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Article

From Microfinance to Impact Finance: A Study on the Role of Financial Inclusion in Sustainable Rural Development in India

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Name of Author:
Mr. Aman Shukla[1], Dr. Bhawna Sharma[2], Ms. Chitra Shridhar[3], Ms. Shrashti Gautam[4], Ms. Alisha Naz[5]

Affiliation:
[1]*Assistant Professor, School of Management, Sanjeev Agrawal Global Educational University, Bhopal*
[2]*Assistant Professor, School of Commerce, Sanjeev Agrawal Global Educational University, Bhopal*
[3]*Assistant Professor, School of Commerce, Sanjeev Agrawal Global Educational University, Bhopal*
[4]*Assistant Professor, School of Commerce, Sanjeev Agrawal Global Educational University, Bhopal*
[5]*School of Management, Sanjeev Agrawal Global Educational University, Bhopal*

Corresponding Author:
Mr. Aman Shukla

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Abstract: As more than two-thirds of Indians live in rural areas, sustainable rural development remains a major component of plans for India's growth. Over time, the lack of access to official finance has far excluded the rural economy from the growth story, thereby preventing rural families from making money, investing, and developing resilience. With little loans and other financial products accessible to the underprivileged, especially women, microfinance was considered as a possible fix to this vacuum. High interest rates, poor improvements of living, and the growth of over-indebtedness among its customers are among the criticisms, though. Especially infrastructure for digital finance and impact measurement has helped to expand the definition of impact finance beyond access to credit or capital and the provision of measurable social and environmental results as a justifiable financial investment goal.This paper discusses the role of financial inclusion as an enabler for sustainable development of India's rural economy and the transition from microfinance to impact investing. It uses a descriptive and analytical research methodology to assess a combination of the Reserve Bank of India, NABARD, World Bank Global Findex, UNDP, MFIN, GIIN, International Finance Corporation (IFC), SEBI and peer-reviewed research based on a secondary source analysis of each. The implementation of services using AO (Aadhaar) and UPI (United Payments Interface) in conjunction with the introduction of the PMJDY (Pradhan Mantri Jan Dhan Yojana) program during 2014-2017 supports the conclusion that PMJDY has contributed to increasing access to finance. As a result, PMJDY has created a much broader support system, allowing for greater transparency, accountability and efficiency in Rural Finance. Although it has been shown to promote financial inclusion, the impact of Empowerment, Smoothing Consumption and Entrepreneurship through microfinance is not uniform. On the other hand, the development of Impact Finance has the potential for greatly increased scalability, responsibility and sustainability when used in combination with goals that focus on environmental, social and governance (ESG). Digital Innovation has the potential to develop Hybrid Finance models that allow for digital finances to be integrated into the overall Financial Inclusion process in order for Digital Innovations to promote an Impact Financing model. The findings of this research suggest that the collective synergy of microfinance, digital finance and impact investing based on financial inclusion will dramatically accelerate the rural economic progress in India. Policy Recommendations include: Increasing Digital Literacy, Informed Borrowers, Impact Assessment Tools and Support For Social Enterprises In Rural Areas. Thus, the research provides a complete and coherent synthesis of both theoretical and empirical evidence demonstrating the relationship between microfinance and impact finance, thus establishing Financial Inclusion as the primary driver of Sustainable Rural Development in India.

Keywords— Microfinance, Impact Finance, Financial Inclusion, Rural Development, India, Sustainable Development, Digital Finance, Impact Investing.

INTRODUCTION

Especially as legislators and practitioners realize that access to money must result in long-lasting and quantifiable socioeconomic results, financial inclusion has progressively come to be a core pillar of India's rural development narrative. Microfinance arose during the last two decades as a major tool for reaching poor rural households with credit, especially women. MFIs in India are actively assisting in financial inclusion by offering necessary financial services to unserved areas of the population, mostly in rural and semi-urban regions where traditional banking systems usually have limited reach (Kauser, 2022).MFIs have come to be an important channel for the delivery of every kind of financial services, including loan facilities, savings accounts, and others, to those without access to all forms of banking services (Forcella and Hudon, 2014).Governments around the globe have supported MFIs to enable low-income earners and small business owners to create or grow their company and so plan and manage their finances. Furthermore, MFIs help the economy grow by reducing poverty and strengthening citizen independence (Nugroho et al., 2017).

Although it was successful in increasing credit outreach, microfinance—mostly based on microcredit-driven lending—has been criticized for its limited capacity to create long-term developmental impact or resilience in rural areas (NABARD, 2023; Sa-Dhan, 2024). The traditional microfinance model proved inadequate in solving the multidimensional character of rural development as India's economic scene changed with fast digitalisation, climate vulnerabilities, growing income disparities, and diversification of rural livelihoods. The development process of microfinance has been influenced by the pressing global issues of environmental damage, gender inequality, and lack of livelihood diversification. Although many conventional microfinance models have lacked means to solve these multifaceted challenges, they have been quite effective at increasing financial inclusion. Sustainable and green microfinance models have thus developed that aim for inclusive rural development by combining financial services with environmental and social goals.

Environmental degradation, in particular in agriculture-reliant, regions has compounded the fragility of rural populations. Green microfinance is addressing this need through lending for climate-resilient technologies such as solar irrigation and organic farming inputs, as well as for biogas systems. These diminish natural resource use and/or raise productivity and earnings stability (Ansari et al., 2025). For example, a number of microfinance organizations in India and Bangladesh have raised capital for solar home systems and clean cookstoves that have contributed to better environmental conditions and better health/outlook. Another critical objective is livelihood diversification. Traditionally, rural economies are tied to agriculture, which is vulnerable to climate shocks and commodity price volatility. Green microfinance supports diversification by lending to non-farm rural businesses such as handicrafts, food processing and eco-tourism. It diversifies income sources and makes people less vulnerable to external shocks. Capitalising on these innovations, a new breed of financial actors have become known as Impact Finance Institutions who combine financial sustainability with a transformative and measurable social and environmental impact. IFIs apply a triple-bottom-line methodology and measure success by impact on community well-being and environmental health, in addition to financial returns to investors. These two combine frequently with national governments, NGOs, and other multilateral partners to scale.

Modern day development is focused on creating finance that has an impact. The term 'Impact Finance' refers to a more integrated form of finance that integrates the traditional forms of lending, savings and insurance with new digital financial services, Climate Finance, Livelihood Financing, Investment Capital and Social Impact Bonds to create measurable social as well as measurable economic (OECD 2023, GIIN 2022) outcomes. Impact Finance takes the next step past Micro Finance, which had a focus on helping people to borrow through access to lending, to produce measurable social and economic outcomes.

As outlined below, this Transformation has occurred quickly within India due to the development of Fin-tech Ecosystems, Affiliate Programs using Aadhaar, and increasing demand from all over the world and within India for Environmental Social Governance (ESG) based Investment (RBI 2024, NITI Aayog 2023).

The transition from microfinance to impact finance reflects not only a theoretical shift but also the evolving realities of rural households. Rural households today have unique financial needs - e.g. savings instruments that promote resilience to shocks; micro-insurance products that assist households in managing the risks associated with climate change; digital payment platforms that provide access to markets; and funding based on the livelihood activities of households that enable them to grow their businesses (IFC, 2022). Impact finance adds value to this multidimensional financial ecosystem through the provision of services designed to assist in the creation of long-term, sustainable sources of income; the creation of quality assets; the promotion of health; and the support of climate adaptation (IFC, 2022). According to evidence from India, impact-focused financial programs have contributed to greater income stability for programme participants; increased agency among women participants; and greater resilience among programme participants and their households against the impacts of both environmental and economic shocks (World Bank, 2022; Ministry of Rural Development, 2024).

At the same time, India's unprecedented digital financial inclusion has helped to accelerate the shift toward impact financing. Digital Public Infrastructure (DPI) Platforms, such as Aadhaar, UPI, Jan Dhan, and the Account Aggregator framework, have provided rural households easy access to low-cost and transparent financial services (Mehrotra & Raghavan, 2023) through seamless delivery methods. These infrastructures have improved access to credit by utilizing data to assess risk, as well as facilitated rural access to government transfers, pensions, insurance, and mobile-based micro-investment products. According to the Reserve Bank of India's Financial Inclusion Index, the rise from 43.4 in 2017 to the current level of 60.1 indicates the impact of digital payments and increasing formal financial access (RBI, 2024). This has resulted in a significant transformation of the objective of microfinance from being an aspiration to now being more effectively realized through technology-enabled finance with an emphasis on creating positive social and environmental impact.

The flaws and unintended consequences of traditional microfinance have also fueled the emergence of impact financing. The presence of high cycles of debt in various regions; limited product offerings; narrowly tailored lending portfolios; and limited emphasis on creating livelihood opportunities have demonstrated systematic flaws with the microcredit-centric model (CGAP, 2020; Kumar & Singh, 2021). Traditionally microfinance, through its product focus, has limited the opportunities available for traditional microfinance borrowers. Through the leveraging of outcome-based financing structures, innovative blended capital financing approaches, and partnerships with government programs, like PMJDY, NRLM and PMFME, impact financing addresses the inherent limitations of microfinance. Rural entrepreneurs receive support for rural enterprises, women-led self-help groups are supported, and community-based organisations gain access to sustainable sources of finance through these partnerships.

In India, impact financing provides a huge opportunity to transform rural sectors of the economy. Impact investments in India increased from USD $5.2 Billion in 2018 to over USD $14.3 Billion in 2023. Approximately 60%-65% of these investments support financial inclusion, agriculture, renewable energy, and health sectors, which directly support the livelihoods of rural populations (GIIN, 2023). At the same time, more and more MFIs are expanding their services to include impact-linked products such as microinsurance, nano-loans to digital startups, climate-resilient loan programs and social performance monitoring tools (Sa-Dhan, 2024). This trend represents the fact that microfinance has now become a component of a larger ecosystem of impact financing aimed at facilitating inclusive and sustainable development outcomes and no longer exists exclusively as a credit-distribution platform.

Modern rural development in India is therefore increasingly influenced by the intersection of financial inclusion, digital invention, impact investing, and sustainability-oriented policies. The change from microfinance to impact finance is a major development in India's financial inclusion path that changes the goal from just reaching the underprivileged to enabling long-term resilience, empowerment, and economic mobility. Employing secondary data, this research investigates this evolutionary path and assesses how effect finance, enhanced by enhanced financial inclusion mechanisms, is transforming sustainable rural development in India.

Literature Review

By the beginning of the second decade of the 21st century, the Indian microfinance industry had built its scalability regarding the number of customers and the extent of customer engagement with their programs, especially amongst rural households, women, and those living on or near the poverty line. However, the operational experience gained from ten years of activity coupled with evidence had shown that while microcredit was making loans available to many more individuals in need, and allowing individuals to get access to Capital that they would never otherwise have been able to achieve, the loan products provided by the IFI's did not consistently yield productivity increases, climate resilience, or social / economic welfare improvements among many borrowers over time. Many of the issues faced by borrowers throughout the time frame of 2001 to 2011 (multiple borrowing, periodical over-indebtedness, limited range of products, portfolios largely dedicated to credit with very little savings or insurance and the sporadic connection to other forms of rural livelihood support) led stakeholders to consider rethinking the approach of the classic microfinance industry and to demand a more outcomes-based strategy. This transition was enabled and necessitated by three converging forces that greatly accelerated the transition: the availability of new types of capital being allocated with criteria focused on achieving quantifiable social and environmental returns (impact capital) within the development finance world; the increasing need for tools to be applied for climate resilience and product solutions that have both "green" and "insurance" components to them for those living at the very bottom of the economic pyramid; and the evolution of digital public infrastructure (e.g., Aadhaar, UPI, AEPS, Account Aggregator Framework) that significantly reduced transaction delivery costs, allowing for the emergence of data-driven underwriting, along with the requirement to provide an avenue for impact measurement across a broad spectrum. As a result of these concurrent trends, the concept of the "impact microfinance" model emerged, which incorporates the features of "branching" combinations of credit, savings, insurance, electronic fund transfers, technical assistance, and outcome measurements to provide sustainable rural development.

In India, several reports published in 2019 confirm that this is not just a change in language from 'microfinance' to 'impact-based Microfinance', but it is also a structural change to the organisation of Microfinance Institutions (MFIs). Such reports indicate an expansion of the definition of Financial Inclusion as a 'Developmental Ecosystem' rather than as simply 'A Means for the Delivery of Credit'. The development of Impact Based Microfinance is aligned with the broader sustainable development goals (SDGs) identified by the United Nations and emphasises intentionality, measurability and additionality as core design principles (GIIN, 2023). In addition to this, broader critiques of the traditional microfinance model indicate that it has been too narrowly defined by its focus on finance, and does not adequately take into consideration other factors important to the livelihoods of rural people such as Health, Education, Climate Resilience, and Social Empowerment (Sarkar & Shetty, 2022). Impact Based Microfinance is increasingly taking into account the potential for income stability, agency of Women, environmental sustainability, and digital inclusion, along with repayment as outcomes to measure against.

Increasingly, today's empirical studies show the differences between microfinance (MF) and impact MF (IMF), i.e. how they differ in concept and practice. Jain & Ghosh (2022), in a panel survey of fifty-two Indian MFIs, found that MFIs that commit to social performance management frameworks achieve significantly larger increases in client welfare than traditional MFIs (i.e. in terms of client’s health care expenditures, accumulation of assets, and establishment of emergency savings). Similarly, Pradhan & Natarajan (2023) found IMFIs have higher outreach to remote and underserved areas than regular MFIs. Their findings are largely attributable to their use of blended finance and outcome-based funding models; to mitigate operational risk, institutions such as IMFIs also use diversified instruments besides credit for inclusion into the financial service sector (Bai et al., 2023).

Finally, since the advent of digital public infrastructure like UPI, Aadhaar and Jan Dhan Accounts, impact microfinance has attracted increasing academic interest as a means of promoting financial inclusion in India. Schmid (2023) describes how India's digital financial ecosystem has not only increased household access to credit, but also modified how households utilise credit in the lower income segments. These MFIs also use advanced technology and tracking to lower their transaction fees and improve the quality of credit scores by using other forms of data to create a more extensive loan portfolio in traditionally under-served and rural areas. Schmid (2023) further emphasised that, at an operational level, utilizing digital technology for impact assessment by MFIs allows them to be more accurate in assessing client needs, developing suitable credit products and tracking changes in the economic and social status of their clients nearly in real time.

Women's empowerment is a significant and frequently studied aspect that has been linked in the academic literature on microfinance to the area of financial inclusion. Whereas initial research on microfinance examined how the practice of group lending and the development of products targeting women shaped women's economic lives; more recently, through a focus on impact oriented methodologies to deliver microfinance, research has examined the more profound impacts of these impact oriented methodologies on women's lives. A study by Chatterjee and Suresh (2022) found that women that borrowed from microfinance institutions (MFIs) with a system to monitor and track for social impact, had greater increases in their ability to make independent decisions, diversify their enterprises, and experience mobility than women borrowers from traditional MFIs. Verma and Bansal (2024) found that when loans were bundled with digital literacy training and market linkage support, those loans had significantly greater long-term developmental impact than those loans with no digital literacy training or market linkage support. These findings support the argument that by creating mechanisms to focus on capability building and empowerment metrics, impact microfinance creates more sustainable and meaningful opportunities for financial inclusion.

Sustainable rural development, especially in poor rural areas, is one of the major areas of emphasis by microfinance researchers. This has been fuelled by the increasing vulnerability of rural areas to climate change, agrarian distress, and labour market transitions in the rural economy. As such, some studies argue that the existing financing models should provide solutions for addressing multiple and interconnected rural development vulnerabilities (e.g. agricultural risks, health shocks, market exclusion, and climate variability). Impact Microfinance links finance to the wider rural development impacts through the inclusion of social and environmental performance metrics. Bhattacharya and Sen (2022) highlight the positive impact on the consumption stability and reduced dependence on informal lending for rural households resulting from the provision of impact-linked agricultural and livelihood loans in rural Odisha, West Bengal and Uttar Pradesh. In a comparative study of 14 rural districts, they show that households serviced by MFIs that focus on impact have more income diversification and a higher adoption of irrigation technology compared with households using traditional microfinance products.

The focus on the role of microfinance in helping rural people adapt to the effects of climate change has been a major driver for research into this topic, particularly for India. Aggarwal & Thomas (2022) describe recent research demonstrating that MFIs' provision of finance for renewable energy projects enhances the resilience to climate change for rural households in India, as do MFIs' provision of funds for water management projects and 'climate-resilient' agricultural production through innovative agricultural practices.Evidence from several studies across South Asia provides additional support for the role of MFIs in supporting climate-resilient agricultural production and helping decrease vulnerability to extreme weather events (Bai et al., 2023). Impact Microfinance both enhances economic inclusion through MFIs' investments in rural communities and supports efforts to realize SDG13.

Another important piece of literature relates to how rural enterprises are impacted through the transformation of Rural Enterprises through Impact Financing. The expansion of lending by Impact Microfinance Institutions to support Agricultural activities has led to new opportunities for formalising rural microenterprises; using digital technology; improving productivity; and creating new jobs. Recent studies by the International Finance Corporation's (IFC) (2022) indicate that rural enterprises accessing Impact Microfinance have much better financial health, accounting practices and market connections than those utilizing traditional microcredit. Many academic research studies corroborate these findings. Nair & Sahu (2023) are one example of such studies, and they indicate that rural microenterprises receiving "bundled" Impact services (credit, training, and digital payments) achieve greater revenue and better repayment rates than other rural microenterprise sectors.

Recent ongoing research has been done that investigates financial inclusion, impact finance, and multidimensional poverty. Using longitudinal household data gathered between the years of 2010 to 2014 from the states of Madhya Pradesh and Chhattisgarh in India, Gupta and Srivastava (2023) evaluated the progress made towards reducing multidimensional poverty among households that participated in impact microfinance programs through impacts on the following areas: health, education, sanitation and nutrition (Gupta And Srivastava, 2023). Their findings echoed the results found in an international meta-review (Lenka & Sharma, 2022) that compared similar studies on impact finance (76 studies) within developing nations and concluded that the use of impact-linked financial products was far more beneficial to poverty-reduction than traditional microfinance since these products addressed issues of structural limitations beyond mere access to capital.

Although there is much evidence supporting the positive impact of impact finance, there are also emerging challenges within impact microfinance that researchers have identified. Issues related to mission drift, where commercial investors prioritise profitability over positive social impact, represent a key concern (Sinha & Sangwan, 2021).Digital exclusion has been highlighted by some researchers, as low-literacy rural populations may not be able to access digital financial services unless capacity-building interventions accompany them. There are also disagreement over how best to measure the impact of financial services; especially where it is difficult to ascertain which aspects of development can be attributed to the intervention because of the complexity of sociocultural factors and other overlapping livelihood strategies within the same area. The criticisms of these research studies centre on the importance of developing an outcome-based measurement framework that would ensure accountability and sustainable impact on microfinance through long-term measurement.

In short, recent literature indicates that impact microfinance is a more holistic, transformational, and development-oriented approach compared to its predecessor, microfinance, at large in the Indian context. There is vast recognition among scholars of its better potential to facilitate inclusive growth, build resilience, strengthen women’s empowerment, diversify livelihoods, and foster sustainable rural development. However, the literature also points out measurement challenges, digital access barriers, and regulatory concerns which need to be addressed constantly. These gaps call for further empirical research to connect impact microfinance, financial inclusion, and sustainable rural development and form the basis of the present study.

Objectives :-

1. To examine the transformation in India from conventional microfinance to impact finance and its ramifications for financial inclusion and sustainable rural development.
2. To look at patterns in financial inclusion and how well microfinance is working (GLP, borrower outreach, FI-Index, digital penetration) using data from 2021–2024 that is already available.
3. To determine how impact-oriented microfinance programs (SDG-linked financing, women-centric

lending, livelihood and green finance) support sustainable rural development.

Methodology -

Using a descriptive-analytic methodology with secondary data, this research examines how microfinance has evolved into impact microfinance and what effect it has had on financial inclusion and sustainable rural development in India. The research uses both quantitative analysis of sector-wide indicators ('trend analysis') and qualitative synthesis of recent impact studies and policy documents.

The main secondary sources used were chosen because they are current authoritative sources relevant to the sector. Examples of these secondary sources include: the Reserve Bank of India financial inclusion index reports and commentary; NABARD All-India Rural Financial Inclusion Survey (NAFIS) 2021–22, status report; MFIN India Microfinance Review/Micrometer; annual reports from MFIN; MicroLend from CRIF High Mark regarding microfinance sector performance; Sa-Dhans quarterly microfinance reports; World Bank Global Findex Country Brief (2021); Press Release from Indian Government on Digital Payments including UPI and PMJDY. All these secondary sources provide the same indicators including: Financial Inclusion Index, Gross Loan Portfolio, Portfolio at Risk, Account Ownership, Digital Transaction Volumes, Gender and Rural / Urban Demographics.

Analytical steps:

1) To complete your collated FI-Index (Access/Usage/Quality), as well as collect all data regarding GLP & borrower counts (e.g., MFIN, Sa-Dhan) and PAR (>30 days) (e.g., CRIF/Sa-Dhan), collect ownership information (e.g., Global Findex) and transaction metrics (e.g., from NPCI and PIB).

2) To produce a satisfactory trend analysis covering the period 2018-2024, provide information about the year-on-year increase and provide these in Time Series format for FI-Index, GLP, PAR and Digital Transactions.

3) Provide evidence-based synthesis of the outcomes of Conventional Microcredit and Impact Microfinance using research case studies and evaluation reports (NABARD, IFC, UNDP).

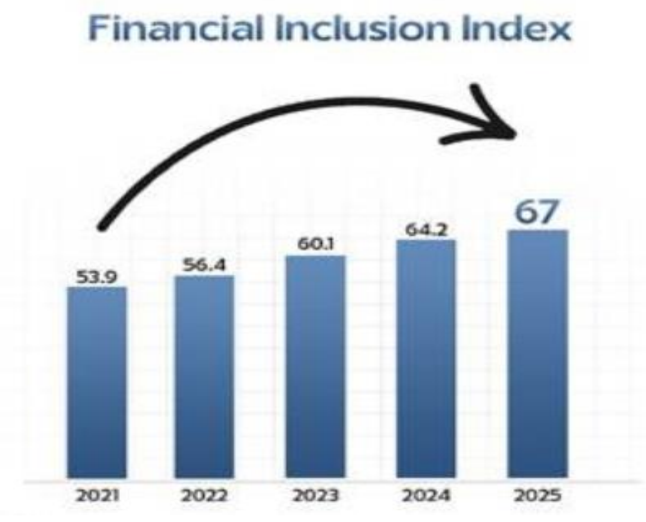
4) Triangulate (validate) your quantitative trends with (substantiate) qualitative data (e.g., impact evaluation, industry-based case studies) to come to a conclusion about the relationship of the identified variables to policy implications.

Data Analysis-

Between the years 2017 and 2024, there were three important types of developments (1) Financial Inclusion Technology enhancement, (2) Improved Digital Infrastructure, and (3) Growing need for Impact Investing based on Social Responsibility. All three types of development have been part of the process of developing India's Financial Inclusion landscape. Financial Inclusion was enhanced from 2017-2024 through the implementation of PMJDY and through the development of an Aadhaar-enabled DBT integration system that created much-needed access to banking services for individuals living in rural communities. In addition, Digital Infrastructure increased rapidly through UPI, thereby providing significant cost reductions associated with Financial Transaction Fees, as well as providing seamless access to Financial Services for low-income consumers via Digital Delivery systems. Furthermore, during this time period, the Institutions that operate within India's Microfinance Sector continue to develop their Gross Loan Portfolio and build upon their Governance, Risk Management and Consumer Protection programs.The creation of more robust institutions enabled microfinance institutions (MFIs) to transition from being exclusively focused on providing loans to providing a wider range of financial services including insurance, livelihood financing, resilience-building products and climate-related loans. The growth of domestic and global impact capital (i.e., blended capital, ESG-related capital) has been a catalyst for growth in the ability of MFIs to secure long-term concessional and outcome-based funds to support rural communities. Recent studies continue to show that MFIs focused on social performance, as well as financial performance, consistently perform better than MFIs that only offer loans. These types of MFIs deliver greater impact in the areas of women's empowerment, asset accumulation, income stability and household resilience than traditional models of microcredit.

Farsightedness is the key to a Financial Empowered India by bringing Banking to the Extent of Branches and having an Average Increase of Financial Inclusion & Financial Literacy in Every Area of India from the Most Remote Place to All Urban Areas. Financial Services such as Bank Accounts, Loans, Pensions, and Insurance that were once only available to Some, are now Accessible to Everyone. Financial Services & Products & Increasing Financial Literacy are Growing at a Rapid Pace as substantiated by the Reserve Bank of India. As stated in the Reserve Bank of India Document Financial Inclusion Index (FI-Index) for the End of Fiscal Year March 2025 is now at 67.0 versus an FI-Index at March 2024 of 64.2. The FI-Index was launched by the Reserve Bank of India in 2021 to measure Financial Inclusion in India divided into the Various Sectors of Banking, Investment, General Insurance, Postal, and Pension Services. Due to the Growth of the FI-Index, All Three Sub Indices Access, Use and Quality, of Financial Inclusion have Grown. Improvements in the FI-Index for FY2025 are primarily due to the Growth of Users and the Quality of Financial Inclusion and Financial Literacy Initiatives Drawn in the FI-Index.It also represents a

24.3 percent growth in 2021 as well as a growing commitment from the government to provide every citizen with access to the nation's ever-evolving digital financial system.



Source: Reserve Bank of India Report

Microfinance loan portfolio stands at INR 4,33,697 Crores as on Mar 31, 2024, serving 7.8 crore unique borrowers with 14.9 crore loan accounts: MFIN Micrometer Q4 FY 23-24. Microfinance loan disbursals during FY 23-24 progressed to INR 3,35,473 crores as compared to INR 2,96,423 crores in the last financial year. 7.26 Cr loans were disbursed during FY 23-24 as against 7.17 Cr in FY 22-23.
Sa-Dhan works to strengthen inclusive impact finance in India through capacity building of the member institutions and supporting microfinance organizations towards serving low-income households through policy advocacy, capacity building, and establishing codes of conduct.

In India, microfinance follows an impact-orientated ethos, to a much greater degree than traditional credit-based repayment systems, providing much greater reliance on sustainable rural development through methods of SDG-linked finance, enabling MFIs to operate within an established framework of global development priorities supporting poverty alleviation, gender equality, improved ecological sustainability and enhanced climate resilience, as established by the GIIN (Global Impact Investing Network) and OECD.The emergence of women-centred lending within the microfinance framework of India has gone from being a traditional aspect to becoming an increasingly transformational model that integrates the provision of credit with opportunities for developing digital literacy, increasing skills and helping provide enterprise.Recent empirical studies demonstrate that integrating digital literacy, skill development and enterprise support into the lending model, was shown to be an instrumental factor in increasing women's rights regarding economic independence, entrepreneurship, increased diversification as well as financial stability in the long term. (Chatterjee & Suresh, 2022; Verma & Bansal, 2024).On the other hand, Livelihood Finance combined the provision of credit with training/educational materials to allow rural entrepreneurs to gain access to inputs, technology and markets, while reducing their reliance upon informal sources of capital, enabling rural entrepreneurs to scale up their operations and providing opportunities for micro-enterprises to become formal businesses (Nair and Sahu, 2023; IFC 2022).Microfinance is also a promising tool for both social and environmental impact and microfinance institutions (MFIs) are increasingly investing in funding for solar energy systems, clean cooking stoves, climate smart irrigation and sustainable agriculture technologies. Evidence from numerous studies illustrate that these types of investments contribute to reducing household vulnerability to climate-related shocks, lowering household energy and input costs, and improving environmental and health outcomes(Mostafa & Al-Moujahed, 2021; Mostafa & Dhir, 2023). All of these impact-focused microfinance models (e.g., SDG linked finance, women's focused credit, livelihood finance, green microfinance), create an integrated development strategy that supports economic empowerment, builds resilience, promotes ecological sustainability and accelerates socio-economic transformation for the long-term in rural India (Bhowmik & Sen, 2021; Ten Percentship& Macro Report).

India's traditional microfinance sector within has provided basic but essential incremental increases in the development of low-income households or microenterprises through access to additional credit for consumption smoothing and entrepreneurism (Kauser & Zubairi, 2022; Forcella & Hudon, 2014; Nugroho et al., 2017). The reviews conducted by NABARD, MFIN and Sa-Dhan concerning the microfinance sector have established that microfinance has indeed created scale with respect to the number of clients and total loan outstanding, as well as provided the benefit of a significant degree of financial access; nevertheless, the product design or structure was still too credit-centric to have produced very positive welfare outcomes, while also leading to various problems, such as clients borrowing from multiple lenders, concentrating financial portfolios with same lenders, experiencing cycles of increased indebtedness, and having little to no integration with the broader livelihood ecosystem (NABARD, 2023; Sa-Dhan, 2024; CRIF High Mark, 2024).

Although the typical model of microfinance in India has produced limited but positive benefits for the economy, primarily by providing access to small amounts of money for people living in extreme poverty (the "base of the pyramid"), the evidence provided by RBI, NABARD, and MFIN demonstrates that while microfinancing had large numbers of borrowers and GLP (Gross Loan Portfolio) growth, it also created many challenges (e.g., multiple borrowings, over-indebtedness, poor connections to long-term livelihoods). The same type of evaluation are included in your files, with all the evaluation documents from those entities indicating that traditional forms of microfinance do not support developing additional capital assets, climate change resilience, or developing any type of skills or capacities; the majority of Metrics used to rate Microfinance Institutions (MFIs) are based on repayment. A large number of peer-reviewed papers included in your documents indicate traditional microfinance alone rarely leads to building long-term capital assets, stable income or climate change resilience due to the limited number of financial products available and measuring success through repayment metrics alone instead of multiple levels of quality-of-life-based welfare metrics.Conversely, SDG-focused, Women-centered bundled lending, Livelihood Financing, Green Microfinance, and other "Impact & Purpose driven" microfinance models have been able to consistently create large-scale social & economic changes over sustained periods of time compared to other microfinance models. Research indicates that MFIs that utilise Social Performance Measurement & Impact Measurement Methodologies consistently demonstrate greater increases in household welfare than their counterparts who do not. Increased household welfare examples include increased disposable income via increased capacity to spend on health services, building emergency savings, and generating assets through productive uses (Jain & Ghosh, 2022; Pradhan & Natarajan, 2023; Lenka & Sharma, 2022). Women-centric impact financing models combine access to credit, digital literacy, capacity building and links to markets. This review describes how Women-centric impact financing models result in gaining greater women's empowerment through multiple agency-building improvements in women such as increasing the ability of women to diversify their businesses; creating greater household decision-making power and autonomy for women in the household (Chatterjee & Suresh, 2022; Verma & Bansal, 2024; Gupta & Srivastava, 2023). Livelihood-oriented microfinance combined with technical assistance and value chain development will result in improved rural enterprise formalisation; greater enterprise productivity; and improved enterprise access to markets.Through work by Aggarwal & Thomas (2022), Ansari et al. (2025), Bai et al. (2023), and OECD (2023), climate-resilient and green microfinance—such as solar home systems, clean cookstoves, drip irrigation, and climate-smart agriculture—have been shown to increase resiliency against climate-related shocks.Additionally, the research and studies supporting these conclusions by GIIN, UNDP, and IFC indicate that financial institutions creating new capital linkages based on impact using blended finance and outcome-based capital models can enable microfinance institutions (MFIs) to deliver financial products that ultimately contribute to the attainment of the Sustainable Development Goals (SDG) while increasing resiliency within rural communities. GIIN (2023), UNDP (2023), and NITI Aayog (2023) support this finding.

Findings-

The information presented in this report suggests that in India the evolution of traditional microfinance made room for similar forms of finance integrated with impact, due to significant structural, institutional and technological advancements made within the Indian economy over the past 10 years. Traditionally Indian microfinance was considered to have been largely based on group lending models and provided members from low-income households many opportunities to access litigation against their credit suppliers (Kauser and Zubairi 2022; Forcella and Hudon 2014). The reports referenced in this sector all provide detailed analyses of various studies that confirm that microfinance will continue to grow rapidly and reach large numbers of people in rural areas of India, particularly among women (NABARD 2023, Sa-Dhan 2024). While microfinance has provided greater access to credit, qualitative and empirical research has identified a number of weaknesses within the traditional micro credit system such as limited product offerings; revolving loan cycles; the lack of sustained increases in rural income and asset levels (Nugroho et al. 2017; Sarkar and Shetty 2022). All these factors have limited microcredit's ability to effect structural changes in rural communities.

These climate vulnerabilities, market fragmentation, and the rise of digital finance capabilities within India have created an opportunity for financial institutions to develop ways of financing their clients using a variety of different methods and forms of credit. The implementation of large-scale digital public infrastructure like the PMJDY, Aadhaar-based authentication, UPI and DBT Systems, and the Account Aggregator Framework created an environment where microfinance institutions can expand and improve access to financial services while at the same time reducing service delivery costs. This, as a result, allowed MFIs to transition away from solely providing basic credit-based services to being able to offer clients multidimensional solutions to financial problems (Mehrotra and Raghavan 2023; RBI 2024). From the studies done on the FI Index, NABARD (2023) and the World Bank (2022) both show that the index continues to improve, which indicates that rural communities will have greater access to use more types of and higher-quality financial services than they currently do. Together, all these systemic shifts provide a base level of requirements and conditions that can support the continued growth of impact funding in India.

During this time, the microfinance sector in India also started maturing financially and operationally. MFIN and Sa-Dhan analysed that there was growth in the Gross Loan Portfolio, increased stability of the framework for Assets, and an increased focus of the MFIs into Rural and SemiUrban areas (Sa-Dhan, 2024; CRIF High Mark, 2024). Academic Studies referenced in your documents provide Evidence of MFIs integrating into their support mechanism SPM, Client Centric Assessment, and Community Development Indicators (Jain & Ghosh, 2022; Yadav & Sharma, 2021). This also signified a shift from Microfinance to Impact Finance both in concept and in operational terms.

In summary, globalized impact investing, blended finance, ESG-linked capital and SDGs-driven investments led to the rapid evolution of this sector. As reported by GIIN in 2023, this was due to Impact Capital being invested in clean energy, rural livelihood, women empowerment, agritech and digital inclusion, which represent a way for investments to be aligned with measurable construction progress and economic development results. As a result, these mechanisms allowed MFIs within India to begin incorporating climate finance, livelihood finance and social impact financing into their portfolios and demonstrated a marked evolution away from traditional forms of microcredit.

Models for microfinance with an emphasis on models that have an impact on the sustainable development goals (SDG), women-focused financing (e.g. for women)m as well as financing that is designed to improve a person's ability to purchase goods and services. In addition to financing for basic necessities, have been shown to greatly enhance the growth of rural communities by addressing all three dimensions of sustainability - social, financial, and environmental - at once. Those Microfinance Programs focused on aligning the financing provided with specific SDGs also help produce measurable results in three areas: reducing poverty; providing access to basic services; and enhancing Community Resilience. The data also show that aligning Microfinance Program with the SDGs can help provide increased investment into Education, Health, Clean Energy, and Sanitation in rural communities and accelerate the pace of inclusive Development in these communities. (UNDP, 2020; Global Impact Investing Network, 2023).

The Women-Centric Lending Model has emerged as one of the most transformational components of impact finance. For example, the empirical literature has consistently documented that providing women with access to credit, savings and support for starting businesses results in increased household welfare, greater levels of spending on food and education, as well as stronger indicators of social empowerment (Kabeer, 2019; Banerjee & Duflo, 2011). Additionally, the involvement of women in microfinance results in higher repayment rates and greater sustainability for businesses, which in turn allows micro-businesses to become long-term sources of sustainable income for rural families (Pitt &Khandker, 1998; Armendáriz & Morduch, 2010). Thus, the Women-Focused Model of Microfinance has had significant multiplier effects on the long-term development of rural areas.

To facilitate sustainable rural job creation, it's important to promote sustainable employment through a combination of skill-building, value chain support and market access. There are significant gains in agricultural productivity, micro-enterprise diversification, and income stability due to improvements from Models focusing solely on credit are not the same as those that focus on improving the overall performance of the agricultural sector (NABARD, 2022; IFC, 2021). Livelihood financing leads to reduced exposure to poverty; provides resources for building assets and improving the ability to earn income; allows for the movement from subsistence only to a sustainable and market-oriented way of life (Chambers and Conway, 1992, DFID, 2000).

Green Finance has been established as a key mechanism for accelerating environmental sustainability at Microfinance Institutions (MFIs). Through its role in the provision of financing products to support the transition to clean energy by enabling more households to invest in solar home systems and other renewable energy technologies as well as enabling investments in climate-adaptive agricultural practices and eco-friendly rural enterprises, such as biogas plants, improved cook stoves, and efficient irrigation systems, Green Finance improves access to clean energy, reduces household expenditures on fossil fuels, increases the use of renewable energy and reduces greenhouse gas emissions (World Bank, 2021; Lighting Global, 2020). Because Green Finance includes new climate-resilient agro-financing products that have been designed specifically to help farmers respond to climate shocks by increasing their soil health and implementing sustainable farming methods, Green Finance also promotes the long-term ecological stability of rural areas (FAO, 2022; IPCC, 2023).

The results show that the impact-oriented microfinance model is much more effective in terms of giving people access to financial products and services, while also incorporating social empowerment and creating jobs and providing ecosystem protection. The Microfinance impact-oriented approach is the only microfinance model that measures progress and incorporates SDG metrics. Women-empowered women-centred initiatives advance gender equity and improve the well-being of a whole community. Livelihood Finance improves income security and Green Finance protects the rural ecosystems of the people it serves. Collectively, these different types of microfinance provide an integrated approach to achieving sustainableisation for Rural Development, and help to demonstrate that microfinance has the potential to be both a financial tool and a driver of long-term socio-economic Change, if utilised in the right way (Schreiner & Morduch, 2002; Ledgerwood, 2013).

Conclusion

The findings of this research confirm that India's shift from conventional microfinance to an impact-based approach created stronger financial inclusion and speeded up the development of rural areas on a sustainable basis. Secondary data obtained from the RBI, MFIN, Sa-Dhan, Global Findex and NABARD support the findings of the study showing increases in credit outreach, improvements in the Financial Inclusion Index (FII), reductions in portfolio risks and increases in the number of women-led businesses. SDG-linked lending, women's centric credit models, livelihood finance and green microfinance has created a more stable income for rural entrepreneurs, provided an avenue for entrepreneurial growth, contributed to increased environmental sustainability and helped rural women achieve social empowerment through impact microfinance. The movement of the microfinance system toward utilizing digital delivery systems, measuring impact, and offering climate-sensitive financing indicates the development of a maturing ecosystem that aligns with the Sustainable Development Goals. To continue building on this success, there needs to be a focus on incentivising impact reporting, improving governance within MFIs, establishing more digital infrastructure, and creating a strategy to support gender-focusing entrepreneurship. Overall, impact microfinance serves as an essential building block in developing an inclusive, resilient, and sustainable rural community in India.

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