



A STUDY ON IMPACT OF MICRO FINANCE BANK ON ECONOMIC A DEVELOPMENT

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Abstract:

This study explores the role of microfinance banks in promoting economic development particularly in underserved and low-income communities. It investigates how access to small-scale financial services can empower individuals, especially women, to start or expand businesses. The research highlights how microfinance contributes to poverty reduction, job creation, and income generation. It also examines the challenges faced by microfinance banks, including sustainability and repayment risks. Data is gathered through surveys and interviews with beneficiaries and financial experts. The findings suggest a positive correlation between microfinance access and economic upliftment. However, it stresses the need for regulatory support and financial literacy. The study also emphasizes inclusive growth as a key outcome. Overall, microfinance is shown to be a catalyst for grassroots economic development.

Keywords: economic development

1. INTRODUCTION

Microfinance banks play a vital role in improving access to financial services for low-income individuals and small businesses. These institutions provide small loans, savings options, and other financial products to those often excluded from traditional banking. By doing so, they help promote entrepreneurship and reduce poverty. The availability of microfinance enables people to invest in income-generating activities, leading to economic growth at the grassroots level. It also helps build financial inclusion, especially in rural and underserved areas. Over the years, microfinance has become a tool for sustainable development and social empowerment. This study focuses on how microfinance banks influence economic development in various sectors. It examines their effectiveness in improving livelihoods and supporting small enterprises. The research also addresses the limitations and challenges faced by microfinance institutions.

OBJECTIVES

1. To critically assess the contribution of microfinance banks to poverty alleviation and income enhancement in economically disadvantaged communities.

2. To evaluate the extent to which microfinance banks promote financial inclusion and access to credit among marginalized populations.
3. To analyze the role of microfinance in empowering women and fostering gender-inclusive economic growth.
4. To investigate the long-term economic effects of microfinance interventions on small business development and community-level economic sustainability.

2. India,s Micro Finance Bank on economic Development

India's microfinance banks play a crucial role in advancing economic development by offering financial services to low-income individuals who are often excluded from traditional banking systems. These institutions primarily provide small loans, savings options, and insurance services without the need for collateral, making them highly accessible to the poor, especially in rural areas. One of their major contributions is the empowerment of women, as a large share of microfinance clients are women entrepreneurs who use these funds to start or grow small businesses. This not only improves their household income but also promotes gender equality and social upliftment. Microfinance banks also support job creation by encouraging self-employment and the development of micro-enterprises. As borrowers invest in farming, handicrafts, retail, and other small-scale industries, they contribute to local economic activity and community development. These banks help reduce poverty by enabling people to build assets, manage emergencies, and avoid high-interest informal loans. Additionally, they offer financial education that strengthens people's ability to manage money, plan expenses, and make informed decisions. The expansion of microfinance services has led to increased financial inclusion in remote and rural areas, where access to banks is limited. It has also supported agricultural productivity and rural infrastructure development by offering timely credit to farmers and rural workers. However, the sector faces challenges such as the risk of borrower over-indebtedness, regulatory issues, and the need for stronger digital infrastructure. Despite these concerns, microfinance remains a powerful tool for inclusive growth in India. By bridging the gap between the formal financial sector and the underserved population, microfinance banks contribute significantly to poverty reduction, entrepreneurship, and the overall socio-economic progress of the nation.

Push Factors Impact Of Micro Finance Bank On Economic A Development

1. Lack of Access to Formal Banking

Many low-income individuals are excluded from traditional banks due to lack of documents or collateral. Microfinance banks step in to fill this gap by offering accessible financial services.

2. Poverty and Unemployment

High poverty levels and limited job opportunities push people to seek self-employment. Microfinance loans enable them to start small businesses and generate income.

3. High Dependence on Informal Lenders

In rural areas, people often rely on moneylenders who charge very high interest. Microfinance offers fair, regulated credit alternatives, reducing financial exploitation.

4. Need for Women Empowerment

Social inequality and lack of opportunities push women into financial dependence. Microfinance empowers them by providing loans to start enterprises and gain economic freedom.

5. Demand for Rural Development

Rural regions lack basic financial infrastructure. Microfinance helps build rural economies by funding agriculture, local trade, and infrastructure development.

6. Small Enterprise Growth

Traditional banks avoid lending to micro-enterprises due to risk concerns. Microfinance banks support this sector, fueling local entrepreneurship and job creation.

7. Improved Financial Literacy

Many poor households lack financial knowledge. Microfinance institutions often provide training, helping people make better financial decisions and manage money wisely.

Pull Factors Impact Of Micro Finance Bank On Economic A Development

1. Easy Loan Accessibility

Microfinance banks offer simple and fast loan processes without heavy paperwork. This attracts low-income individuals who need immediate financial support.

2. No Collateral Requirement

The absence of collateral makes it easier for poor borrowers to access credit. This feature encourages participation from people who own few assets.

3. Tailored Financial Products

Microfinance services are designed to meet the needs of small-scale borrowers. Products like group lending, micro-insurance, and savings plans pull in rural customers.

4. Focus on Women Borrowers

Special programs for women create a sense of inclusion and opportunity. This targeted support attracts women to become financially independent.

5. Community-Based Lending Models

Group-based lending builds trust and accountability among borrowers. The social structure involved motivates more people to join and benefit.

6. Support for Entrepreneurship

Microfinance encourages self-employment by funding small businesses. Aspiring entrepreneurs are drawn in by the chance to grow their ventures.

7. Trust and Local Presence

Microfinance institutions often operate within local communities. Their presence and trust-building efforts attract borrowers who prefer familiar, accessible services.

➤ Innovation Thinking

Innovative microfinance models are transforming financial inclusion by using mobile banking and digital platforms to reach rural and underserved populations. Fintech-driven microfinance institutions offer faster loan approvals, real-time monitoring, and flexible repayment systems. Microfinance banks are adopting AI-based credit scoring to assess risk better and extend loans to those with no formal credit history.

➤ Educational and Qualification

Education plays a crucial role in helping borrowers understand financial products offered by microfinance banks. Financial literacy programs empower individuals to make informed decisions and effectively utilize microloans for economic growth. Skilled professionals with backgrounds in finance, economics, or social work are essential for managing microfinance operations efficiently. Microfinance institutions often provide training to clients, improving their entrepreneurial and business management capabilities.

➤ Risk Taker

Microfinance banks often serve risk-takers like small entrepreneurs who lack access to traditional banking. These individuals invest borrowed funds into new ventures, accepting uncertainty for potential growth. By supporting such risk-takers, microfinance helps stimulate innovation and local business development. Taking calculated risks with microloans can lead to job creation and increased community income.

➤ **Need For Achievement**

The need for achievement drives individuals to set goals, take risks, and seek financial independence through microfinance opportunities. Microfinance banks empower aspiring entrepreneurs by providing the financial tools they need to turn ambition into productive ventures. Development thrives when motivated individuals gain access to credit, enabling them to start small businesses and create jobs.

Microfinance institutions fuel the desire for success, especially among underserved populations, by encouraging self-reliance and growth.

➤ **Government Support and opportunity**

Government support plays a vital role in expanding the reach of microfinance banks to rural and underdeveloped areas. Policies and subsidies from the government enhance the capacity of microfinance institutions to serve low-income individuals. By promoting financial inclusion, government-backed microfinance programs create opportunities for entrepreneurship and self-employment. Strong collaboration between microfinance banks and government bodies accelerates economic growth and poverty reduction.

➤ **Knowledge of Technology**

Knowledge of technology enables microfinance banks to deliver faster and more efficient financial services. Digital platforms help clients access loans, savings, and financial education with greater ease and convenience. Technological awareness among borrowers improves transparency and trust in microfinance operations. The integration of technology in microfinance expands outreach to remote areas, boosting economic participation.

Start up Micro Finance Bank On Economic Development

A start-up microfinance bank plays a crucial role in bridging the gap between traditional banking and underserved communities. It provides small loans, savings options, and financial services to low-income individuals and entrepreneurs who lack access to formal banking. By supporting small businesses and self-employment, it contributes directly to job creation and income generation. Start-up microfinance banks encourage local economic activities, especially in rural and semi-urban areas. They promote financial literacy and empower individuals to manage their resources wisely.

Objectives and Key Features of Start up Micro Finance Bank On Economic Development

As more people gain access to financial support, overall community development and economic stability improve. A start-up microfinance bank can be a powerful driver of inclusive growth and sustainable economic development.

1. The main objective is to provide accessible financial services to low-income and underserved populations.
2. It aims to support small businesses, boost self-employment, and reduce poverty through microloans.
3. Key features include low-interest loans, flexible repayment options, and financial education programs.
4. The bank emphasizes digital banking, community outreach, and women empowerment as part of its development strategy.

The primary objective of a start-up microfinance bank is to promote financial inclusion by offering affordable financial services to low-income individuals. It aims to empower small entrepreneurs and self-employed individuals by providing easy access to credit and savings facilities. One of its goals is to reduce poverty by enabling income-generating activities in rural and urban communities. The bank focuses on supporting women, youth, and marginalized groups to encourage inclusive economic participation. Key features include small-ticket loans, simplified documentation, and personalized

financial support. many start-up microfinance banks adopt digital platforms to improve service delivery and reach remote areas efficiently.

Opportunities And Future Prospects Micro Finance Bank On Economic Development

Microfinance banks offer vast opportunities to improve financial inclusion in underserved communities. They provide a platform for low-income individuals to access credit, savings, and insurance services. These institutions help in transforming informal businesses into formal economic contributors. With growing demand for small-scale finance, microfinance banks have significant market potential. They create employment opportunities by supporting self-employment and entrepreneurship. Women-led enterprises especially benefit, promoting gender equality and empowerment. Digital banking and mobile finance open new avenues for expanding microfinance outreach. Technology integration enhances efficiency, reduces operational costs, and improves customer experience. The increasing focus on rural development aligns well with the goals of microfinance banks. Government initiatives and policy support strengthen the sector and boost investor confidence. Collaborations with NGOs and development agencies enhance their impact and social outreach. Microfinance banks can play a major role in rebuilding economies post-crisis or during natural disasters. They help reduce dependency on unorganized moneylenders and encourage formal credit usage. Financial literacy efforts by these banks improve economic awareness among the poor. Opportunities lie in diversifying products such as education loans, health loans, and business development services. With rising urbanization and migration, there is demand for accessible financial services in new areas. The future may also see microfinance institutions transitioning into full-fledged small finance banks. Regulatory improvements and digital innovation will likely drive sector expansion. As microfinance grows, it can significantly reduce poverty and contribute to GDP growth. In the long run, microfinance banks are positioned to be key players in sustainable and inclusive economic development.

1. Growth Of Micro Finance Bank On Economic Development

Financial Year	Gross Portfolio (₹ Crore)	Loan (₹ Crore)	Year-on-Year Growth (%)	Key Highlights
FY2018	1,36,633	—	—	Baseline year for comparative analysis.
FY2019	1,87,386	37.2%	37.2%	Significant growth driven by increased financial inclusion initiatives.
FY2020	2,31,787	23.7%	23.7%	Continued expansion with a focus on rural outreach.
FY2021	2,59,377	11.9%	11.9%	Growth moderated due to the COVID-19 pandemic impact.
FY2022	2,85,441	10.1%	10.1%	Recovery phase with cautious lending practices.
FY2023	3,51,521	23.1%	23.1%	Robust rebound post-pandemic with increased demand for microloans.
FY2024	4,33,697	23.4%	23.4%	Strong growth attributed to digital adoption and supportive regulatory frameworks.
FY2025 (Q3)*	3,85,000	-11.2%**	-11.2%**	Portfolio contraction observed due to tightened credit norms and funding challenges.

2. Risk Score Of Micro Finance Bank On Economic Development

Risk Indicator	Metric	Value	Risk Score	Source
Portfolio at Risk (PAR) 31–180 Days (Sep 2024)	Percentage of microfinance loans overdue by 31–180 days	4.3%	⚠️ High	<u>Business Standard</u>
Total Delinquencies (Sep 2024)	Value of microfinance loans overdue by 31–180 days	₹28,154 crore	⚠️ High	<u>The Indian Express</u>
Gross Non-Performing Assets (GNPA) Ratio (IndusInd Bank, Q3 FY25)	Percentage of total loans classified as non-performing assets	6.54%	⚠️ High	<u>Reuters</u>
Multiple Borrowing Incidence (Jun 2024)	Number of borrowers with loans from five or more lenders	2.5 million borrowers	⚠️ High	<u>Business Benchmark</u>
Risk Weight on Microfinance Loans (RBI, 2025)	Regulatory risk weight assigned to microfinance loans	100%	⚠️ High	<u>TaxGuru</u>
Loan Portfolio Contraction (Mar 2025)	Year-on-year decline in total microfinance loan portfolio	14% decrease to ₹3.81 lakh crore	⚠️ High	<u>The Times of India</u>
Banks' Provisioning Increase (IndusInd Bank, Q3 FY25)	Increase in provisions for bad loans	87% rise to ₹17.44 billion	⚠️ High	<u>Reuters</u>
Regulatory Stress Indicator (RBI, H1 FY25)	Increase in stressed assets (31–180 days past due)	From 2.15% in Mar 2024 to 4.30% in Sep 2024	⚠️ High	<u>Business Standard</u>

3. Trend Score Of Micro Finance Bank On Economic Development

Trend Indicator	Metric	Value	Trend Score
Portfolio Outstanding (FY24)	Total microfinance loan portfolio	₹4.43 lakh crore	⚠️ High
Annual Portfolio Growth (FY24)	Year-on-year growth in total microfinance portfolio	26.8%	⚠️ High
Loan Disbursement Growth (FY23)	Year-on-year growth in loan disbursements	26%	⚠️ High
Active Loan Accounts (FY23)	Total number of active microfinance loan accounts	13.63 crore	⚠️ High

Women Clients Added (FY23)	Number of new women clients added to the microfinance sector	80 lakh	<input checked="" type="checkbox"/> High
Rural Borrower Share (FY23)	Percentage of microfinance borrowers from rural areas	74%	<input checked="" type="checkbox"/> High
NBFC-MFI Market Share (FY23)	Share of Non-Banking Financial Company - Microfinance Institutions in total microfinance portfolio	39.7%	<input checked="" type="checkbox"/> High
Average Loan Ticket Size	Predominant loan amount range	₹30,000 – ₹50,000	<input checked="" type="checkbox"/> High
Digital Adoption	Growth in digital platforms for microfinance services	Rapid adoption	<input checked="" type="checkbox"/> High
Loan Repayment Performance	Trends in loan repayment rates	Improved portfolio quality	<input checked="" type="checkbox"/> High

Advance India plan Micro Finance Bank On Economic Development

- The Advance India Plan aims to strengthen microfinance banks as tools for inclusive economic development.
- It focuses on improving access to credit for rural and low-income communities.
- Microfinance banks will play a key role in promoting self-employment and micro-enterprises.
- Women entrepreneurs are given priority to foster gender-based economic empowerment.
- The plan supports digital banking platforms to reach remote areas efficiently.
- Financial literacy programs are included to help borrowers make informed financial decisions.
- Interest subsidies are proposed to reduce the cost of borrowing for weaker sections.
- The plan promotes partnerships between MFIs, NGOs, and local governments.
- It encourages saving habits through group lending and small deposit schemes.
- The use of Aadhaar-linked services ensures secure and targeted lending.
- Skill development and training are aligned with microloan offerings.
- Environmental sustainability is addressed through green finance and eco-friendly projects.
- Regulatory support is enhanced to reduce compliance burdens on small MFIs.
- Monitoring systems are strengthened to track loan usage and minimize defaults.
- The overall goal is to build a financially empowered and economically independent India.

4. Literature Review

1. Muhammad Yunus (2007): *Creating a World Without Poverty: Social Business and the Future of Capitalism* Yunus, the pioneer of modern microfinance and founder of Grameen Bank, emphasizes the transformative role of microfinance in uplifting the poor. His work outlines how microfinance institutions (MFIs) enable people—especially women—to start microenterprises, increasing household income and improving access to healthcare and education. He posits that microfinance contributes not only to income generation but also to self-esteem, community engagement, and long-term economic development. Microfinance empowers the poor through access to credit. Strong focus

on women borrowers and social impact. Economic development is tied to micro-entrepreneurial growth.

2. Khandker, Shahidur R. (2005): Microfinance and Poverty: Evidence Using Panel Data from Bangladesh This study conducted by the World Bank used panel data from Bangladesh to assess the impact of microfinance on poverty reduction. Khandker found that access to microfinance significantly reduces poverty at both individual and village levels. The impact was more noticeable for women borrowers. Microfinance was also found to contribute to improved consumption, investment in children's education, and asset accumulation. Microfinance reduces long-term poverty. Higher returns when loans are targeted at women. Benefits spill over to the entire community.

5. FINDINGS

Microfinance Has a Positive Impact on Economic Development Both studies confirm that access to microfinance services significantly improves economic conditions by enabling entrepreneurial activities, increasing household income, and reducing poverty. Women Are Key Beneficiaries Women tend to benefit more from microfinance programs, as they are more likely to invest in household needs, children's education, and income-generating activities. Community-Level Impact Exists Microfinance not only helps individuals but also fosters economic activity and development at the community and village levels. Long-Term Effects Are Promising Over time, microfinance contributes to asset creation, better consumption patterns, and economic stability, which are essential for sustainable economic development.

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