



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A Review Of Microfinance In India In 2023-24: Trends, Challenges And Policy Implications.

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Abstract:

Microfinance has emerged as a crucial tool for financial inclusion, providing credit and banking services to the underserved population in India. This research study reviews the Indian microfinance sector during 2023-24, analysing key trends, challenges, and policy implications. The research study highlights the expansion of the Self-Help Group Bank Linkage Programme (SHG-BLP), which now covers 144.22 lakh SHGs and 17.75 crore families, with a 44% increase in loan disbursement. However, regional disparities persist, with saturation in southern states and rapid growth in the North-Eastern and Central Regions.

The research study also examines the role of commercial banks, RRBs, and cooperative banks in SHG financing, noting that commercial banks account for the largest share (68%) of loan disbursement. Additionally, the decline in NPAs from 2.79% to 2.05% indicates improved repayment discipline. The integration of fintech and AI-driven lending has enhanced accessibility, yet challenges such as high interest rates, over-indebtedness, and financial literacy gaps remain.

The findings suggest that policymakers should focus on regional balance, borrower protection, and digital financial education to ensure the sustainable growth of microfinance in India. This study provides valuable insights for financial institutions, regulators, and policymakers to strengthen microfinance's role in poverty alleviation and economic development.

Keywords:

Microfinance, Self-help groups (SHG's), Financial Inclusion

Introduction:

Microfinance has emerged as the most suitable and practical alternative to conventional banking in reaching the hitherto unreached poor population. Microcredit enables poor people to be thrifty and helps them avail of credit and other financial services for improving their income and living standards. The Self-help Group (SHG) bank linkage program was formally launched in the year 1992 as a flagship program by NABARD and aptly supported by the RBI through policy support. The program envisages the organization

of the rural poor into SHGs to build their capacities to manage their finances and then negotiate bank credit on commercial terms.

This research study includes all analytical information on various aspects of the microfinance landscape in India and its emerging trends, challenges, and policy implications.

Statement of the Problem

A Review of Microfinance in India in 2023-24: Trends, Challenges and Policy Implications.

Aim And Objective

Primary objective:

To review the microfinance sector in India in 2023-24, analyzing Trends, challenges, and policy recommendations.

Specific objective:

1. To examine the growth and performance of microfinance institutions (MFIs) in 2022-23
2. To analyze the impact of government policies and regulatory changes on the sector.
3. To identify key challenges faced by MFIs and borrowers.
4. To provide policy recommendations to enhance financial inclusion.

Significance of study:

Microfinance plays an important role in economic development by enabling financial access to underserved communities. This research study plays very significant role because It provides insight into the recent development in the microfinance industry in India.

This study will also provide recommendations to improve the effectiveness of microfinance in India which also helps policymakers to understand the challenges faced by microfinance institutions and borrowers.

Scope Of the Study:

This research paper provides an in-depth analysis of the microfinance sector in India during the financial year 2023-24, focusing on its trends, challenges, and policy implications. The study examines the expansion of microfinance institutions (MFIs), loan disbursements, borrower demographics, and regional distribution of microfinance services. This study also explores key regulatory developments, including RBI guidelines and government initiatives promoting financial inclusion. The paper highlights major challenges such as credit risk, over-indebtedness, high interest rates, and operational inefficiencies.

Additionally, the study assesses the role of digital transformation in microfinance, including the adoption of fintech, AI-driven credit assessment, and mobile-based lending. The socio-economic impact of microfinance on women's empowerment, rural entrepreneurship, and poverty alleviation is also evaluated. Finally, the paper examines financial sustainability, repayment trends, and risk management strategies employed by MFIs, offering insights into the prospects of the sector.

Limitation Of Study:

- 1 The study focuses only on the years 2023-24, which may not show long-term trends in microfinance.
- 2 Some data from microfinance institutions (MFIs) and government reports may be incomplete or not updated.
- 3 rules and regulations of the Government change frequently, so this study may not cover updates after 2022-23.
- 4 The study mainly covers registered MFIs and banks, not informal money lenders.

Literature Review:

According to NABARD (2023), the SHG-Bank Linkage Programme (SHG-BLP) has continued to expand, with a 44% increase in credit disbursement in 2023-24. Similarly, research by Sinha & Patel (2022) highlights that digital transformation, including mobile banking and fintech integration, has significantly improved access to credit in rural and semi-urban regions.

A study by Chakraborty (2021) found that multiple borrowing and borrowers' lack of financial literacy lead to increased default rates. Moreover, regulatory changes introduced by the Reserve Bank of India in 2022 aimed at capping interest rates and improving borrower protection have had mixed effects, as some MFIs struggle to maintain operational sustainability (RBI, 2022).

Mukherjee (2023) emphasizes that recent policies, such as revising priority sector lending guidelines, have encouraged commercial banks to increase microfinance lending. Additionally, Verma & Sharma's (2023) research suggests that financial literacy programs and targeted policy interventions could help reduce credit risk and improve repayment behavior among borrowers.

Hypothesis:

H₀ (Null Hypothesis): Microfinance trends, challenges, and policies did not have a significant impact on the sector in India during 2023-24.

H₁ (Alternative Hypothesis): Microfinance trends, challenges, and policies had a significant impact on the sector in India during 2023-24.

Research Methodology:

Research design: Descriptive and analytical research techniques are used to provide an in-depth analysis of A Review of Microfinance in India in 2023-24: Trends, Challenges and Policy Implications with a review of the 2023-24 reforms using secondary data sources.

Data collection: Secondary data Secondary data is used to collect information for research purposes. The secondary data includes-

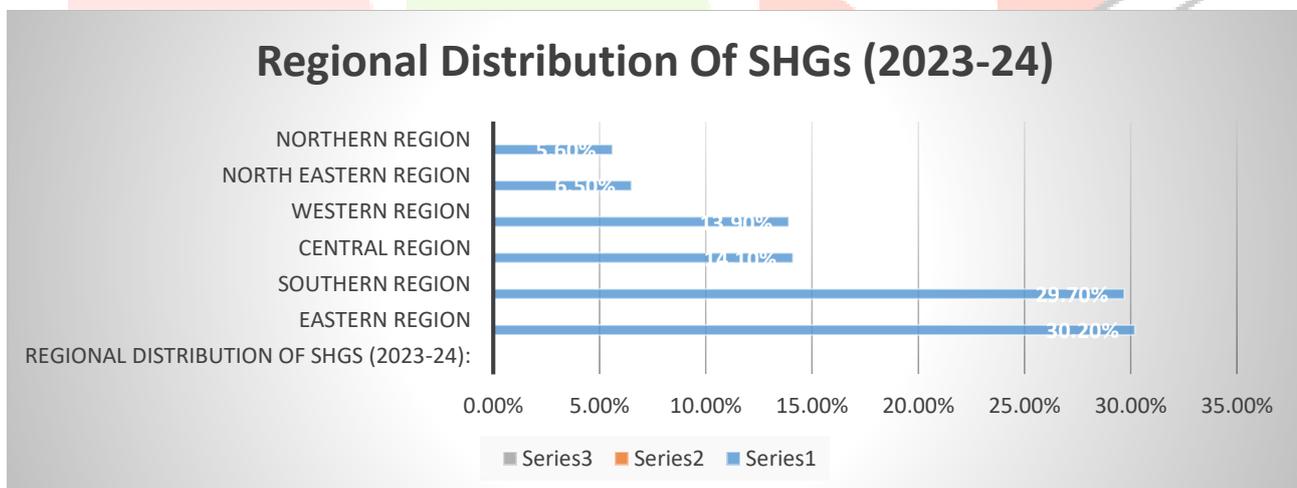
- 1) The NABARD Annual Report
- 2) Government Publications
- 3) RBI Data
- 4) Academic Research Papers
- 5) Policy Documents.

Data Analysis and Interpretations:

The annual report of NABARD has been utilized for the collection of secondary data which is collected from the website of NABARD for the years of 2023-24.

1. Progress of SHG Bank Linkage Programme

The Self-Help Group Bank Linkage Programme (SHG-BLP) has seen remarkable growth since its inception. The number of bank-linked SHGs expanded from 255 in FY 1992 to 144.22 lakh in FY 2024. Similarly, credit disbursement to SHGs surged from ₹29 lakhs in 1992 to ₹2,09,286 crore as of March 31, 2024. However, the year-on-year growth of savings-linked SHGs slowed down from 12.7% in 2022-23 to 7.6% in 2023-24, primarily due to saturation in SHG formation in southern states like Andhra Pradesh, Karnataka, and Telangana, which had the lowest credit gap (24.23%).



These figures indicate that while the SHG-BLP has reached significant coverage, certain regions, especially in the north, have lower participation.

2. Major Highlights of SHG-BLP (2023-24):

- ✓ Growth in SHG Savings Linkage – The SHG-BLP covered 17.75 crore families through 144.21 lakh SHGs, with 83.52% being women-led. The total SHG savings increased by 10.52% compared to the previous year.

- ✓ Loan Disbursement Growth – The number of SHGs availing loans rose 28%, reaching 54.28 lakh in FY 2023-24. Correspondingly, loan disbursement increased by 44% from ₹1,45,200.23 crore in 2022-23 to ₹2,09,285.87 crore in 2023-24.
- ✓ Increase in Outstanding Loans – The number of SHGs with outstanding loans grew 11.28%, from 69.57 lakh in 2022-23 to 77.42 lakh in 2023-24. The total loan outstanding also rose 38.06%.
- ✓ Women’s Financial Inclusion – The share of loans outstanding for women SHGs increased from 26.13% in FY 2022-23 to 37.57% in FY 2023-24, showcasing a continued focus on women’s empowerment.

These highlights reflect steady progress in SHG financial inclusion and credit access, though regional disparities and saturation in some areas remain challenges.

3. Progress of Savings Linkage of SHGs with Banks (2021-22 to 2023-24)

The savings linkage of Self-Help Groups (SHGs) with banks continued to grow between 2021-22 and 2023-24, although at a slower pace in recent years.

- ✓ Increase in Savings-Linked SHGs: The number of SHGs with savings accounts increased from 118.93 lakh in 2021-22 to 144.22 lakh in 2023-24, marking an overall growth of 21.2% over three years.
- ✓ Growth in Deposits: The total savings amount grew from ₹47,240.48 crore in 2021-22 to ₹65,089.15 crore in 2023-24, reflecting an increase of 10.52% over the last year.
- ✓ Regional Distribution: The highest growth in SHG savings linkage was observed in the North-Eastern Region (19%), followed by the Eastern and Central Regions (11%), whereas the Southern Region saw minimal growth due to market saturation.
- ✓ Despite these positive trends, the decline in year-on-year growth (from 12.7% in 2022-23 to 7.6% in 2023-24) suggests potential saturation in certain regions, necessitating policy interventions to expand outreach.

4. Credit Disbursement by Banks (2021-22 to 2023-24):

In FY 2023-24, banks disbursed ₹2,09,285.87 crores to 54.82 lakh SHGs, marking a 44% increase in total loan disbursement compared to ₹1,45,200.23 crores in FY 2022-23. The number of SHGs receiving loans also rose by 28% over the same period.

5. Region-Wise Growth in Credit Disbursement (2023-24):

- A. Highest growth: The North-Eastern Region saw a 68% rise, followed by the Northern and Central Regions (54% each).
- B. Strong growth: The Eastern Region saw a 44% increase, while the Western and Southern Regions experienced more moderate but steady growth.

This expansion in credit disbursement highlights improved financial inclusion efforts, though some regions still show disparities in SHG funding

6. Credit Outstanding (As of March 31, 2024)

As of March 31, 2024, the total number of credit-linked SHGs stood at 77.42 lakh, with an outstanding loan amount of ₹2,59,663.73 crores. The average loan outstanding per SHG at the national level was ₹3.35 lakh.

Regional Credit Outstanding Trends:

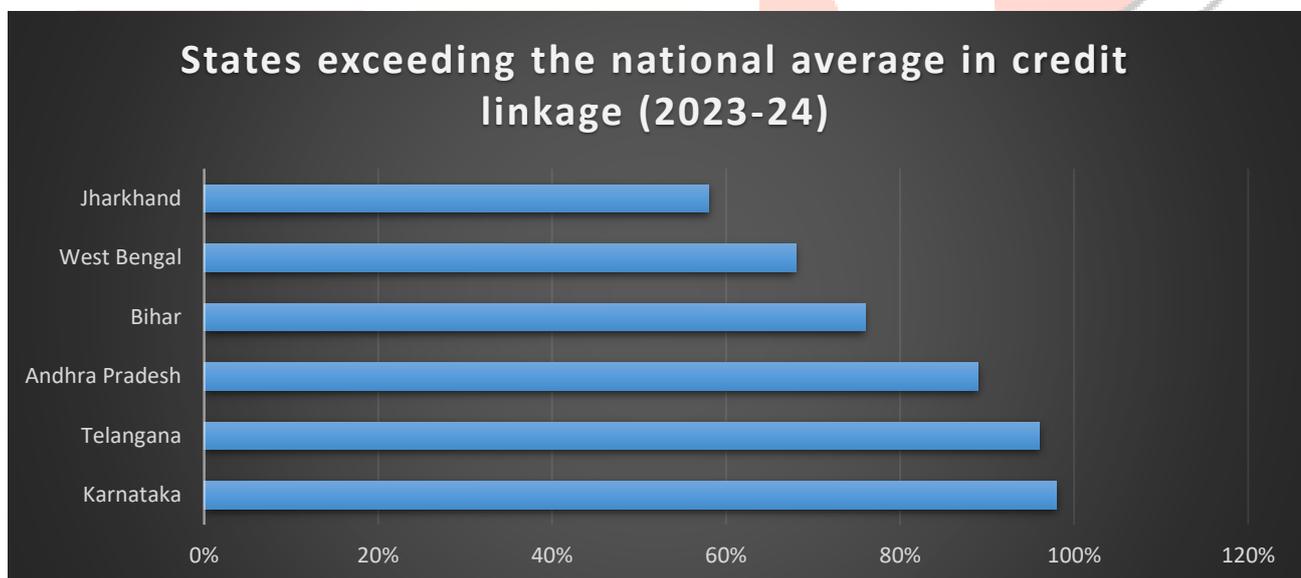
- ✓ Southern Region: Had the highest outstanding loan amount, followed by the Eastern and Central regions.
- ✓ Northern & North-Eastern Regions: Recorded comparatively lower credit outstanding, indicating either smaller loan sizes or lower credit penetration.

State-Wise Credit Leaders:

- ✓ Andhra Pradesh had the highest total loan outstanding, followed by Telangana and Karnataka.

Credit Linkage Percentage:

These figures indicate strong credit penetration in certain states, while other regions still have the potential for further SHG financing.



Out of 144.22 lakh SHGs with savings accounts, around 53.68% had outstanding loans.

7. Agency-Wise Distribution of SHG Bank Linkage Programme (2023-24)

The SHG-Bank Linkage Programme (SHG-BLP) is primarily supported by Commercial Banks, Regional Rural Banks (RRBs), and Cooperative Banks, which provide both savings and credit services to SHGs.

Key Highlights (2023-24):

A. Commercial Banks-

Held the largest share in SHG savings and credit linkage.

Accounted for 60% of savings-linked SHGs and 61% of credit-linked SHGs.

Had the highest loan disbursement share (68%), with a total outstanding loan amount of ₹18,28,730.9 lakh

B. Regional Rural Banks (RRBs)-

Represented 29% of SHG savings accounts and 35% of credit-linked SHGs.

Disbursed 27% of total SHG loans, with an outstanding loan amount of ₹6,37,274.4 lakh.

C. Cooperative Banks

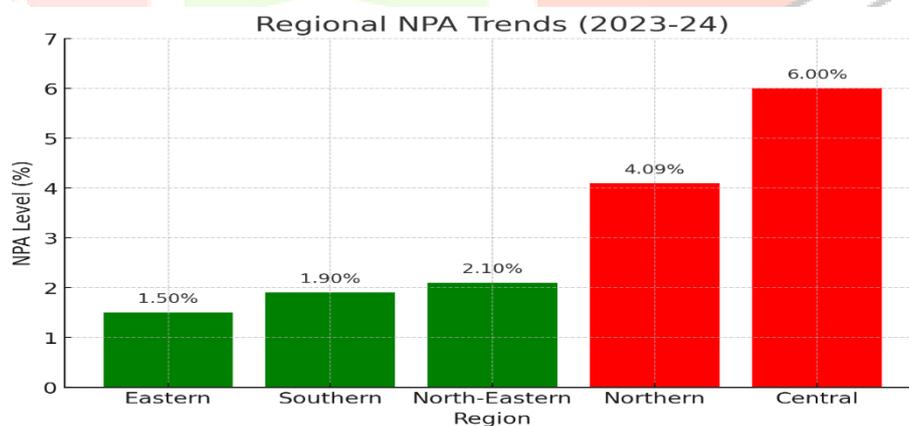
Had the smallest share, with 11% of SHG savings and 4% of credit-linked SHGs.

Contributed only 5% of total SHG loan disbursement, with an outstanding loan amount of ₹1,30,631.8 lakh

This distribution indicates the dominance of commercial banks in SHG financial inclusion efforts, while RRBs play a crucial role in rural and semi-urban areas. Cooperative banks, though limited, still support SHG linkage in specific regions.

8. NPAs in SHG-BLP (2023-24)

As of March 31, 2024, the Non-Performing Assets (NPA) rate under bank loans to SHGs declined to 2.05%, compared to 2.79% in March 2023. A reduction in NPAs was observed across all regions.



Here's a bar chart visualizing the **Regional NPA Trends (2023-24)**. The **Green Bars** represent regions with lower NPAs, while the **Red Bars** indicate regions with higher NPAs

10. Agency-Wise NPA Trends

A. Commercial Banks: NPA reduced from 2.79% to 2.05%.

B. Regional Rural Banks (RRBs): NPA levels declined consistently.

C. Cooperative Banks: Significant improvement, with NPA falling from 6.15% to 4.7%.

D. The decline in NPAs reflects improved asset quality and better loan repayment discipline within the SHG sector.

Findings:

- 1 Growth of Microfinance – The SHG-Bank Linkage Programme expanded to 144.22 lakh SHGs, benefiting 17.75 crore families, with loan disbursement rising by 44%.
- 2 Regional Disparities – The Southern Region is saturated, while the North-Eastern (68%) and Central (54%) Regions saw the highest credit growth.
- 3 Bank Involvement – Commercial Banks lead in SHG financing (68% of loans), followed by RRBs (35%) and Cooperative Banks (4%).
- 4 Decline in NPAs – SHG loan NPAs fell from 2.79% to 2.05%, with the lowest NPAs in the Eastern (1.50%) and Southern (1.90%) regions.
- 5 Digital Transformation – Fintech and AI-based lending improved access, enhancing financial inclusion in rural areas.

Conclusions:

Microfinance in India witnessed significant growth in 2023-24, with an increase in loan disbursement, savings linkage, and women's financial inclusion. While the SHG-Bank Linkage Programme continues to expand, regional disparities remain, with some states experiencing saturation and others lagging in credit penetration.

The decline in NPAs reflects improved financial discipline, but challenges such as high-interest rates, over-indebtedness, and operational inefficiencies persist. Digital transformation through fintech and AI-driven lending has enhanced accessibility, yet financial literacy and regulatory adaptations are necessary for sustainable growth.

Policymakers should focus on regional balance, borrower protection, and digital financial education to strengthen microfinance's impact on poverty alleviation and economic development.

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