth patterns of MFIs in terms of outreach, loan disbursement, and regional distribution.

III. LITERATURE REVIEW

Yada Srnkianth and Dr. Kamatam Srinivas (2022) analyzed the performance and growth trends of MFIs in India (2016-2021). This study is of immediate importance as 70% of the population resides in rural areas and 60% depend on agriculture, and hence, microfinance is inevitable for financial inclusion in India. Their analysis shows that MFI-bank linkages have not only increased substantially, but the increase in bank loans taken has grown from 9.8% in 2019-20 to 257.6% in 2020-21. But the total bank loans to MFIs declined by 7.2% in 2016-17, while loan outstanding amounts kept rising by 13.7% and 14.3% in the next two years. The study found that the client and lender confidence in MFIs is enhancing, and financial indicators such as return on assets (2.4%) and on equity (13.31%) are also getting healthier. Yet, issues persist in keeping the focus on the rural and the problem of NPAs, which moved up from 0.15% to 0.69%.

Mrs. Sangeetha. G (2023) investigated the identification of MFIs in achieving financial inclusion and poverty alleviation for the marginalized population. The present article lists fourteen key challenges, such as restricted access to capital, the high cost of operations, regulatory issues, threats of over-indebtedness, and technological barriers. The authors also stressed the need for tech-driven solutions, including mobile banking and digital platforms, and for alternative models as peer-to-peer lending and crowdfunding.

This study also recommended fifteen strategic measures, such as increased capital cooperation, adoption of technology, supporting policy environment, and strong risk measures. The paper that recommends MFIs as a catalyst for financial inclusion and economic growth is critical, and stakeholders need an active partnership; MFIs need to continue innovating, and a conducive policy environment is important to ensure the sustainability of their impact.

Joao Paulo (2022) investigates whether microfinance really helps clients through a series of experiments by a bibliometric and systematic review of the literature with the use of bibliometric data from 524 articles indexed on Web of Science from 2012 until March 2021.

In this issue of the Journal, we cover socio-economic effects of microfinance, social performance vs mission drift, group lending vs social capital, poverty reduction through entrepreneurship, and financial innovations like crowdfunding, gender, as well as new thematic foci underpinning 5 main research clusters. Findings of the current study. This study's findings added mixed evidence by suggesting that despite its wider net effects, microfinance actually has positive and negative effects, as well as mixed effects on some outcomes.

M. Pitchaiah's (2024) work presented the present scenario of microfinance in India. It also focused on its significance as a key lead for poverty alleviation and financial inclusion, and the Self-Help Group–Bank Linkage Programme (SHG-BLP) as an important program. M.pitchaiah (2024) highlighted an over-static increase in SHG savings, credit disbursements, and outreach in the pre-test and post-test period.

The study also outlined the challenges, which include regional disparities, credit linkage gaps, and the issue of non-performing assets (NPA) that rose sharply during the pandemic but have increased in 2023. MFIs also posted solid expansion, and the NBFC-MFIs were the drivers, accounting for around 40% of the portfolio.

IV. RESEARCH METHODOLOGY

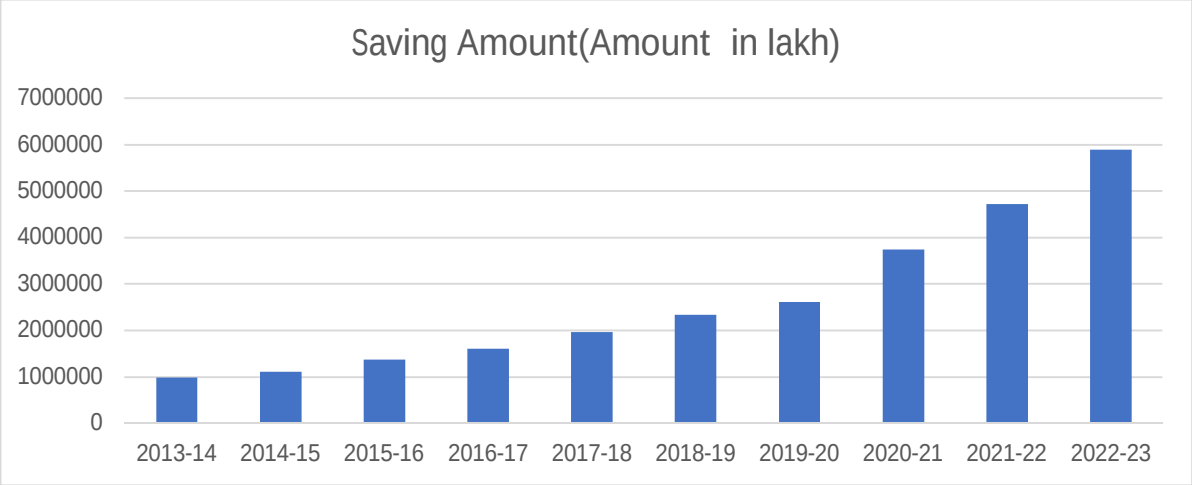
This research adopts a descriptive research design to understand the growth patterns of MFIs in India. You want to see trends, patterns, and what impacts the growth of the industry has experienced in the last 10 years. The study is a secondary research-based study, which draws upon various reports and publications of NABARD and facts from the relevant literature available on the subject, as well as documents of the Government and research findings. The analysis of the study utilizes trend analysis, growth rate percentages, and very simple statistical techniques to explain the changes in outreachpattern, loan expansion, and regional distribution. The results are described via plots and tables for visualization and comparison.

A. Trends in Microfinance Growth

Progress under Microfinance - Savings of SHGs with Banks Agency from 2013-14 to 2022-23

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Fig. 4.1.1



- Interpretation: Fig. 4.1.1 shows that there is a straight upward trend from 2007 to 2015. Microfinance shows an upward trend in savings for" decade 2005-2015 and reaching around 126 billion BDT in 2015. Between 2013—14 and 2017—18, savings increased from ₹9.89 lakh crore to ₹19.59 lakh crore, almost doubling in five years. This is an indication of the increasing penetration of the SHGs and MFIs, facilitated by the government and NABARD through its interventions. Between 2018–19 and 2019–20, savings grew from the level of ₹23.32 lakh crore to the level of ₹26.15 lakh crore, indicating robust, albeit moderate, growth. There is a significant spike in 2020–21, savings rose steeply to Rs 37.47 lakh crore, representing behavioural change on account of the COVID-19 pandemic. Households held more back in savings, and digital microfinance efforts provided access to finance even in emergency circumstances. This trend was projected to rise, with the savings to have gone up to ₹58.89 lakh crore in 2022–23, or nearly six times that in 2013–14.

B. Progress under Microfinance - Bank Loans disbursed to SHGs from 2013-14 to 2022-23

Fig. 4.2..2

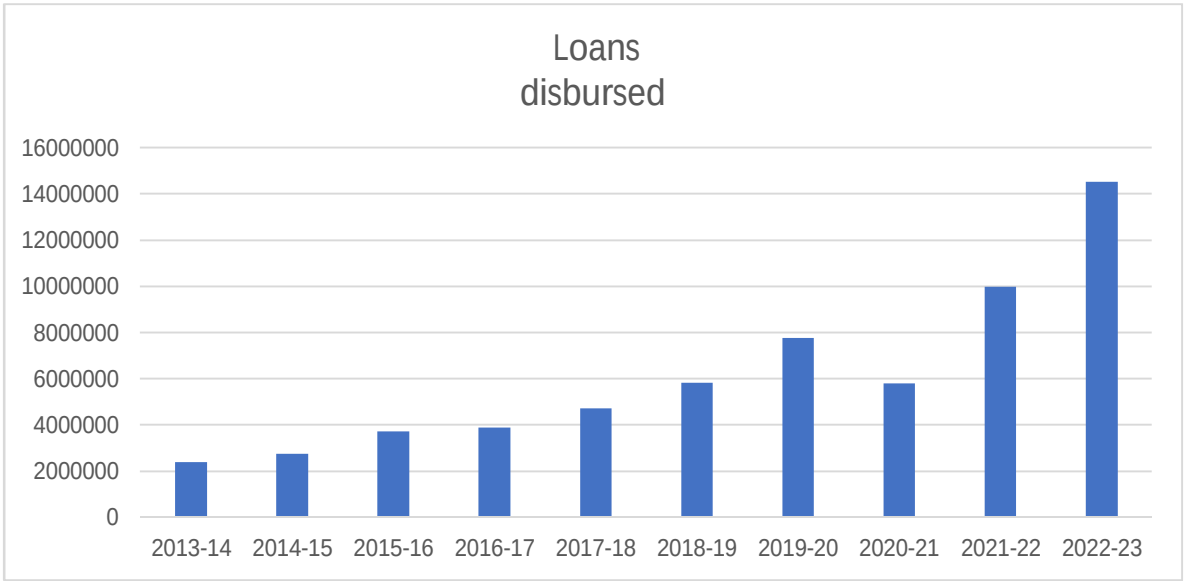


Fig 4.2.2 shows that loans disbursed rose by nearly five-and-a-half times over the decade (from ₹24.01 lakh crore in 2013-14 to ₹145.20 lakh crore in 2022-23). While there is a short-term perturbation, the overall picture points to a quick recovery, resilience, and deepening outreach of the microfinance sector in India. Loan disbursements almost doubled in five years — from ₹24.01 lakh crore in 2013–14 to ₹47.18 lakh crore in 2017–18. This represents the increased penetration of Self-Help Groups (SHGs), Microfinance Institutions (MFIs), and government-sponsored programmes such as the NABARD's SHG–Bank Linkage

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Programme. Disbursements of loans surged from ₹58.31 lakh crore in 2018–19 to ₹77.65 lakh crore in 2019–20. This surge reflects the growing need for microcredit and an increase in the share of NBFC-MFIs, which accounted for a majority of the loan portfolio of the sector. And there is a dip in 2020–21, as loan disbursements drop to ₹58.07 lakh crore. The negative effects of the outbreak on economic activity, repayment capacity, and expanding credit have limited prospects of being temporarily offset. Post-pandemic, the sector saw a remarkable recovery, as loans disbursed shot up to ₹99.73 lakh crore in 2021–22 and further to a historic ₹145.20 lakh crore in 2022–23. This soared by more than double in only two years, demonstrating pent-up demand, government stimulus programs, and MFI accelerated digital adoption.

C. Progress under Microfinance - Non-Performing Assets of Banks against SHGs Loans Outstanding from 2013-14 to 2022-23

Fig. 4.3.3

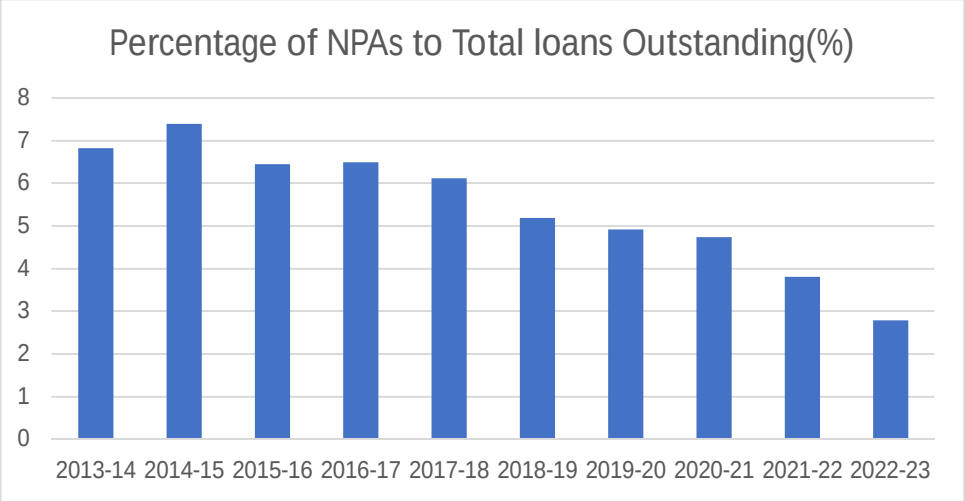
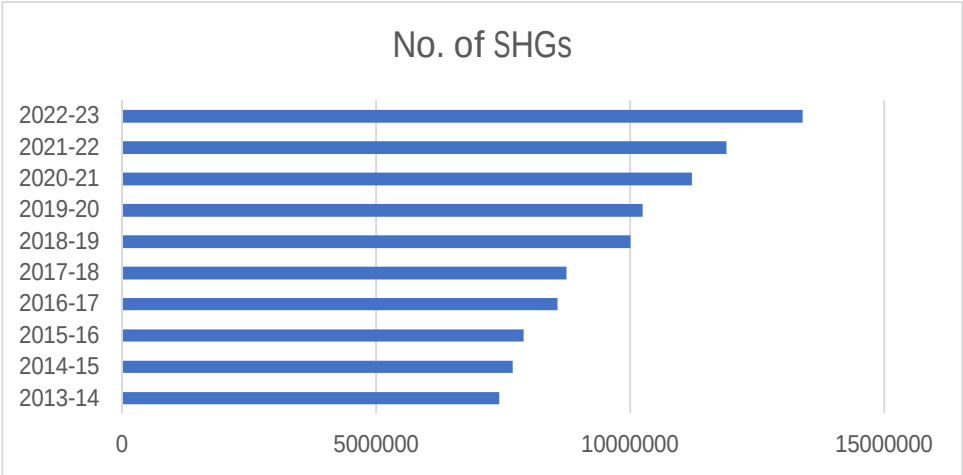


Fig. 4.3.3 shows that there is a significant downward trend in NPA ratios - from 6.83% in 2013-14 to 2.79% in 2022-23, a reduction of over 4 percentage points. It's a much better quality of assets. There is, however, an initial trend of oscillation: after increasing to a peak of 7.4% of GDP in 2014-15, they have declined to 6.45% of GDP by 2015-16. This is perhaps indicative of the fallout of the subprime and global financial crises and the uncertain economic climate surrounding loan recovery. NPAs stayed relatively flat at about 6-6.5%, which indicated that the banking system was now “digesting” old stressed assets while the formation of new NPAs was under control. The data speaks to a more solid and sophisticated banking sector with greater credit discipline. The projected NPA ratio of 2.79 per cent in 2022-23 indicates that the banking system has moved into relatively healthy asset quality SOI, the continuously monitorable for sustainable financial stability

D. Number of Self-help groups (SHGs) from 2013-14 to 2022-23

Fig. 4.4.1



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Data presented in Fig. 4.4.1 indicates an uninterrupted and significant increase in the number of SHGs from 7.43 million during 2013-14 to 13.40 million by 2022- 23. This is an 80% increase over ten years, indicating the strong growth of the microfinance sector. The lifetime of the sector has seen steady, though modest, growth; about 1.1 million SHGs reportedly have been brought in over the last four years, with annual growth rates ranging from 3.6%-8.6%. There was a significant acceleration in the trend between 2017-18 and 2018-19, notching the highest single-year jump of roughly 1.27 million SHGs (14.5% growth). It would indicate a period of policy interventions or a specific push on financial inclusion during this phase. Post-2019, the pace of growth has continued robustly, with 3 million more SHGs added in just four years, despite difficulties like COVID-19.

E. Analysis of savings and loans Growth in the microfinance industry from 2013-14 to 2022-23

Table 4.5.1

	Mean	S.D	Compound Annual Growth Rate
Savings	₹26,34,422.89 lakh	₹16,47,763.24 lakh	21.92%
Loans	₹61,38,307.16 lakh	₹37,43,550.08 lakh	22.13%

Table 4.5.1 shows the average during these 10 years to be around ₹26.34 lakh crore with very high dispersion (a large standard deviation) resulting from last year's witnessing a steep incline (from 2020–21 forward). This indicates that the savings mobilised through the MFIs and SHGs have increased at a phenomenal and sustained annual rate, portraying the growth of financial inclusion in the country in the last decade. Typically, loans that were disbursed in the last decade comprised an average of ₹61.38 lakh crore. The high value of its SD reflects high variability, especially from a dip in 2020–21 (COVID-19) and a sharp increase thereafter. A substantial annualized growth of 22.13% is very impressive for the second-largest micro finance market in the world, in India, which highlights the remarkable growth and recovery of the Indian micro finance industry.

V. CONCLUSION

The MFI sector in India has seen a tremendous expansion over the last ten years, with the size of savings mobilisation increasing almost six times from ₹9.89 lakh crore to ₹58.89 lakh crore at an impressive compound annual growth rate (CAGR) of 21.92%. The sector's resilience was evident in the COVID-19 period, when savings grew strongly in 2020-21 with a dramatic rise in precautionary behaviour, as well as the successful digital financial inclusion programs. Amid double-digit growth in both savings and loans at the industry level, this evidence underlines the importance of the microfinance industry for India's financial inclusion mandate and its ability to reinvent itself during economic downturns. The loan disbursement data of the microfinance sector reflects the phenomenal pace and resilience as they have grown over six times from ₹24.01 lakh crore in 2013-14 to ₹145.20 lakh crore in 2022-23, recording a CAGR of 22.13%. This journey is a testament to the critical role played by the microfinance sector within India's financial world – it has always been the sector leading the credit bandwagon for the underserved masses, and has been growing efficiently amidst the tsunami of economic disruptions unheard of in the history of the nation. The micro finance space shows a marked improvement in asset quality, and the NPA ratio has come down from 6.83 per cent in 2013-14 to 2.79 per cent in 2022-23, or a reduction of over four percentage points. With the NPA ratio reaching 2.79% by 2022-23, it shows how the banking system has evolved to a mature one, and the asset quality is in healthy shape, and that policy interventions vis-à-vis the lending practices in the industry have had an impact.

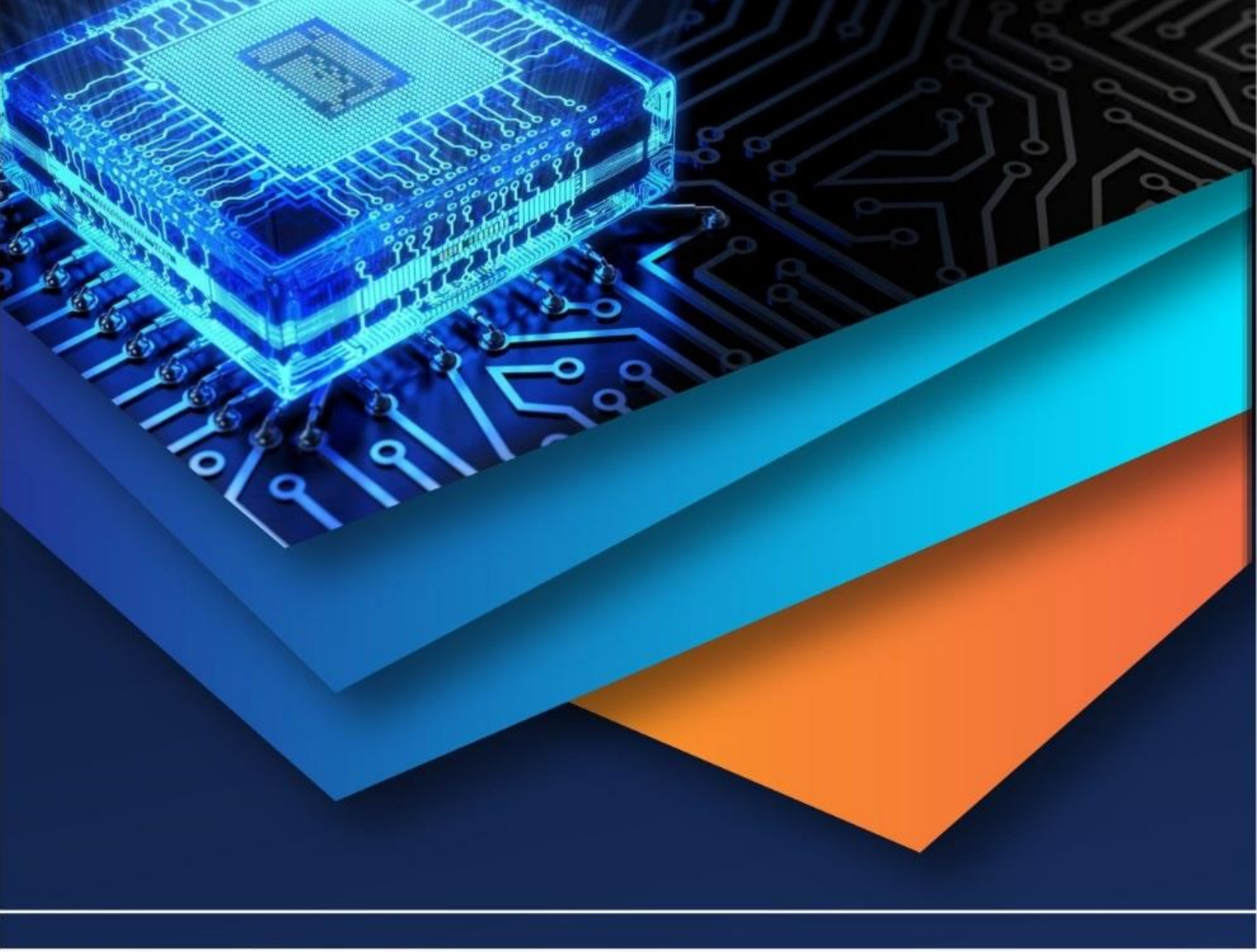
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