ISSN : 3139-4396
International Journal on Commerce, Management, Tourism and Home Science
Vol.1|Issue 2|September -2026
Available online at: www.ijcmth.com

CONTRIBUTION OF MICROFINANCE INSTITUTIONS TOWARDS SUSTAINABLE DEVELOPMENT - AN EMPIRICAL STUDY

***Mr. S. GNANASEKAR, Part-Time Research Scholar, Department of Commerce, Erode Arts and Science College, Rangampalayam, Erode.**

****Dr. B. VIDYA, Head and Assistant Professor, Department of Commerce, Erode Arts and Science College, Rangampalayam, Erode.**

ABSTRACT

Sustainable Microfinance has undergone a paradigm shift and is now recognized as a crucial mechanism for poverty alleviation and promoting sustainable livelihoods, which is a key focus area for achieving the Sustainable Development Goals. Microfinance institutions cater by offering small loans, savings, and insurance, which are often unavailable through formal banking and financial services. Thus, Microfinance Institutions enable marginalized communities to access credit, build assets, and engage in income-generating activities. The focus of microfinance has shifted from providing basic credit access to promoting sustainability through social, economic, and environmental considerations. In recent times, the microfinance institutions are concentrating on long-term impact through changing the lives of the low-income people by making them social entrepreneurs rather than just rendering short-term financial support.

The research aims to analyze the contribution of sustainable microfinance in reducing poverty and promoting inclusive development. It stresses the credit trend of the microfinance institutions, which are rapidly growing the sector towards indebtedness. The research also highlights on the innovative digital mechanisms that are engaged, focused on digital financial services, women-focused lending and green microfinance, which support poverty reduction and also ensure empowerment and environmental balance. The study also provides the challenges on repayment and regulatory barriers and explores measures to strengthen it.

Keywords – Sustainable Microfinance, Poverty Alleviation, Women Empowerment, Livelihood

INTRODUCTION

In recent times, the concept of sustainability has assumed a pivotal role globally. The UN Sustainable Development Goals are framed in the vision of 2030. The 17 Sustainable Development Goals are taken as an important part for bringing sustainable development across the globe. In India, the Sustainable Development Goals have been visualized as an important area across all sectors. The focus on the 17 goals is taking momentum today. The main agenda of the United Nations is to improve on the goals and achieve it by the year 2030. The goal no 1 focuses on zero poverty and bringing sustainable livelihood for all. This has taken a tremendous shift towards improving poverty alleviation and sustainable livelihood for the poor. In India, the Microfinance sector has taken a paradigm shift in bringing limelight in focusing on reducing the Below Poverty Line (BPL) by providing essential livelihood and ensuring to uplift the socio-economic conditions to support their day-to-day lifestyle. Thus, the microfinance sector created more importance towards inclusivity and sustainable development. It provides financial access and encourages savings and credit facilities to individuals who lack banking services.

STATEMENT OF THE PROBLEM

Microfinance plays a catalytic role in inclusivity and sustainable development. In today's scenario, the microfinance sector has grown largely through the emergence of various Microfinance Institutions, which act in parallel with the formal banking system. The role of MFIs has taken a paradigm shift towards the financial system in improving access of finance mostly by offering savings, credit, and insurance services. The various models adopted in the microfinance sector, especially the Self-Help Group Model, have largely activated the financial inclusion to an enormous extent, which plays a key role in bringing women empowerment and improving the socio-economic status through promotion of savings, giving credit access, providing insurance, and enabling them to become social entrepreneurs as well. It acts as a supporter in eradicating poverty and bringing sustainable development, and also offers innovative digital products that are useful for the clients. However, there are certain pitfalls, such as the high rate of interest offered by the microfinance institutions, which leads to repayment problems, causing financial distress for the individuals and also the institutions suffer to a large extent.

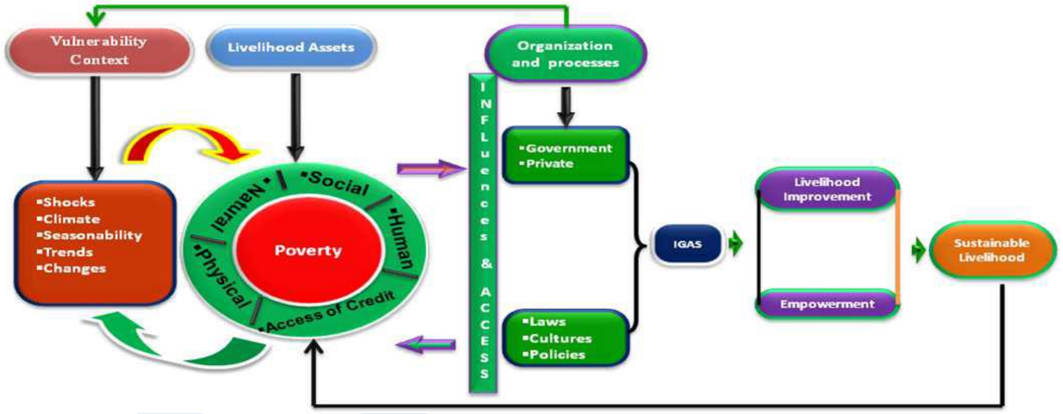

Fig 1 – Linkage of Micro credit and Sustainable Development

Source – DFID 2001

REVIEW OF LITERATURE

Piyush (2025). The results of this study show a strong relationship between microfinance and women's economic and social empowerment; however, this relationship depends on the women's marital status and level of education, suggesting that age cannot be controlled. However, the survey clearly demonstrated that women face many barriers when trying to access financial services. The proposed high interest rate is the crucial element. Improving the availability of women-focused microfinance could be the best way to support women's empowerment and business in Bihar.

Arun Kharde (2025) This study examines how microfinance can improve women's economic empowerment in Maharashtra's Marathwada region. Through cooperative banks, SHGs, and MFIs, microfinance has become an essential instrument for reducing poverty and promoting gender parity. The study evaluates how women's socioeconomic status has changed because of their access to microcredit, savings, and financial literacy. It draws on secondary data and field reports to highlight the success stories, challenges, and impact of it on decision-making power, economic status, and social mobility among rural women in Marathwada.

Thomas Shaji (2025). The study's results demonstrated the crucial role of women's empowerment. The results showed that it has a special role in empowering women and that all respondents were satisfied with most microfinance features, including interest rates, customer service, repayment plans, financial education and training, and loan approval processes. For legislators and others similarly charged with creating programs to advance women's empowerment, the study is important.

Research gap

According to the reviewed literature, microfinance improves financial inclusion, poverty alleviation, and women's empowerment in various geographical areas. Most of the research demonstrates that microfinance helps women generate income, exercise decision-making authority, develop their skills, and advance in society. Nonetheless, there are still several significant gaps in the current corpus of research. First, there is little data regarding the **long-term sustainability and intergenerational effects** of microfinance, even though numerous studies have examined its immediate effects on women's economic and social empowerment. Research frequently quantifies short-term financial gains but rarely examines how empowerment persists or deteriorates over time. Second, while it is common to identify obstacles like **high interest rates, limited financial literacy, and repayment challenges**, few studies have looked at creative solutions like **digital microfinance platforms, mobile banking, or AI-driven financial tools** that could increase transparency, lower costs, and improve access. Third, other aspects like **psychological well-being, digital literacy, health outcomes, and resilience during crises** (e.g., pandemics or climate shocks) are often overlooked when measuring empowerment in **economic terms**. To more accurately depict women's empowerment, a multifaceted framework is required. Fourth, there is a dearth of **comparative analysis between rural and urban contexts** despite the fact that the majority of the studies that are currently available concentrate on rural areas. Urban women may encounter a variety of understudied issues, such as inconsistent incomes or operational inefficiencies. Similarly, although some studies have indicated that **marital status, age, and education level** are significant factors, these variations are still not adequately addressed.

OBJECTIVE OF THE RESEARCH

- To understand the Sustainability of Microfinance in India
- To analyse the status of portfolio in the microfinance industry.
- To assess the performance of the selected institutions.
- To identify the adoption of digital technology in the microfinance sector

and portfolio quality. Patterns and relationships found in earlier research can also be interpreted using statistical software used are JAMOVI

Tools Used

- **One Sample T Test**
- **Paired Sample T Test**
- **Correlation**

RESULTS

PERFORMANCE OF MICROFINANCE INSTITUTIONS

Table 1 – Performance of MFI

Year	**Disbursement growth (in Cr)**	**Portfolio outstanding**
2022-23	3.21.451	3,19,079
2023-24	3.89,493	3,81,212
2024-25	2,90,238	3,35,071

Source – microfinance pulse

Table 2 - Micro Credit Indictor

Year	**Credit Indictor**
2021-22	90
2022-23	102
2023-24	105
2024-25	69

Table 3 - Micro credit indicator by Lender Category

Year	**Banks**	**NBFC – MFI**	**NBFC**	**SFB**
2021-22	89	97	93	90
2022-23	100	102	105	102
2023-24	103	102	102	107
2024-25	88	90	89	85

Table 3 Regional Distribution of Portfolio

Region	**Distribution of portfolio**
South	30
North	15
West	16
East and North East	33
Central	6

Table 4 Top 10 States Performance

State	Gross loan portfolio	Avg loan outstanding
Bihar	57,557	28,619
Tamil Nadu	46,653	31,131
Uttar Pradesh	41.333	27,954
West Bengal	36,308	28,296
Karnataka	35,126	28,296
Maharasthra	28,910	27,331
Odisha	20,545	24.854
Rajasthan	14,850	26,775
Kerala	11,240	28,009

CASE ANALYSIS OF SELECTED SMALL FINANCE BANKS

Table 5 - Return on Equity

YEAR	Uttarkash SFB	Ujjain SFB	AU SFB
	Return on equity		
2021-22	4.16	13.8	16.4
2022-23	22.91	31.4	15.4
2023-24	19.54	26.1	13.5
2024-25	0.79	12.4	13.1

Table 6 Earnings Per Share

YEAR	Uttarkash SFB	Ujjain SFB	AU SFB
	Earnings Per Share		
2021-22		2.4	18
2022-23		5.8	22
2023-24		6.6	23
2024-25		3.75	28

Capital Adequacy Ratio

YEAR	Uttarkash SFB	Ujjain SFB	AU SFB
2021-22	21.59	19.0	21.9
2022-23	20.34	25.8	23.6
2023-24	22.57	24.7	20.1
2024-25	20.93	23.1	20.1

Paired Sample T Test for capital adequacy ratio across SFB

H0 – There is no significant difference between the capital adequacy ratio of Uttarkash and Ujjain across the year

H1 – There is significant difference between the capital adequacy ratio Uttarkash and Ujjain across the years.

Pair	**Mean Difference**	**Std. Deviation**	**Std. Error Mean**	**t**	**df**	**Sig. (2-tailed)**
Uttarkash – Ujjain	-1.67	3.64	2.10	-1.08	2	0.358
Uttarkash – AU	-0.37	6.47	6.47	-0.06	2	0.959
Ujjain – AU	1.30	2.44	1.22	1.06	2	0.365

The results of the paired sample test shows that there is no significant difference between Uttarkash SFB and Ujjai SFB Since the Pvalue of both the SFB are above 0.05 confidence level which states that there is comparable advantage between Uttarkash and Ujjain

One Sampled T Test

Ho – There is significant difference between gross loan portfolio and average loan outstanding in 9 states

H1 - There is significant difference between gross loan portfolio and average loan outstanding in 9 states

One Sample T-Test							
		Statistic	**df**	**p**	**Mean difference**		**Effect Size**
Gross loan portfolio	**Student's t**	4.61	8.00	0.002	27905	Cohen's d	1.54
Avg loan outstanding	**Student's t**	7.94	8.00	<.001	25151	Cohen's d	2.65
Note. H_a $\mu \neq 9$							

Descriptives					
	N	**Mean**	**Median**	**SD**	**SE**
Gross loan portfolio	9	27914	28910	18142	6047
Avg loan outstanding	9	25160	28009	9502	3167

The results show that the average loan outstanding and the gross loan portfolio deviate significantly from the test value of 9. The test result for the gross loan portfolio was t(8) = 4.61, p = 0.002, with a large effect size (Cohen's d = 1.54), indicating that the mean gross loan portfolio

(M = 27,914) is significantly higher than the test value. Likewise, a highly significant difference was found in the average loan outstanding ($t(8) = 7.94$, $p < 0.001$), with an even larger effect size (Cohen's $d = 2.65$). This suggests that the mean average loan outstanding (M = 25,160) is significantly higher than the test value. These results show that the loan measures are substantially higher than the proposed benchmark and provide compelling evidence against the null hypotheses.

Correlation analysis

Ho – There is no significant linear relationship between portfolio and credit indictor

H1 - There is significant linear relationship between portfolio and credit indictor

Correlation Matrix

		portfolio	credit indicator
portfolio	**Pearson's r**	—	
	df	—	
	p-value	—	
credit indicator	**Pearson's r**	0.341	—
	df	1	—
	p-value	0.778	—

The credit indicator and the portfolio have a weakly positive correlation, as indicated by the Pearson's correlation coefficient (r) of 0.341. Nonetheless, the corresponding p-value of 0.778 is significantly higher than the conventional significance thresholds (e.g., 0.05 or 0.01). This implies that we cannot rule out the null hypothesis that there is no linear relationship and that the observed correlation is not statistically significant. Practically speaking, although there seems to be a small tendency for higher portfolio values to be linked to higher credit indicator values, there is insufficient evidence to draw the conclusion that this relationship actually exists in the population.

RESULTS AND DISCUSSION

Despite some notable fluctuations in recent years, the performance of microfinance institutions (MFIs) in India shows significant growth and diversification. Between 2022–2023 and 2023–2024, the amount of disbursements increased gradually, reaching ₹3,89,493 crores before falling to ₹2,90,238 crores in 2024–2025. Comparably, the outstanding portfolio increased from ₹3,19,079 crores in 2022–2023 to ₹3,81,212 crores in 2023–2024 before falling to ₹3,35,071 crores in 2024–2025. This demonstrates that even though microfinance has reached a wider audience, issues with portfolio sustainability still exist. Additionally, credit indicators showed volatility, rising from 90 in 2021–2022 to 105 in 2023–2024 before falling to 69 in 2024–2025, indicating either structural inefficiencies or increasing repayment stress.

Banks, NBFC-MFIs, NBFCs, and Small Finance Banks (SFBs) all made consistent contributions, according to analysis by lender type; however, performance levels varied from year to year. For example, NBFC-MFIs and NBFCs exhibited moderate growth in 2023–2024, whereas banks and SFBs recorded stronger credit indicators (103 and 107, respectively). With 33% of the portfolio, the eastern and northeastern states dominate the regional distribution, followed by the south with 30%. This indicates that microfinance activity is concentrated in particular regions. The role of MFIs in densely populated, low-income states is highlighted by the fact that Bihar, Tamil Nadu, and Uttar Pradesh had the largest gross loan portfolios at the state level.

CONCLUSION

To sum up, sustainable microfinance has become an essential tool in India's battle against poverty and in support of sustainable livelihoods. Microfinance institutions have enabled people, especially women, to improve their socioeconomic circumstances and engage in income-generating activities by providing financial services like microcredit, savings, and insurance to underserved communities. According to the study's findings, microfinance has been crucial for community development, women's empowerment, and financial inclusion; however, issues like excessive debt, exorbitant interest rates, and repayment difficulties still pose serious problems. However, there is encouraging potential to improve outreach, efficiency, and sustainability through the combination of digital technologies, women-focused programs, and green microfinance techniques. Microfinance needs to be strengthened through efficient regulation, creative delivery methods, and an emphasis on striking a balance between social goals and financial viability to have the greatest long-term impact. Thus, in line with the 2030 Sustainable Development Goals, sustainable microfinance remains a vital component of India's efforts to reduce poverty and promote inclusive development.

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