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Microfinance and financial inclusion in India: An empirical analysis of credit outreach, borrower growth and economic empowerment

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Abstract
This study presents an empirical analysis of microfinance and financial inclusion in India from FY 2012 to FY 2025. Using secondary data from Sa-Dhan Bharat Microfinance Report FY 2024-25, NABARD Status of Microfinance 2024-25, Reserve Bank of India (RBI) Financial Inclusion Index, and MFIN Micrometer, the paper examines three dimensions: credit outreach, borrower growth, and economic empowerment.
Findings reveal exponential credit outreach from Rs. 17,000 crores in 2012 to Rs. 3,81,225 crores in FY 2024-25 serving 8.28 crore clients through 13.99 crore loan accounts, registering 2176% growth. Borrower growth analysis shows a structural shift with 80% of NBFC-MFI portfolio originating from rural areas in FY25, the highest since 2011, compared to 55% in 2019, with superior asset quality in rural (11.5% PAR >180 days) versus urban (14.9%).
Economic empowerment is evidenced by 2.03% GDP contribution, 1.3 crore jobs creation, and 91% of loans used for income generation. The JAM Trinity (50+ crore Jan Dhan accounts, 140 crore Aadhaar, 120 crore mobile connections) and UPI (180 billion transactions worth Rs. 260 lakh crores in FY25) accelerated inclusion, elevating RBI FI-Index from 60.1 in 2021 to 67.0 in March 2025. However, over-leveraging led to a 13-14% correction in clients in FY25 following Sa-Dhan guardrails.

Keywords: Microfinance, financial inclusion, credit outreach, SHG-Bank Linkage, NBFC-MFI, JAM Trinity, Financial Inclusion Index, economic empowerment

Introduction
Microfinance is defined as the provision of collateral-free small ticket loans ranging from Rs. 10,000 to Rs. 1,00,000 to low-income households, predominantly women (99% of clients), who are excluded from formal banking. Financial inclusion is the process of ensuring access to appropriate financial products and services at affordable cost.
In India, microfinance has two distinct models: (i) SHG-Bank Linkage Programme (SBLP) pioneered by NABARD in 1992, world's largest microfinance programme, and (ii) NBFC-MFI Model - Joint Liability Group based doorstep delivery by NBFC-MFIs, Banks, Small Finance Banks.
As of March 2025, microfinance covers 8.28 crore borrowers, 17.1 crore households through SHGs, operating through 37,380 branches with
3.29akh employees.

Literature Review
Yunus (2003) demonstrated that group lending mitigates adverse selection through peer pressure. NABARD (2025) reports SHG-Bank linkage outstanding at Rs. 3.04 lakh crore covering 84.94 lakh SHGs.
RBI (2022) defines household income ceiling at Rs. 3 lakh and payment obligation at 50% of income. Sa-Dhan (2025) [1] indicates total outstanding at Rs. 3.81 lakh crore, decline of 6.2% due to guardrails.
MFIN (2025) [3] shows rural portfolio share rising to 80% for NBFC-MFIs, highest
since 2011. Avendus Capital (2025) [17] projects sector to reach Rs. 10 trillion by 2030 at 15% CAGR.

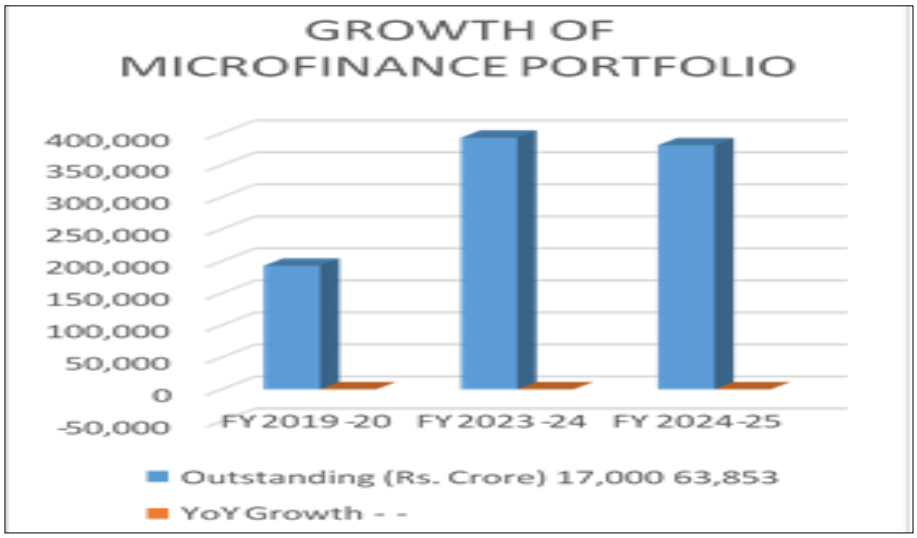
Objectives of The Study
1. To analyze credit outreach of microfinance in India from FY 2012 to FY 2025.
2. To examine borrower growth trends and rural-urban composition.
3. To evaluate economic empowerment through income generation, employment and GDP contribution.
4. To assess role of JAM Trinity and UPI in accelerating financial inclusion.

Research Methodology
Research Design: Descriptive and empirical based on secondary data.
Data Sources: Sa-Dhan FY25, NABARD 2024-25, RBI FI-Index 2025, [1, 2] MFIN Q4 FY25.
Period of Study: FY 2012-13 to FY 2024-25 (13 years)
Tools: CAGR, percentage analysis, trend analysis.

Data Analysis and Interpretation
1. Credit Outreach - Empirical Evidence

Table 1: Growth of Microfinance portfolio

year	Outstanding (Rs. Crore)	YoY Growth
FY 2011-12	17,000	-
FY 2015-16	63,853	-
FY 2019-20	1,93,000	35%
FY 2023-24	3,93,000	12.9%
FY 2024-25	3,81,225	-6.2%



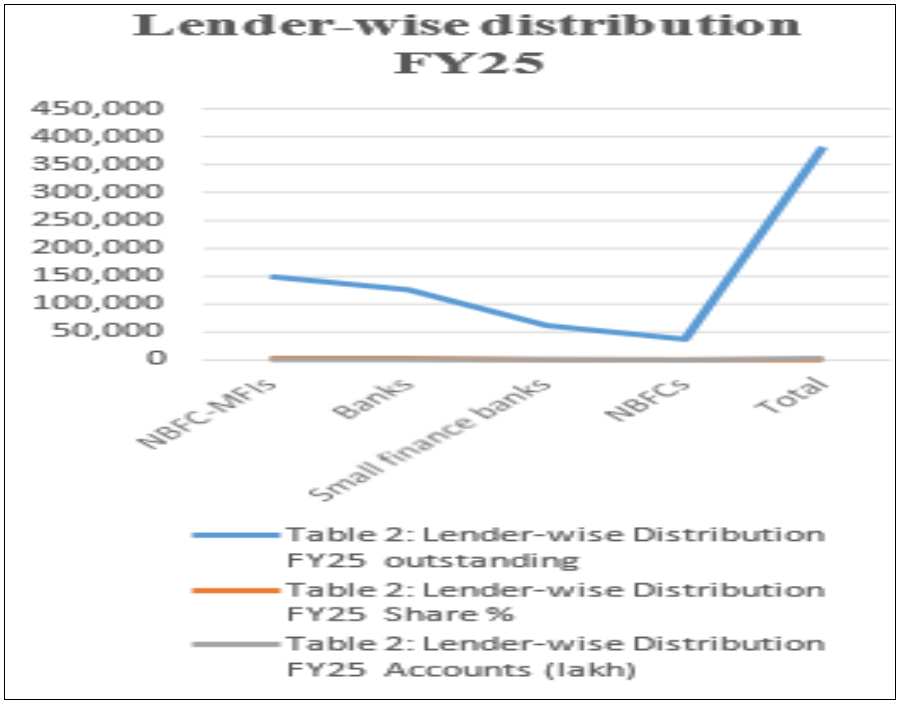
The microfinance portfolio increased from ₹17,000 crore in FY 2011–12 to ₹3,93,000 crore in FY 2023–24, showing significant growth. However, in FY 2024–25, it declined to ₹3,81,225 crore due to a slowdown in lending and repayment challenges. Overall, the sector has grown considerably, but recent trends highlight the need for responsible lending and better credit management.

Correction due to guardrails. CAGR 2012-25 = 26.8%. Growth = 2176%.

Table 2: Lender-wise Distribution FY25

Lender category	outstand ing	Share %	Accounts (lakh)
NBFC-MFIs	1,48,419	38.9%	539
Banks	1,24,431	32.6%	466
Small finance banks	59,817	15.7%	216
NBFCs	35,119	9.2%	124
Total	3,81,225	100%	1399

Source: Sa-Dhan 2025. [1]



The table shows that NBFC-MFIs hold the largest share of India's microfinance portfolio at 38.9%, followed by banks at 32.6%. Small Finance Banks contribute 15.7%, while NBFCs account for 9.2%. The total outstanding portfolio is ₹3,81,225 crore across 1,399 lakh accounts. Overall, NBFC-MFIs play the leading role in providing microfinance loan.

2. Borrower Growth and Rural Shift

Borrower base expanded from 2.8 crore in 2012 to 8.28 crore in FY25, with accounts at 13.99 crore indicating 1.7 loans per borrower. FY25 witnessed 13% decline: 9.54 crore (FY24) to 8.28 crore (FY25) due to Sa-Dhan Guardrails - maximum 2 lenders per borrower.

Most significant finding is rural shift
FY 2011: 69% rural
FY 2019: 55% rural
FY 2023: 72% rural
FY 2025: 80% rural - Highest since 2011

Asset quality better in rural: PAR >180 days - Rural 11.5% vs Urban 14.9%.

Top concentration: Bihar, Tamil Nadu, UP, West Bengal, Karnataka contribute 60%.

SHG Data: 143.3 lakh SHGs savings linked covering 17.1 crore households, 84.94 lakh SHGs credit linked.

3. Economic Empowerment

a. Income Generation: 91% loans used for income generating activities - agriculture allied (35%), trading (25%), livestock (15%).

b. Employment: 3.29 lakh direct employees, 1.3 crore indirect jobs. Each loan creates average 1.5 jobs.

c. GDP Contribution: 2.03% to GDP. Portfolio to GDP ratio from 0.2% in 2012 to 1.1% in 2025.

Case Study: Lijjat Papad - started with 7 women and Rs. 80 loan in 1959, now Rs. 1,600 crore turnover, 45,000 women. Kudumbashree Kerala: 45 lakh women.
Women Empowerment: 99% clients are women.

4. Role of JAM Trinity and Digital Inclusion
Jan Dhan: 50.1 crore accounts, Rs. 2.34 lakh crore balance. During COVID, Rs. 31,000 crores transferred directly via DBT.

Aadhaar: 138.5 crore Aadhaar generated, e-KYC cost reduced from Rs. 150 to Rs. 3.

Mobile & UPI: 115 crore mobile connections. UPI recorded 180.56 billion transactions worth Rs. 260.45 lakh crore in FY25.

RBI Financial Inclusion Index: Access 73.6, Usage 66.2, Quality 76.1. Composite improved from 56.4 (2022) to 67.0 (2025).

Challenges

1. **Over-leveraging:** Average debt per borrower Rs. 28,000 (2019) to Rs. 46,000 (2024).
2. **High Interest Rates:** NBFC-MFIs charge 24% vs Banks 11-12%.
3. **Asset Quality Stress:** PAR 30+ at 14.2%, Listed MFIs booked Rs. 25 billion net loss in FY25.
4. **Climate Risk:** 40% portfolio in agriculture-allied.
5. **Regulatory Arbitrage:** Multiple lenders earlier.

Findings

1. Credit outreach grew 2176% from FY12 to FY25, CAGR 26.8%, but corrected -6.2% in FY25.
2. Borrower base at 8.28 crore, accounts 13.99 crore, indicating 1.7 loans per borrower.
3. Rural shift is structural - 80% rural portfolio in FY25 with better repayment discipline.
4. Economic empowerment evident - 2.03% GDP contribution, 1.3 crore jobs, 91% income generation usage.
5. JAM + UPI accelerated inclusion - FI-Index 67.0 in 2025.Challenges of over-leveraging led to healthy correction.

Suggestions
Strict Implementation of Guardrails: One borrower - max 2 MFIs, FOIR not more than 50%, verified through unified credit bureau.Link SHGs with Digital: All SHGs to be linked with UPI, provide smartphone subsidy and digital literacy training.Reduce Interest through Guarantee: Expand CGFMU coverage from 75% to 90% for rural borrowers.Climate Insurance Bundle: Mandatory weather insurance bundled with agricultural micro-loans.Financial Literacy: Quarterly financial literacy camps by MFIs, mandatory before first loan.

Conclusion
The empirical analysis confirms that microfinance has transformed from a niche credit product to a mainstream financial inclusion tool serving 8.28 crore borrowers and 17.1 crore SHG households. Credit outreach of Rs. 3.81 lakh crore, borrower growth with 80% rural share, and economic empowerment through 2.03% GDP contribution demonstrate its significance.
The JAM Trinity and UPI have provided digital public infrastructure that made low-cost inclusion possible, reflected in FI-Index improvement to 67.0. Future growth to Rs. 10 trillion by 2030 at 15% CAGR is feasible only with strict adherence to guardrails, digital integration of SHGs, and bundled insurance.
As NABARD Chairman stated, "MFIs are cornerstone of socio-economic transformation". Microfinance is not just credit, but a livelihood tool, and JAM + UPI + SHG is India's unique model of financial inclusion for Bharat.

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