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MAGAZINE NOTES

Microfinance in India — Regulation, Growth, and Challenges

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Microfinance in India — Regulation, Growth, and Challenges

📘 **Yojana** Chapter 3 · 2 min read ·

Microfinance is the provision of **appropriate, affordable, and transparent financial products** to low-income and vulnerable groups by regulated institutional players.

Historical Evolution

YEAR/INITIATIVE	MILESTONE
SHG-Bank Linkage Programme (1992)	Launched by NABARD as pilot; became world's largest microfinance programme
RBI Vision Document (2015)	Universal access to basic financial services; technology-enabled delivery
NSFI 2019-2024	National Strategy for Financial Inclusion; measures Access, Usage, Quality
RBI Regulatory Framework (2011)	Post Expert Committee; small collateral-free loans; borrower protection
Revised Framework (March 2022)	Comprehensive overhaul — see below

RBI Revised Regulatory Framework (March 2022) — Key Parameters

PARAMETER	LIMIT
Microfinance borrower definition	Annual household income ≤ **₹3 lakh**
Margin cap	**12%**
Maximum interest rate	**26% p.a.** (reducing balance)
Processing fee cap	**1%** of loan amount
Total loan repayment	≤ **50% of household income**
Maximum NBFC-MFIs per borrower	**2**
Net Owned Funds	**₹5 crore** (₹2 crore for NER)
Minimum CAR	**15%**
Tier-II capital cap	100% of Tier-I

Microfinance Sector Performance (2023-24)

INDICATOR	FIGURE
Districts covered	**730** across 28 States and 8 UTs
Loan accounts growth	**6.1%**
Gross Loan Portfolio growth	**16.2%**
Average loan size	**₹46,636** (up from ₹41,369 in 2022-23)
GNPA ratio	Declined from **10.31% to 8.72%**
Lowest GNPA	NBFC-MFIs
Concerns	SFBs and Non-Financial Entities have higher NPAs

Risk Weight Rationalisation (February 2025)

- **November 2023:** RBI raised consumer credit risk weight to **125%** — microfinance initially affected
- **February 2025:** Microfinance loans **excluded** from the increase; risk weight **reduced to 100%**
- Signal: RBI recognises microfinance as distinct from consumer credit

Government and Institutional Initiatives

- **PMJDY:** Near-universal bank account coverage (Jan Dhan accounts)
- **Banking Correspondents (BCs):** Last-mile credit delivery in unbanked areas
- **Small Finance Banks (SFBs):** Dedicated to financial inclusion
- **PSL for NBFC on-lending:** Bank loans to NBFCs for microfinance classified as priority sector

Key Challenges

- Over-indebtedness and multiple borrowing by same household
- High operating costs in remote/rural areas
- Inadequate financial literacy among borrowers
- Regional concentration risk (some states over-served, others under-served)
- Weak grievance redressal mechanisms at ground level

UPSC Angle

- **GS3:** Financial inclusion, poverty alleviation, RBI regulation, NABARD, SHG model
- **GS2:** Government schemes (PMJDY), regulatory governance
- **Interview:** “Is microfinance a tool for empowerment or a debt trap for the poor? How can regulation balance access with protection?”

Sources: NextIAS Yojana January 2026 , EduRev Yojana January 2026 Part 2

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