



Performance of Micro Lending Institutions in India

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Abstract

Micro Lending Institutions (MLIs) have emerged as an important component of India's financial inclusion framework by extending small-scale credit and related financial services to low-income households, women, small entrepreneurs, informal workers, and other sections that often face constraints in accessing conventional banking services. The present paper examines the performance of Micro Lending Institutions in India, with particular emphasis on their growth, outreach, institutional network, borrower base, credit expansion, and contribution to inclusive finance. The study is based primarily on secondary data obtained from reports of regulatory institutions, industry associations, government agencies, and other published sources. Descriptive and trend-based statistical techniques are used to assess changes in key performance indicators over time. The analysis indicates that the micro-lending sector has experienced substantial expansion in its branch network, borrower outreach, loan portfolio, and average credit outstanding, although its growth trajectory has also been affected by regulatory changes, economic fluctuations, the COVID-19 pandemic, repayment stress, and regional disparities. MLIs have played a particularly significant role in improving access to institutional credit among economically weaker and underserved populations and in supporting livelihood activities, self-employment, micro-enterprises, and women-led economic initiatives. At the same time, concerns relating to borrower indebtedness, portfolio quality, responsible lending, operational sustainability, and uneven geographical penetration remain important. The paper concludes that strengthening responsible lending practices, credit assessment, borrower protection, digital infrastructure, financial literacy, regulatory supervision, and institutional coordination can enhance the sustainability and developmental effectiveness of the micro-lending sector. A balanced approach combining financial viability with social outreach is essential for strengthening the long-term contribution of MLIs to inclusive and equitable economic development in India.

Keywords: Micro Lending Institutions, Microfinance, Financial Inclusion, Credit Outreach, Borrowers, Micro-enterprises, India.

Introduction

Micro Lending Institutions (MLIs) have become an important part of India's financial system, particularly in extending credit to low-income households, small borrowers, women, self-employed persons, micro-entrepreneurs, and other sections that remain inadequately served by conventional banking institutions. By providing small-value, largely collateral-free loans, MLIs help bridge the credit gap faced by economically weaker and financially excluded sections of society. Their expansion has therefore been closely associated with the broader objectives of financial inclusion, poverty reduction, livelihood promotion, women's

empowerment, and development of micro-enterprises. Over the years, the micro-lending sector in India has witnessed considerable changes in terms of institutional coverage, branch networks, borrower outreach, loan portfolios, average loan size, and geographical penetration. The sector includes a range of regulated lending institutions operating through different delivery models, particularly group-based lending mechanisms such as Joint Liability Groups. Technological adoption, digital payments, improved credit information systems, and regulatory reforms have further influenced the functioning and expansion of the sector. At the same time, MLIs operate in a challenging environment characterised by repayment risks, borrower indebtedness, regional concentration, rising operational costs, portfolio-quality concerns, and the need to maintain a balance between financial sustainability and social objectives. Periodic economic disruptions have also affected borrower repayment capacity and institutional performance. Against this background, an assessment of the performance of Micro Lending Institutions is important for understanding their growth, outreach, efficiency, and contribution to inclusive finance. The present paper therefore examines the major trends and performance indicators of MLIs in India and highlights the emerging opportunities and challenges affecting the sector.

Research Gaps, Objectives and Methods

Although a considerable body of literature is available on microfinance and financial inclusion in India, relatively limited attention has been given to the long-term performance of Micro Lending Institutions (MLIs) by simultaneously examining their institutional expansion, borrower outreach, credit growth and average outstanding per borrower over an extended period. Existing studies often focus either on the social impact of microfinance or on the financial performance of selected institutions, while comparatively fewer studies provide an integrated assessment of sector-level growth and sustainability. There is also a need to examine recent changes in the micro-lending sector in the context of responsible lending, borrower protection, digitalisation, regulatory reforms and emerging concerns relating to indebtedness and portfolio quality. The present study attempts to address these gaps by analysing the performance and changing structure of MLIs in India over the study period.

The major objectives of the study are:

1. To examine the growth and performance of Micro Lending Institutions in India in terms of branch network, institutional presence, borrower outreach and credit-related indicators.
2. To analyse the trends and changes in the micro-lending sector and assess its contribution to financial inclusion and access to institutional credit.
3. To identify major challenges affecting the sustainability and developmental effectiveness of MLIs and suggest appropriate measures for strengthening the sector.

The study is descriptive and analytical in nature and is primarily based on secondary data. Relevant data and information have been collected from reports and publications of the Reserve Bank of India (RBI), Microfinance Institutions Network (MFIN), Sa-Dhan, NABARD and other government and institutional sources. Published research papers, reports, books and other relevant literature have also been consulted. The study examines the performance of Micro Lending Institutions over the selected period using indicators such as branch network, number of active MLIs, borrower outreach, loan outstanding and average outstanding per borrower. Statistical tools including percentage change, annual growth rate, compound annual growth rate

(CAGR), averages and trend analysis have been used wherever appropriate to assess the direction and magnitude of change. The findings are interpreted in the broader context of financial inclusion, responsible lending, borrower protection and sustainability of the micro-lending sector in India.

Concept and Scope of Microfinance

Microfinance is broader than microcredit. Microcredit refers primarily to small loans, whereas microfinance encompasses a wider range of financial services—including credit, savings, insurance, remittances, payments and, increasingly, digital financial services—designed for low-income households and micro-entrepreneurs. Under the Reserve Bank of India's harmonized regulatory framework introduced in 2022, a microfinance loan is a collateral-free loan to a household with annual household income up to ₹3 lakh. The framework applies across regulated entities and requires lenders to assess household income and indebtedness, disclose pricing transparently and ensure that repayment obligations remain within prescribed limits (Reserve Bank of India, 2022). Two delivery models remain especially important in India. The SHG-Bank Linkage Programme is a savings-led model in which groups build thrift and subsequently access bank credit. NABARD reports that, as of 31 March 2024, 144.22 lakh SHGs were savings-linked with banks and 77.42 lakh SHGs had loans outstanding of ₹2,59,663.73 crore; 120.44 lakh of the savings-linked groups were women's SHGs. NABARD estimated that the programme covered about 17.75 crore families, underlining the enormous social reach of group-based finance (NABARD, 2024). The JLG model, by contrast, typically brings together four to ten borrowers—often small and marginal farmers, tenant farmers, oral lessees or asset-poor households—who jointly undertake repayment obligations, thereby reducing the need for conventional collateral (NABARD, 2024). Microfinance may be conceptualized as a system of providing small-scale, accessible and appropriately designed financial services to low-income households, economically weaker sections, small producers and micro-entrepreneurs who are inadequately served by conventional financial institutions. Its development is rooted in the recognition that poverty does not necessarily imply an absence of economic activity. Poor households frequently engage in agriculture, livestock rearing, petty trade, handicrafts, home-based production, casual services and other informal occupations, but often lack collateral, regular salary records, formal documentation and stable cash flows required by traditional banking institutions. Microfinance therefore attempts to bridge the gap between the formal financial system and economically active low-income households by making financial services available in small amounts and through delivery mechanisms suited to their circumstances (Ledgerwood, 1999; Ledgerwood & Gibson, 2013).

Group-based lending is therefore central to the traditional conceptualization of microfinance. Under this approach, individuals organize themselves into small groups whose members save regularly, obtain loans and exercise mutual responsibility for financial discipline. Peer monitoring can reduce information asymmetry because group members frequently possess better information about one another's economic activities and repayment capacity than an external financial institution. It may also lower transaction costs by allowing financial institutions to deal with a group rather than with numerous borrowers separately. At the same time, social relationships provide an incentive for timely repayment. The model therefore attempts to convert social capital into a mechanism for financial access. A closely related principle is the idea of progressive or relationship-based lending. Microfinance is therefore closely linked with the concept of self-employment. For

households unable to obtain regular salaried employment, a micro-enterprise can constitute an important source of livelihood.

Current Status of Microfinance in India:

Indian microfinance entered 2026 after a difficult period of portfolio stress, rising delinquencies and tighter credit discipline. The latest MFIN Micrometer available at the time of revision shows a clear but cautious recovery. As of 30 June 2026, microfinance operations covered 36 States and Union Territories and 718 districts. The industry's outstanding portfolio stood at ₹3,28,708 crore, increasing by 1.1 per cent over the previous quarter although remaining 6.9 per cent below the level of June 2025. Disbursements during the first quarter of 2026-27 reached ₹61,718 crore, 8.9 per cent higher than the corresponding quarter of the previous year. Portfolio quality also improved materially declined from 5.6 per cent in June 2025 to 1.6 per cent in June 2026 (MFIN, 2026a). The institutional composition of the sector has also shifted. NBFC-MFIs accounted for 44.3 per cent of the total microfinance portfolio at the end of June 2026 and were therefore the largest lender category, followed by banks with 25.3 per cent; SFBs and other NBFCs accounted for the balance. On a year-on-year basis, the portfolio of NBFC-MFIs increased by 5.2 per cent and that of NBFCs by 2.7 per cent, whereas the portfolio reported by banks declined sharply, partly because some loans were reclassified from microfinance to retail portfolios. MFIN further reported a 91.4 per cent year-on-year increase in funding received by member NBFC-MFIs during the quarter, indicating easing liquidity conditions after the funding constraints experienced by the sector in 2024-25 and 2025-26 (MFIN, 2026a). The recovery should nevertheless be interpreted in the context of the preceding contraction. SIDBI's Microfinance Pulse reported that, as of 31 March 2026, the sector served approximately 5.5 crore unique live borrowers through 7.6 crore active loans, with portfolio outstanding of ₹2,77,053 crore under its bureau-based coverage. The report recorded a 17 per cent year-on-year contraction but a 3 per cent quarter-on-quarter expansion between December 2025 and March 2026, together with the strongest quarterly disbursement since early 2023. Differences between sector totals reported by MFIN, SIDBI/Equifax and other industry sources reflect differences in reporting universe and classification; comparisons should therefore be made within each source rather than treating the totals as directly interchangeable (SIDBI & Equifax, 2026; MFIN, 2026a).

Microfinance is geographically concentrated but no longer confined to a small group of southern states. Detailed state-wise operating data compiled by Sa-Dhan for March 2025 show extensive institutional presence across the country. Uttar Pradesh was among the most deeply covered states: 73 micro-lending institutions (MLIs) were operating across 74 districts through 4,806 branches, second only to Bihar in branch count and among the highest in institutional diversity. At the same time, all-micro-lender data placed Uttar Pradesh third nationally in loan outstanding at ₹41,774 crore as of March 2025, behind Bihar and Tamil Nadu, and third in loan accounts at 151.16 lakh (Table 1). During 2024-25, lenders disbursed ₹32,892 crore in Uttar Pradesh, the second-highest state-level disbursement in the country (Sa-Dhan, 2025).

Table 1: State-wise Microfinance Outreach and Credit Support, March 2025

State/UT	MLIs Operating	Districts Covered	Branches	Loan Accounts (Lakh)	Loan Outstanding (₹ Crore)
Andhra Pradesh	26	25	527	50.01	7322
Assam	27	33	585	25.89	7082
Bihar	71	38	4932	202.32	57712
Chhattisgarh	41	30	906	24.43	6553
Delhi	12	9	23	2.15	616
Gujarat	39	31	1346	40.9	10913
Haryana	45	22	823	18.67	5138
Himachal Pradesh	13	10	52	0.56	160
Jammu & Kashmir	5	4	13	0.27	80
Jharkhand	45	24	1159	42.64	11149
Karnataka	47	31	3362	126.5	35351
Kerala	41	14	910	40.47	11273
Madhya Pradesh	66	54	2716	81.09	21653
Maharashtra	55	36	2271	111.3	29596
Odisha	48	30	2265	83.81	20719
Punjab	23	23	584	17.44	4372
Rajasthan	56	41	1966	56.33	14930
Tamil Nadu	74	38	4296	151.63	46833
Telangana	26	33	515	29.55	5717
Tripura	17	8	194	6.74	2196
Uttar Pradesh	73	74	4806	151.16	41774
Uttarakhand	32	10	250	6.27	1749
West Bengal	50	23	2658	122.92	36730

Source: Sa-Dhan (2025), Bharat Microfinance Report 2025, Tables 2.2, 2.4 and 3.2. Note: loan accounts and loan outstanding refer to all micro-lenders; institutional and branch coverage refers to reporting MLIs.

The state-wise pattern demonstrates three important features. First, the largest markets are located in both eastern and southern India, with Bihar, Tamil Nadu, Uttar Pradesh, West Bengal and Karnataka accounting for a major share of credit outstanding. Second, branch intensity and the number of institutions is not perfectly corresponded to portfolio size: some states show deep branch networks with moderate outstanding, while others have larger average portfolios per borrower. Third, the sector experienced a broad-based contraction during 2024-25. For example, all-micro-lender outstanding in Uttar Pradesh declined by about 10 per cent between March 2024 and March 2025, from ₹46,304 crore to ₹41,774 crore, while loan accounts declined by about 8 per cent. At the same time, the average amount disbursed per account in Uttar Pradesh rose to ₹49,054 in 2024-25, up 12 per cent from ₹43,925 in 2023-24, indicating a shift toward larger average ticket sizes even as the number of accounts moderated (Sa-Dhan, 2025). More recent evidence suggests that Uttar Pradesh has retained its strategic importance in the national microfinance market. MFIN's June 2026 update continued to rank Bihar first, Uttar Pradesh second and Tamil Nadu third by portfolio size, with the top ten states accounting for approximately 83 per cent of the national portfolio (MFIN, 2026a). Thus, even after the sector-wide correction, Uttar Pradesh remains one of India's principal microfinance geographies in terms of credit depth, borrower base and operating network.

Performance of MLIs in India:

In India, microloans are available in 685 districts, five union territories, and 28 states. Most districts have microfinance, albeit to differing degrees. It is heavily biased in favour of the top 200 districts. About 31

MLIs operated in more than ten States or Union Territories during 2024–2025, with 18 of these expanding their operations over more than fifteen States/UTs, according to a thorough investigation. On the other hand, 78 MLIs, a minor decline from 89 in the previous year, operated within a single State or UT. Furthermore, 94 MLIs operated in two to ten states and territories. The geographic reach of the larger MLIs, which are primarily NBFC-MFIs, has increased to include more States and UTs. Smaller MLIs, especially those that are categorised as "Not for Profit," on the other hand, maintain a regional emphasis in their lending activities by concentrating their operations in one or two states. The top 10 MLIs are determined by their operations in districts and States/Union Territories, respectively. Satin led with activities in 27 States/UTs, the most of any MLI. Fusion and IIFL Samasta operate in 22 States and UTs, while Asirvad and Satya, each with operations in 26 States and UTs, came in second. (Table 2).

Table 2: Top MLIs by Number of States/UTs, March 2025

Rank position	MLI(s)	States/UTs covered
1	Satin Creditcare	27
2	Asirvad; Satya	26
3	Fusion Finance; IIFL Samasta	22
4	Annapurna Finance; Belstar	21
5	Muthoot Microfin; Spandana	20
6	NABFINS; Svatanttra	19
7	L&T Finance	18
8	Arohan; CreditAccess; NOCPL; Share Microfin	17
9	Chaitanya; SAVE Microfinance; VFS Capital	15
10	Sub-K Impact	14

Source: Sa-Dhan, Bharat Microfinance Report 2025

Fusion (488 districts) leads in terms of the number of districts, whereas Satin (27 states/UTs) leads in terms of its presence in States/UTs. With 71 institutions running a total of 4,932 branches, Bihar has the largest branch network of any MLI. With 4,806 branches and 4,296 branches, respectively, Uttar Pradesh and Tamil Nadu trailed closely behind. Through tasks including locating loan applications, doing evaluations, keeping an eye on loans, and handling recoveries, the branches of MLIs play a crucial part in facilitating business. The existence and operation of these branches are typically directly related to the performance of businesses. There were 37,380 MLI branches open nationwide as of March 31, 2025, up 11 percent from 33,644 MLI branches the previous year. However, the year-over-year growth of branches was 8 percent if NBFCs and Private & Public Limited Companies are eliminated and only the pure MFI category—which includes NBFC-MFIs, Societies, Section 8 Companies, Trusts, MACS, or Cooperatives—is taken into account. According to the branch distribution as of March 2025, there were 28,727 branches for pure MFIs, 5,488 branches for NBFCs involved in microfinance, and 3,165 branches for Private & Public Limited Companies acting as BC agents. With 27,687 branches (74 percent), NBFC-MFIs held the largest share in terms of legal structure. With 25,490 branches, or 68 percent of all branches, Very Large MFIs (GLP>2,000 Cr.) held the biggest proportion, according to a size-based analysis. There is an intriguing divergence in the comparison. In 2024–2025, debtors and loan portfolios decreased in both India and Uttar Pradesh, but branch networks kept growing. UP's MLI portfolio fell by 7.1 percent compared to around 9 percent nationwide, but its borrower decline of 9.35 percent was marginally less severe than India's roughly 10 percent. In contrast to the national expansion of 11.1 percent, UP branches grew by almost 16.3 percent at the same time (Table 3).

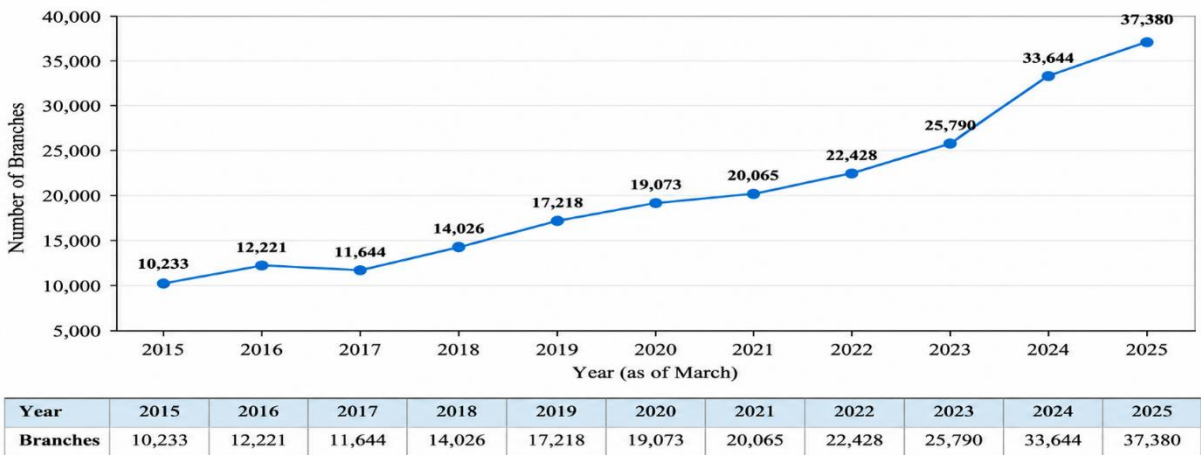
Table 3: India–Uttar Pradesh: Key MLI Indicators

Indicator	India 2023–24	India 2024–25	Growth %	Uttar Pradesh 2023–24	Uttar Pradesh 2024–25	Growth %
Active MLI borrowers (lakh)	698.00	627.00	−10.2	84.03	76.17	−9.35
Gross Loan Portfolio – MLIs (₹ crore)	2,61,239	2,38,198	−8.8	27,462	25,512	−7.10
MLI branches	33,644	37,380	+11.1	4,131	4,806	+16.3
No. of MLIs operating in UP	—	—	—	74	73	−1 MLI
Districts covered in UP	—	—	—	74	74	No change

Sources: Sa-Dhan, *Bharat Microfinance Report 2025 and 2024*.

Table 3 shows that between 2015 and 2025, the micro-lending institution (MLI) industry in India had significant growth. From 10,233 branches in 2015 to 37,380 branches in 2025, the branch network grew by 265.29 percent overall, with a compound annual growth rate of almost 13.83 percent. The branch network grew steadily, with the exception of a 4.72 percent decrease in 2017. Branches grew by 30.45 percent in 2024, which was the most yearly expansion. This was followed by growth of 22.76 percent in 2019 and 20.46 percent in 2018. There were considerably more variations in the number of active MLI borrowers (Chart 1).

Chart 1: Branch Network of MLIs in India
India: MLI Branch Network, 2015–2025



Source: Sa-Dhan, *Bharat Microfinance Report*

The number of borrowers fell from 371 lakh in 2015 to 295 lakh in 2017, but they quickly recovered to 399 lakhs in 2018—a 35.25 percent increase. Borrower numbers significantly grew to 532 lakhs in 2023 and peaked at 698 lakhs in 2024 following comparatively static or dropping outreach during 2020–2021. But in 2025, the figure fell by 10.17 percent to 627 lakhs. With a CAGR of 5.39%, borrower outreach in 2025 was still almost 69 percent higher than in 2015 despite this fall. The average overdue amount per borrower showed the steadiest increase, rising steadily from ₹13,164 in 2015 to ₹38,005 in 2025. With a CAGR of roughly 11.18 percent, this amounts to an overall rise of 188.70 percent. The rise indicates that over the course of the decade, each borrower's credit exposure has significantly deepened. Crucially, average outstanding per borrower increased even in years when borrower numbers decreased (Table 4).

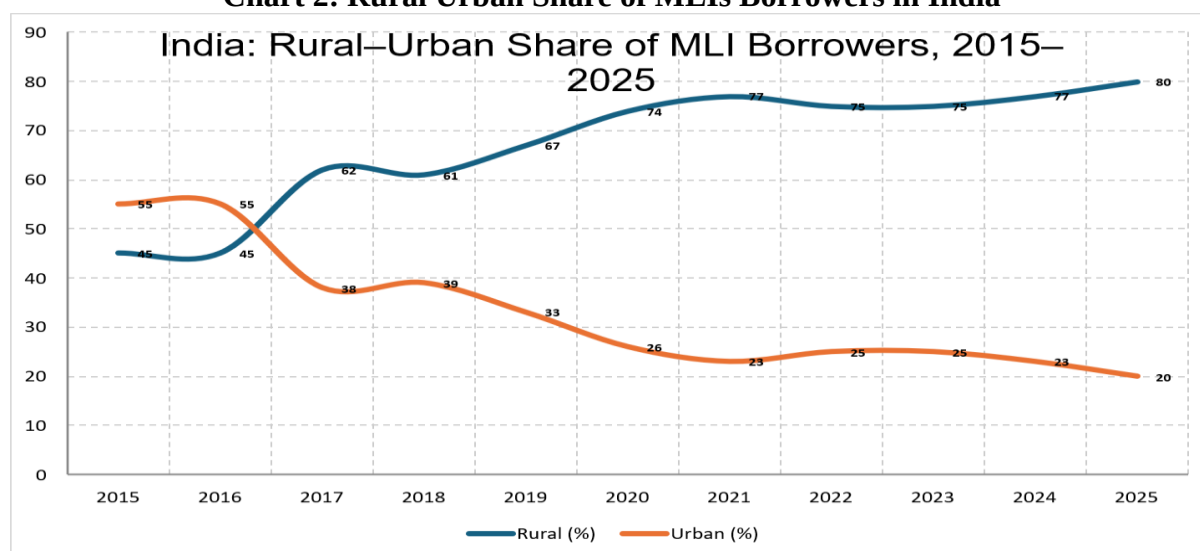
Table 4: Growth of MLIs in India

Year	Branch Network	Active MLIs Borrowers (Lakh)	Average Outstanding Per Borrower (₹)
2015	10233	371	13164
2016	12221	351	15985
2017	11644	295	16260
2018	14026	399	19454
2019	17218	429	21983
2020	19073	423	24044
2021	20065	422	26863
2022	22428	448	30135
2023	25790	532	33824
2024	33644	698	37445
2025	37380	627	38005
Overall Growth, 2015–2025	265.29	69.00	188.90
CAGR, 2015–2025 (%)	13.83	5.39	11.18

Source: Sa-Dhan, Bharat Microfinance Report

Overall, the data show that between 2015 and 2025, the MLI sector in India experienced significant growth in the amount of credit outstanding per borrower, modest but erratic growth in borrower outreach, and quick expansion of the institutional branch network. The discrepancy in 2025—higher outstanding per borrower and ongoing branch expansion combined with a drop in active borrowers—also implies that recent industry growth has increasingly reflected deeper credit rather than just an increase in the number of borrowers. As of March 2025, the loan outstanding per borrower was \$38,005, up 1 percent from the previous year. At \$45,354, the Southern region had the largest average loan size, followed by the Western region at \$38,123. Over time, the microfinance industry's client base and loan outstanding growth have fluctuated. Micro Lending Institutions' (MLIs) clientele shrank by -10 percent during the fiscal year 2024–2025, while loan outstanding fell by -9 percent.

Approximately 267 lakh loans, or 78 percent of the almost 343 lakh loans that MLIs disbursed in 2024–2025, were made in rural regions. 75 lakh loans, or 22 percent of all loans disbursed, were made in metropolitan areas. Accordingly, during the year, 1,45,328 crores were distributed in rural areas and 40,990 crores in urban areas. In comparison to 2023–2024, the total distribution for the year dropped by `37,776 crores, indicating an overall (-17 percent) de-growth. The loan amount disbursed decreased by (-12 percent) in rural areas and (-16 percent) in urban areas. Some of the ranking positions in the report include more than one school because they are presented with ties. The structure has undergone significant alteration. In 2015 and 2016, most MLI borrowers were from urban areas; however, by March 2025, four out of five borrowers were from rural areas. The transformation of some large urban-oriented NBFC-MFIs into Small Finance Banks and the ongoing rural orientation of smaller MLIs constitute Sa-Dhan's portion of this structural change. Although the BMR does not provide a distinct UP rural–urban borrower percentage in the accompanying table, the state is especially important to this rural-oriented microfinance model due to its huge rural population and wide district coverage (Chart 2).

Chart 2: Rural Urban Share of MLIs Borrowers in India

Source: Sa-Dhan, *Bharat Microfinance Report*

According to this classification, Uttar Pradesh is a part of the Central region. With 76.17 lakh clients and UP's reported MLI GLP of ₹25,512 crore, an indicative average portfolio exposure of about ₹33,500 per client is obtained, which is extremely near to the Central-region average. The loan outstanding per unique active borrower in UP decreased by around 11 percent from ₹50,674 in March 2024 to ₹44,949 in March 2025 for the larger credit-bureau microfinance universe, which is not exactly the same as the MLI dataset. The country's microfinance clientele is still distributed unevenly by area. The Southern region held the largest share of the 627-lakh active clientele in 2024–2025 (30 percent), followed by the Eastern region (28 percent), the Central region (22 percent), Western region (10 percent), and the Northern region (8 percent). With only 2 percent of the active clientele, the Northeast had the lowest share. The Southern region's share increased from 29 percent to 30 percent in 2024–2025, the Western region from 9 percent to 10 percent, and the North Eastern region from 1 percent to 2 percent. On the other hand, the Northern region decreased from 9 percent to 8 percent, and the Eastern region decreased from 30 percent to 28 percent. The percentage for the Central area remained constant at 22 percent (Table 5).

Table 5: Regional position 2024–25

Region	Loan Outstanding Per Borrower (₹)
South	45,354
West	38,123
East	34,692
North-East	34,391
Central	33,794
North	33,635
India Average	38,005

Source: Sa-Dhan, *Bharat Microfinance Report 2025*

According to the data, 2024–2025 was a year of consolidation rather than a reversal of microfinance's long-term growth. Although India's MLI portfolio dropped from ₹2.61 lakh crore to ₹2.38 lakh crore and its active MLI borrowers decreased from 6.98 crore to 6.27 crore, branch infrastructure kept growing. The same tendency was seen in Uttar Pradesh, however the number of branches increased much more quickly and the decline in clientele and portfolio was somewhat less noticeable. As a result, UP remains a key player in Indian microfinance: as of March 2025, it has 76.17 lakh MLI clients, ₹25,512 crore in reported MLI GLP, 4,806

branches spread over 74 districts, and 73 operational MLIs. With ₹41,774 crore in outstanding loans, UP came in third place nationally in the larger all-lender microfinance dataset, behind Tamil Nadu and Bihar. Despite significant stress in borrower growth and portfolio expansion during FY 2024–2025, the institutional reach of microfinance is still robust due to the rising physical network, growing rural orientation, and ongoing expansion of the JLG mechanism.

Role of Microfinance in Business Development and Micro-enterprise Growth:

The economic significance of microfinance lies not merely in the volume of loans extended but in the uses to which small loans are put. Working capital is often a binding constraint for a petty trader, dairy household, home-based producer, tailor, artisan, food processor or service provider. Small, repeated and timely loans can finance inventory, raw materials, livestock, tools, repairs, transport, seasonal inputs and other expenditures that permit an enterprise to begin operations or to continue through cash-flow gaps. Microfinance can therefore perform a business-development function by allowing very small enterprises to convert labour, skills and local demand into market activity. The 2026 NCAER-MFIN national borrower survey provides contemporary evidence for this role. Based on 10,342 borrowers across 10 states, the study found that 94 per cent of surveyed borrowers identified uses such as investment in a new business, farm activity, construction for business purposes or housing among the avenues for which loans were used; importantly, the report concludes that most loans in the survey continued to support income-generating purposes even after the earlier end-use restriction was removed under the 2022 regulatory framework (Munjal et al., 2026). The study's typical borrower was a married woman aged about 37, an earning household member, with petty trade/business as the representative primary occupation—showing the close relationship between microfinance, women's economic participation and micro-enterprise. Microfinance is especially relevant for enterprise development because India's employment structure remains heavily dependent on self-employment and unincorporated household enterprises. Recent NCAER analysis notes that millions of small household enterprises operate with low capital and productivity, and that limited access to formal credit constrains both the size of the enterprise and the entrepreneur's capacity to invest. By lowering the entry barrier to formal credit, microfinance can help enterprises build an operating history, smooth cash flows and, for some borrowers, graduate toward larger formal financial products (Afridi, 2026).

Role in Livelihoods, Employment and Income Generation:

Microfinance contributes to livelihoods through several channels. The first is self-employment: credit enables a borrower to create or sustain her own economic activity. The second is household labour absorption, because family members often participate in cultivation, livestock rearing, tailoring, shops, processing and services financed by the loan. The third is indirect local employment, generated when a growing enterprise hires helpers or purchases inputs and services from other local producers. The fourth is income stabilization: borrowers can maintain productive assets and working capital during seasonal or temporary shocks rather than selling assets or depending entirely on high-cost informal debt. The NCAER-MFIN 2026 survey found that borrower households obtain income from a diversified mix of petty trade/business, self-employment, casual labour, salaried work and agriculture and allied activities. Petty trade/business was a particularly prominent primary livelihood in several states, while Uttar Pradesh showed a comparatively important role for casual

labour as well as agriculture and allied activities. This mixed livelihood structure is significant: in Uttar Pradesh, microfinance often supports households that combine farm and non-farm income rather than operating a single, fully formal enterprise (Munjal et al., 2026). The same study reinforces the connection between productive loan use and financial resilience. Borrowers who use credit for income-generating activities were less likely to report repayment stress than those using loans for non-productive purposes, indicating that livelihood-linked credit can strengthen both household repayment capacity and lender portfolio quality (Munjal et al., 2026). At the macro level, earlier NCAER work also showed that microfinance has measurable linkages with output, employment and income through the economic activities financed by NBFC-MFIs and the wider sector (Bhide et al., 2021).

Emerging Issues and the Need for Sustainable Growth:

The recent cycle of rapid expansion followed by portfolio stress demonstrates that microfinance must balance outreach with responsible lending. From 2024 onward, the sector tightened underwriting, imposed additional guardrails to reduce borrower over-indebtedness and focused more strongly on credit quality. By June 2026, delinquency indicators had improved significantly and funding flows to NBFC-MFIs had begun to recover, but the sector remained smaller than a year earlier (MFIN, 2026a). The policy challenge is therefore not simply to restore rapid growth, but to rebuild growth on the basis of accurate household-income assessment, credit-bureau checks, affordable pricing, transparent disclosures, grievance redressal and avoidance of excessive multiple lending. For Uttar Pradesh, the priorities are particularly clear. Lenders should expand responsibly in underserved districts and among viable low-income enterprises rather than concentrating only in already-saturated borrower clusters. Microcredit should be linked more systematically with enterprise-development services, including financial literacy, digital capability, market linkage and skill development. SHGs, JLGs, FPOs and micro-enterprises should be connected with wider livelihood and value-chain programmes so that credit finances productivity-enhancing assets and market participation rather than only short-term consumption. District-level data on borrower indebtedness, lender concentration and sectoral stress should also be monitored so that repayment difficulties can be identified early.

Conclusion:

Microfinance has evolved from a relatively narrow poverty-alleviation instrument into a major component of India's financial-inclusion and micro-enterprise ecosystem. Its importance arises from its ability to serve low-income households and very small enterprises that often fall between informal finance and conventional bank lending. Current evidence shows both its scale and its vulnerability: the sector underwent a significant correction during 2024-25 and 2025-26, but by March-June 2026 had begun to recover, with improving portfolio quality, stronger disbursement and renewed funding to NBFC-MFIs. Uttar Pradesh occupies a central position in this landscape. It combines one of the country's largest borrower and credit bases with extensive district and branch coverage, and it remains the second-largest state market in the latest MFIN ranking. For the state's rural households, women, artisans, petty traders, small farmers and informal entrepreneurs, microfinance can provide working capital, livelihood diversification and a pathway toward formal financial participation. Its developmental impact, however, will be greatest when credit is accompanied by responsible underwriting, financial literacy, digital inclusion, enterprise capabilities, market access and

institutional support. Thus, the future of microfinance in Uttar Pradesh should be understood not merely in terms of increasing the volume of loans, but in terms of improving the quality, productivity and sustainability of the livelihoods and enterprises financed by those loans.

The performance of Micro Lending Institutions (MLIs) in India demonstrates their growing importance in extending financial services to low-income households, women, small entrepreneurs, informal workers and other sections that often remain inadequately served by conventional banking institutions. The expansion of branch networks, borrower outreach and credit portfolios has contributed significantly to financial inclusion, livelihood promotion, self-employment and the development of micro-enterprises. At the same time, the sector continues to face challenges relating to borrower over-indebtedness, multiple lending, repayment stress, portfolio quality, operational costs, responsible recovery practices and uneven financial awareness among borrowers. The long-term sustainability of the micro-lending sector therefore requires greater emphasis on responsible and need-based lending. Strengthening borrower-level credit assessment, repayment-capacity analysis and effective use of credit information systems can help prevent excessive borrowing and improve portfolio quality. Equally important is the protection of borrowers through transparent pricing, clear disclosure of loan conditions, appropriate grievance-redressal mechanisms and fair and ethical recovery practices. Digitalisation can further improve the efficiency, accessibility and transparency of microfinance operations. Investment in digital infrastructure, data-driven credit assessment and secure digital payment systems can reduce transaction costs and improve service delivery, particularly in rural and underserved areas. However, technological expansion should be accompanied by adequate financial and digital literacy so that borrowers are able to understand loan obligations, compare financial products and use formal financial services safely and effectively. Effective regulatory supervision and stronger institutional coordination among the Reserve Bank of India, banks, NBFC-MFIs, other MLIs, credit information companies and development institutions are also essential for maintaining financial discipline and protecting borrower interests. Regular monitoring of indebtedness, portfolio quality, lending practices and regional concentration of credit can help identify emerging risks at an early stage. Ultimately, the future development of micro-lending in India should not be evaluated merely in terms of growth in loan portfolios or number of borrowers. Its effectiveness should also be assessed in terms of its contribution to income enhancement, livelihood security, enterprise development, women's economic participation and reduction of financial vulnerability. A balanced approach that combines financial viability with social outreach, responsible lending and borrower welfare is therefore essential. Such an approach can strengthen the resilience and sustainability of MLIs while enabling the micro-lending sector to make a more meaningful and long-term contribution to inclusive, equitable and sustainable economic development in India.

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