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Performance Highlights of the Microfinance Sector in India

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ABSTRACT

Microfinance plays a significant role in promoting financial inclusion, poverty alleviation, and entrepreneurship by providing financial services to underserved communities. This study examines the performance of the microfinance sector in India in 2025, focusing on client outreach, outstanding loan portfolios, average loan size, income-generating activities, self-help group (SHG) financing, and annual industry growth. Based on secondary data, the study adopts a descriptive research design to assess the sector's performance and emerging trends. The findings highlight the sector's contribution to financial accessibility and livelihood development while identifying repayment challenges and the need for sustainable growth.

Keywords: Microfinance, Client Outreach, SHG, Performance, India

INTRODUCTION

In developing countries, microfinance has grown in leaps and bounds and has evolved beyond the traditional microcredit to provide a wide array of small-scale but powerful financial products and services. The services are specifically tailored to the different requirements, preferences and budgets of the low-income groups commonly referred as the "bottom of the pyramid. Microfinance has emerged as tool for alleviating poverty and financial inclusion by unlocking admittance to financial resources. Microfinance is very simple in concept but has proven to be a transformative social and economic innovation, and is the most important innovation in development finance.

According to Otero (2000), microfinance refers to delivery of financial services to low-income, poor, and very poor self-employed individuals. It plays important role in promotion of entrepreneurship as it also provides financial support to the small entrepreneurs who are deprived of formal banking facilities. Microfinance plays a role in the development and viability of microenterprises, and in the promotion of the good business practice among small and medium-sized enterprises (SMEs). Formal micro-finance institutions have been established in last few years, but provision of small-scale financial support has been around for many generations in an informal way.

Microfinance can play an important role in improving access to financial resources and supporting the economic activities of disadvantaged groups (Armendáriz & Morduch, 2010). The present study is significant as it examines the adequacy of microfinance products and services, their contribution to the sustainability of women-owned enterprises, the difficulties encountered in accessing finance, and the role of FinTech-driven microfinance in the NCR region. It aims to generate insights that may help financial institutions and policymakers develop inclusive financial solutions and strengthen women's entrepreneurial sustainability.

Microfinance has significant role in economic development in India, helping in financial inclusion of poor and un-served population mainly the rural areas. It can be a valuable instrument to reduce poverty by improving the incomes of economically vulnerable households and communities, strengthening their assets, and providing them with greater economic stability. The main goal of microfinance is to make credit available to small entrepreneurs and microenterprises at an affordable price. Microfinance institutions provide vital financial services, including savings accounts and insurance, and provide credit facilities for inclusive and sustainable economic growth.

MICROFINANCING IN INDIA

Microfinance has become a key driver of India's socio-economic development by promoting financial inclusion and empowering women, small and marginal farmers, artisans, and other economically vulnerable groups. Through mechanisms such as SHGs and Joint Liability Groups (JLGs), millions of people have gained access to affordable, timely, and collateral-free credit. This access has enabled them to address essential needs, including healthcare and education, while supporting income-generating activities, sustainable livelihoods, and the growth of small enterprises.

India's microfinance sector primarily operates through two models: the Self-Help Group (SHG)–Bank Linkage Programme, introduced by NABARD in 1992, and Microfinance Institution (MFI)-led Joint Liability Group (JLG) model. Over time, both approaches have expanded significantly and developed into a nationwide movement, serving as effective mechanisms for extending financial services to low-income and financially excluded populations.

In the initial stage of the financial inclusion movement in India, the focus was on how to offer credit to the financially excluded population in rural and semi-rural areas, with a strong emphasis on MFIs and SHGs. This grassroots, bottom-up approach set the groundwork for the country's financial inclusion initiatives, with the process starting in rural areas and then moving to the semi-urban and finally to urban areas, albeit to a lesser extent.

By combining conventional credit bureau information with alternative data sources such as digital footprints, transaction histories, and mobile usage patterns FinTechs are able to assess creditworthiness more effectively and provide financial services to borrowers who were previously excluded from or discouraged by the complexities of the traditional lending system.

OBJECTIVE OF THE STUDY

- To examine the performance of the microfinance sector in India in 2025 in terms of client outreach, loan portfolio, credit disbursement, self-help group (SHG) financing, and annual growth trends.

RESEARCH DESIGN & DATA COLLECTION METHOD

The study adopts exploratory research design based on secondary data to examine the performance and growth of the microfinance sector in India. Data have been collected from published reports, industry publications, institutional websites, and available statistics relating to microfinance institutions (MFIs), self-help groups (SHGs), loan portfolios, and annual assets under management (AUM). The analysis uses descriptive interpretation and year-wise comparisons to identify key performance trends, financial outreach, and emerging challenges in the sector, particularly with reference to the year 2025.

ANALYSIS

The lending landscape in India has undergone a transformation, thanks to technology, regulatory changes and the access to reliable data sources. Meanwhile, there have been significant changes in public perceptions of borrowing. In the past, borrowing was considered as a last resort for emergencies and to start-up large businesses; these days, it is seen as a practical financial tool for both personal and professional goals. Similarly, small enterprises that used to get financing primarily from their own capital are now turning to formal financing to meet working capital needs and develop their businesses.

Table 1: Performance Highlights: A Snapshot of microfinance Sector in 2025

S. No.	Indicators: MLI Model	Year (2025)
1	Client Outreach (in Lakh)	627
2	Share of Rural Clients	80%
3	Gross Outstanding Loan Portfolio (in Rs. Cr)	2,38,198
4	Own Portfolio (in Rs. Cr)	1,65,268
5	Off-balance sheet Portfolio (in Rs. Cr)	72,930
6	BC Portfolio (in Rs. Cr)	53,287
7	Avg. Loan per Borrower (Rs.)	38,005
8	Income Generation Loans	91%
9	Women Employees in MFIs	9%
10	Avg. ABCO	299
11	Avg. Operating Cost (OC)	7.09%
12	Av. Finance Cost (FC)	11.50%
13	Avg. Yield	19.18%
14	Avg. Margin	7.99%
15	Avg. OSS	104%

S. No.	Indicators: MLI Model	Year (2025)
16	Avg. ROA	-1.71%
17	Avg. ROE	0.32%
18	Avg. CAR	32.94%
19	Avg. Leverage	2.3
20	Fund Flow (Outstanding) - (in Rs. Cr)	85,877
21	Equity Outstanding - (in Rs. Cr)	37,030
22	Av. NPA (including 179 plus dpd)	4.83%
23	Total No of SHGs Linked (in Lakh)	143.30
24	No. of Families Reached (in million)	171
25	Total Savings of SHGs with banking system (in Rs. Cr)	71,433
26	Total No. of SHGs (in lakh) Credit Linked during FY	55.57
27	Gross Loan Outstanding from banks to SHGs (in Rs. Cr)	3,04,259
28	Total bank Loan Amount Disbursed to SHGs (in Rs. Cr)	2,08,283
29	Avg. Loan Disbursed per SHG (Rs.)	3,75,000
30	Avg. Loan Outstanding per SHG (Rs.)	3,58,000
31	NPA	1.74%

Source: Sa-Dhan. (2025). The Bharat Microfinance Report 2025. Supported by NABARD. <https://www.sa-dhan.net/>

The above table shows that number of clients reach to 62.7 million in 2025 and 80 per cent clients belongs to rural area. The Gross outstanding loan portfolio has reach to Rs. 2.38198 trillion in India shows financial strength in microfinance sector.

The average size of loan of Rs. 38,005 considered that microfinance emphasize on small credit requirement in India, the data also shows 91% of loans helps in income generating activities, 9% of women constitute the MFI workforce which needs to improve in coming years. The data also shows 19.18% individuals earns average yield considered good return from the portfolio. An average of 4.83% NPA shows the some repayment challenge but taking by some measures it can be improve. A big number of 143.30 lakh SHGs are linked with banks shows development of SHGs for welfare of society. The data shows that microfinance sector demonstrate 171 million families, 55.57 lakh SHGs received bank credit which emphasized on increase in formal financial access in society. The data also shows that adequate financial support has been provided for economic activities as average loan disbursed per SHG was Rs. 3.75 lakh.

Table 2: Microfinance Industry AUM & Growth Rate

Year	Industry AUM (In cr.)	Industry AUM Growth Rate
2020	238,479	21%
2021	265,646	10%
2022	289,845	8%
2023	351,521	18%
2024	415,234	15%
2025	375,122	-11%

Source: Sa-Dhan. (2025). The Bharat Microfinance Report 2025. Supported by NABARD. <https://www.sa-dhan.net/>

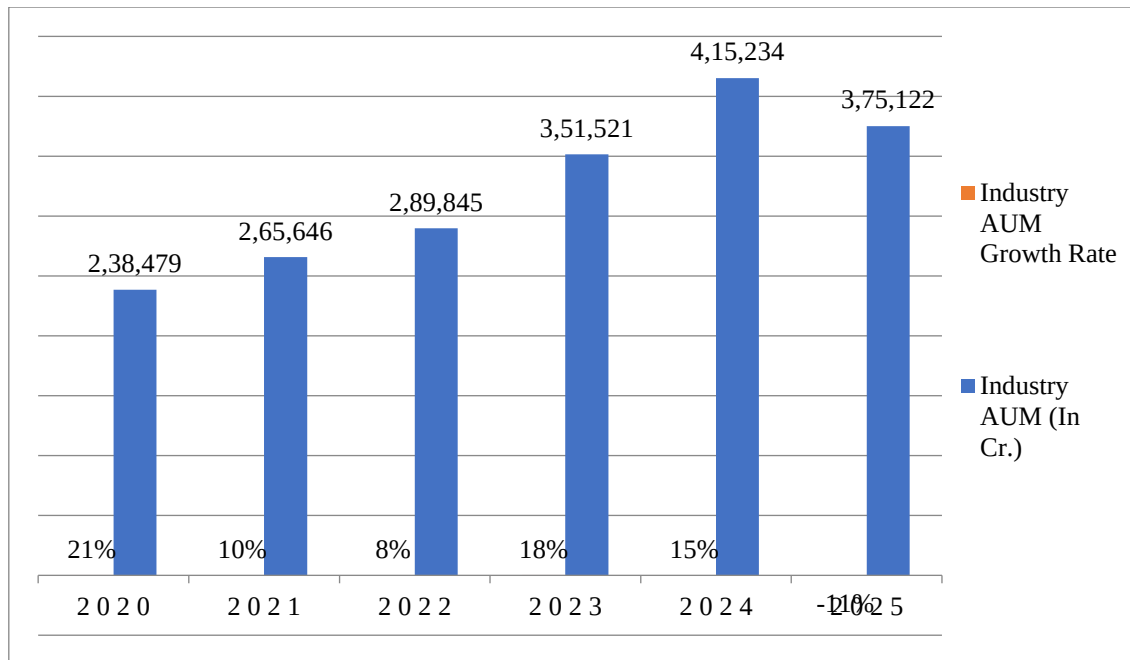


Figure 1: Microfinance Industry AUM & Growth Rate

The above figure shows 21% growth of microfinance industry AUM in year 2020 with Rs. 238,479 (Cr.) industry AUM. In year 2021 industry AUM is increase to Rs. 265,646 (Cr.) with 10% growth. The next year shows 8% growth rate whereas in the year 2023 there is remarkable growth of 23% with Rs. 351,521 (Cr.) as industry AUM. The year 2024 also shows a great growth tare of 15% whereas the year 2025 shows some decline in the growth rate i.e. 11% as industry AUM has decreased from Rs. 415,234 (Cr.) to Rs. 375,122 (Cr.).

CONCLUSION

The study highlights the important contribution of India's microfinance sector to financial inclusion, entrepreneurship, and income-generating activities in 2025. Its extensive client base, substantial outstanding loan portfolio, and wide network of self-help groups demonstrate its role in extending formal financial services to underserved communities, particularly in rural areas. However, the decline in annual AUM growth from 2024 to 2025 and the reported level of non-performing assets indicate challenges related to portfolio quality and financial sustainability. Strengthening repayment mechanisms, improving responsible lending practices, and expanding affordable financial services can support the sector's long-term growth and social impact.

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