

---

## A Study on the Growth and Impact of the Microfinance Institutions in Chhattisgarh

*Dr. Satya Prakash*

*Assistant Professor, Department of Commerce, Guru Ghasidas Vishwavidyalaya, Koni, Bilaspur, C.G.*

*Mr. Ish Kumar Kewat*

*Research Scholar, Department of Commerce, Guru Ghasidas Vishwavidyalaya, Koni, Bilaspur, C.G.*

---

**Abstract:** This paper aims to explore the role and efficacy of microfinance as a tool for poverty alleviation and socio-economic development, particularly in one of India's most rural states, Chhattisgarh. Rooted in the concept of providing financial services to marginalized populations, microfinance institutions (MFIs) have become pivotal in addressing financial exclusion and promoting entrepreneurship in underserved regions. This research evaluates the role of microfinance in Chhattisgarh by analysing its operational framework, economic performance, and socio-economic impact from 2020 to 2024, drawing on data from government publications, SIDBI reports, and MFIN India. The findings indicate a robust growth trajectory for microfinance at the national level, with loan portfolios increasing from ₹2,31,778 crore in 2020 to ₹4,20,000 crore in 2023. Aspirational districts, including Chhattisgarh, have significantly benefited, with the loan portfolio in these regions rising to ₹68,000 crore in 2023. Key drivers of this growth include targeted government initiatives such as PM SVANidhi and MUDRA schemes, which have bolstered financial inclusion and economic recovery, particularly for rural women and small entrepreneurs. MFIs in Chhattisgarh have facilitated access to credit, enabling self-employment and income diversification among low-income groups. The study underscores microfinance's dual role in economic empowerment and community development. By fostering group cohesion and providing financial literacy, MFIs in Chhattisgarh have enhanced rural livelihoods and contributed to inclusive growth. The findings also emphasize the importance of sustainable practices and robust policy frameworks to address operational inefficiencies and ensure equitable access to microfinance services, promoting responsible growth in the sector.

**Key words:** Microfinance, Sustainable, Entrepreneurship, Rural Development.

### 1. Introduction

Microfinance, a concept rooted in informal lending practices of the 19th century, has evolved into a critical instrument for promoting socio-economic development and poverty alleviation. By providing financial services, including credit and savings, to underserved and marginalized populations, microfinance enables the working poor to improve their living standards and foster economic empowerment (Johnson & Rogaly, 1997). Over the past three decades, microfinance has gained significant traction as policymakers and institutions prioritize poverty reduction and financial inclusion in developing nations.

India, classified as a low-income country by the World Bank, exemplifies the socio-economic disparities microfinance aims to address. With nearly 70% of its population residing in rural areas and 60% dependent on agriculture, the country struggles with high levels of poverty and underemployment. Access to standardized credit remains limited, especially in rural areas, further exacerbating economic challenges. Initiatives like the Self-Help Group (SHG) – Bank Linkage Program (SBLP), introduced by NABARD in 1992, have successfully integrated rural households

into formal financial systems, making microfinance a cornerstone of India's poverty alleviation strategy.

In India, the evolution of microfinance can be broadly divided into two stages. The first phase, led by NGOs and development organizations, focused primarily on delivering micro-credit services to people experiencing poverty. The second phase, often termed the "microfinance movement," marked the entry of formal financial institutions into the sector, leading to a diversification of financial products and services. This shift represented a transition from a credit-centric approach to the provision of comprehensive financial services, including savings, remittances, and financial literacy training (Guha, 2007).

Currently, the Indian microfinance sector is dominated by Non-Bank Financial Institutions (NBFIs), which hold an 80% market share (Etzensperger, 2013). Alongside NBFIs, commercial banks, rural banks, credit unions, and NGOs operate as key players, catering to the financial needs of unbanked populations. Service delivery in Indian microfinance is structured mainly around two models: the Self-Help Group (SHG) model and the Microfinance Institution (MFI) model. The MFI model, employing methods like joint liability groups, the Grameen model, and individual banking, has emerged as the more dominant framework (Guha, 2007; Kar, 2016).

Between 2005 and 2010, the microfinance sector in India experienced exponential growth, driven by increasing client demand and a substantial influx of investments (Kar, 2016). However, this growth trajectory was disrupted by a severe crisis originating in Andhra Pradesh, a state that had been the epicentre of microfinance activities. Overlapping loans, high interest rates (25–40%), unethical recovery practices, and low repayment rates culminated in borrower distress and social unrest. The crisis reached its peak with alarming incidents of borrower suicides, further eroding trust in the sector. By 2010, repayment rates in Andhra Pradesh plummeted to 10%, and government intervention led to the closure of numerous MFIs (Ghate, 2007; Mader, 2013).

Despite these challenges, the microfinance sector in India demonstrated resilience and resumed its growth post-crisis. However, the period also witnessed the increasing commercialization of microfinance. The entry of major MFIs like SKS Microfinance into the capital markets, raising substantial commercial funds, intensified competition and led to a shift in focus from social missions to profit-oriented goals. This trend was further fuelled by neo-liberal economic reforms and regulatory changes that compelled semi-formal institutions like NGOs and SHGs to transform into formal entities such as NBFIs and banks (Bateman, 2010; Guha, 2013).

Chhattisgarh, one of India's most rural states, reflects the nation's broader challenges. A significant portion of the state's population lives below the poverty line, with limited access to financial resources and entrepreneurial opportunities. Microfinance, through institutions like SHGs, Regional Rural Banks (RRBs), and Microfinance Institutions (MFIs), has become a crucial tool in addressing these gaps. However, the fragmented regulatory framework and lack of unified legislation governing microfinance operations remain major obstacles to their efficiency and sustainability.

This study focuses on the microfinance landscape in Chhattisgarh, analysing its role in poverty reduction, entrepreneurship promotion, and socio-economic development. By evaluating the operational efficiency and financial performance of microfinance institutions, the research highlights their potential to drive inclusive growth and improve the livelihoods of marginalized communities in the state.

## **2. Literature Review**

**Chakraborty and Sen (2021)** Analysed how microfinance interventions, particularly those targeting rural women and marginalized communities, contribute to poverty reduction. The authors found that microfinance-led entrepreneurship directly impacted household incomes and was instrumental in creating job opportunities in rural regions. They also noted the need for capacity-building programs to maximize the benefits of microfinance.

**Mishra & Singh (2020).** Focused on the role of self-help groups (SHGs) in fostering rural entrepreneurship through microfinance initiatives. The paper discusses how SHGs act as a vehicle for financial inclusion and entrepreneurship development, particularly for women in rural regions. The authors emphasize that SHGs have significantly improved household income and social standing, contributing to rural economic development.

**Singh and Verma (2019)** Explored the role of microfinance in promoting sustainable rural development. Their study focused on microfinance's contribution to economic growth and poverty alleviation in rural areas of India. The findings revealed that microfinance plays a significant role in diversifying income sources, fostering entrepreneurship, and reducing poverty, particularly in weak formal banking systems.

**Das and Mukherjee (2019)** Explored how microfinance contributes to inclusive growth by supporting rural entrepreneurs. The research found that microfinance fosters inclusive economic growth by providing access to credit to low-income individuals, particularly those from marginalized communities. The study stressed that inclusive growth can only be achieved when robust financial literacy and entrepreneurship training programs complement microfinance institutions.

**Desai et al. (2018)** Assessed the impact of microfinance on improving rural livelihoods. The research shows that microfinance significantly enhances income-generating activities by allowing individuals to invest in non-farm enterprises such as small-scale manufacturing and trade. The study highlighted the positive correlation between microfinance, entrepreneurship, and improving living standards in rural areas.

**Verma et al. (2018)** Assessed various microfinance programs in rural areas and their impact on entrepreneurship and poverty reduction. The paper found that microfinance programs positively affected rural development by facilitating access to credit, improving household incomes, and promoting self-employment. However, the study also pointed out gaps in outreach and the need for more customized financial products to meet the diverse needs of rural entrepreneurs.

**Goyal and Kumar (2018)** Explored how microfinance can stimulate rural entrepreneurship by providing access to small loans and credit services in regions with limited financial infrastructure. Their research found that microfinance helps in capital formation but also aids in developing business skills among rural entrepreneurs. This study specifically mentions the role of microfinance in empowering rural women and its positive impact on poverty reduction through income-generating activities.

**Gupta and Chauhan's (2017)** Study examined how microfinance institutions in India are crucial to expanding financial inclusion in rural areas. They highlighted that increased access to credit enables small-scale businesses and agriculture-based enterprises to flourish. The study concluded that financial inclusion through microfinance strengthens entrepreneurship by offering previously excluded individuals the opportunity to start and scale up businesses.

**Sinha and Roy (2017)** Discussed the operational challenges of microfinance institutions in promoting rural entrepreneurship. The study found that high interest rates, inconsistent repayment schedules, and inadequate training limit microfinance's effectiveness. The authors argue for policy reforms and the need for supplementary business development services to enhance the sustainability of rural enterprises created through microfinance.

**Kumar and Sharma (2016)** Analysed the role of microfinance in promoting women's entrepreneurship in rural areas. Their research pointed out that microfinance provides a critical platform for women to access financial resources and participate in economic activities. The study found that increased economic independence through entrepreneurship has improved social empowerment and enhanced household decision-making power.

### **3. Significance of the study**

Microfinance is essential for promoting socioeconomic growth and alleviating poverty, particularly in disadvantaged and rural areas. In Chhattisgarh, where most people live in rural areas and rely largely on agriculture, economic problems like poor income, underemployment, and restricted access to institutional credit are widespread. By offering underprivileged communities' credit, savings, and other financial services, microfinance institutions (MFIs) can address these issues.

Despite their crucial function, MFIs across India, particularly in Chhattisgarh, need a standardized framework for assessing their sustainability and financial performance. These institutions' problems are made worse by the absence of laws specifically addressing their management and governance. Additionally, it is challenging to guarantee accountability and transparency in the absence of a statutory framework for financial reporting. MFIs' financial efficiency is crucial to ensuring that the intended benefits reach the most vulnerable segments of society because they rely on scarce and marginal capital.

### **4. Objectives:**

1. To study the role and significance of microfinance in Chhattisgarh.
2. To inspect the current status and performance of microfinance institutions in Chhattisgarh.

### **5. Research Methodology:**

The purpose of this study is to conduct a thorough analysis of the function and performance of microfinance institutions (MFIs) in Chhattisgarh. A thorough literature review frames the theoretical background of sustainable microfinance and its impact on rural development. Subsequently, case studies of specific MFIs functioning in Chhattisgarh are used for empirical study. Data from government publications and MFI reports are collected for analysis. Data has been considered for the period from 2020-2024 of SIDBI and MFIN India.

### **6. Conceptual understanding and data analysis:**

Microfinance is pivotal in addressing the financial exclusion of marginalized and low-income groups by providing them access to essential financial services. It enables these groups to build assets, diversify income sources, and improve their economic resilience. As observed, the financial products and services offered by Microfinance Institutions (MFIs) can be sustainable, as these institutions can operate efficiently and recover costs through adequate interest spreads (Littlefield & Rosenberg, 2004).

The Asian Development Bank (2000) defines microfinance as a broad range of financial services, including savings, loans, money transfers, and insurance, tailored to poor and low-income households and their micro-enterprises. This inclusive definition extends beyond individuals below the poverty line, encompassing low-income households as well. In the Indian context, the Task Force on Supportive Policy and Regulatory Framework for Microfinance, constituted by NABARD, defines microfinance as the provision of financial services such as credit, savings, and thrift in small amounts to people in rural, semi-urban, and urban areas to enhance their income and standard of living (Sen, 2008).

Robinson (1998) describes microfinance as a developmental tool that delivers small financial products, such as micro-loans, micro-insurance, and savings, to assist economically disadvantaged individuals in starting or expanding businesses. Additionally, some MFIs offer social intermediation services, including group formation, confidence-building, and financial literacy training (Ledgerwood, 1999). These services empower individuals by equipping them with skills and social support alongside financial access.

In Chhattisgarh, MFIs hold particular significance as they cater to the financial needs of self-employed, low-income entrepreneurs such as farmers, street vendors, artisans, and small-scale traders. The state's rural economy and limited access to institutional financial services make

microfinance a critical instrument for poverty alleviation and entrepreneurship development. Providers of microfinance services in Chhattisgarh include NGOs, savings and loan cooperatives, regional rural banks, and non-banking financial institutions, among others. These institutions target economically disadvantaged populations, enabling them to enhance their livelihood opportunities and reduce vulnerability to economic shocks.

Microfinance in Chhattisgarh is not merely about financial transactions but also serves as a platform for community development. By fostering group cohesion and building financial literacy, MFIs contribute to the holistic empowerment of the underprivileged. While microfinance is not a universal solution to poverty, its impact on improving economic conditions and fostering self-reliance among marginalized groups has been consistently documented (Littlefield & Rosenberg, 2004).

**Some basic features of microfinance are-**

- ✓ Microfinance deals with small loans and is a crucial component of rural finance.
- ✓ In essence, it serves low-income households. It is among the best and most justified strategies for reducing poverty.
- ✓ Encourages women to engage in electronic activities.
- ✓ Offers a motivation to seize the chances for self-employment.
- ✓ It is less profit-oriented and more service-oriented.
- ✓ Intended to help producers and small business owners.

Microfinance and microcredit are not the same thing. Microcredit is a small sum of money that a bank or other legally recognized organization lends out, as opposed to microfinance comprises a variety of services, including microcredit loans, insurance, savings, transfers, and loans.

**Table 1: Microfinance Portfolio, Disbursements, and Borrowers in Aspirational Districts (2020-2024)**

Year	Metric	Government Schemes/Initiatives	National Figures	Insights for Chhattisgarh/Aspirational Districts
2020	Total Loan Portfolio (₹ Cr)	PM SVANidhi, MUDRA Subvention	₹2,31,778 crore	Included in the 10% central region portfolio
	Unique Borrowers	COVID-19 recovery initiatives	5.71 crore	Contributed as part of aspirational district programs
	Loan Disbursement (₹ Cr)	RBI policy, cashless disbursements	₹10,617 crore (Q2 FY20-21)	Data not specific for Chhattisgarh
2021	Total Loan Portfolio (₹ Cr)	Updated Microfinance Framework	₹3,48,339 crore (YoY growth 22%)	₹53,483 crore portfolio in aspirational districts
	Unique Borrowers	NBFC-MFIs, small finance banks (SFBs)	6.6 crore	Share of aspirational districts, including Chhattisgarh, significant
	Loan Disbursement (₹ Cr)	Regulatory support	₹96,423 crore (FY22-23)	₹54,292 crore disbursed in aspirational districts
2022	Total Loan Portfolio (₹ Cr)	Updated Microfinance Framework	₹3,78,153 crore (YoY growth 16%)	₹60,000 crore portfolio in aspirational districts
	Unique	NBFC-MFIs, small	6.7 crore	A significant share of



	Borrowers	finance banks (SFBs)		aspirational districts, including Chhattisgarh
	Loan Disbursement (₹ Cr)	Regulatory support	₹1,01,528 crore (FY 2022-23)	₹58,323 crore disbursed in aspirational districts

Year	Metric	Government Schemes/Initiatives	National Figures	Insights for Chhattisgarh/Aspirational Districts
2023	Total Loan Portfolio (₹ Cr)	Targeted microfinance initiatives	₹4,20,000 crore (YoY growth 11%)	₹68,000 crore portfolio in aspirational districts
	Unique Borrowers	NBFC-MFIs, small finance banks (SFBs)	7.2 crore	Increased share of aspirational districts, including Chhattisgarh
	Loan Disbursement (₹ Cr)	Focus on financial inclusion	₹1,15,000 crore (FY 2023-24)	₹63,121 crore disbursed in aspirational districts
2024	Total Loan Portfolio (₹ Cr)	Targeted initiatives	₹3,77,706 crore (18% YoY growth)	Included in the 23% YoY growth of aspirational districts
	Unique Borrowers	NBFC-MFIs, SFBs as key players	6.6 crore	Not explicitly quantified for Chhattisgarh
	Loan Disbursement (₹ Cr)	Aspirational District Program success	₹54,292 crore in aspirational districts	Includes districts from Chhattisgarh

SOURCE- SIDBI Annual reports 2020-2024, MFIN India Quarterly Micrometre 2020-2024.

Table 1 presents progress under Microfinance Portfolio, Disbursements, and Borrowers in Aspirational Districts (2020-2024). Over the period from 2020 to 2024, the total loan portfolio for microfinance has grown significantly, increasing from ₹2,31,778 crore in 2020 to ₹4,20,000 crore in 2023, a notable increase of about 81%. This indicates a growing trend in microfinance lending and a substantial increase in financial inclusion. The loan disbursement figures also reflect a consistent rise in financial outreach, with disbursements growing from ₹10,617 crore (Q2 FY20-21) to ₹1,15,000 crore in FY 2023-24, suggesting increased access to credit for underserved populations.

### 7. Findings and Conclusions:

Aspirational districts, including Chhattisgarh, consistently receive a growing share of the national loan portfolio and disbursements. In 2021, the aspirational districts received ₹53,483 crore in loan portfolio, which grew to ₹68,000 crore in 2023. The portfolio in these districts has significantly outpaced overall growth. The loan disbursement to aspirational districts increased from ₹54,292 crore in 2021 to ₹63,121 crore in 2023, indicating a sustained effort to bridge regional development gaps.

The number of unique borrowers has steadily increased, rising from 5.71 crore in 2020 to 7.2 crore in 2023. This highlights the growing reach of microfinance programs and a higher level of financial inclusion across India, including in Chhattisgarh and other aspirational districts. The share of aspirational districts, including Chhattisgarh, is mentioned as "significant," but specific data for Chhattisgarh is either not consistently available or explicitly quantified in some years.

Government initiatives such as PM SVANidhi, MUDRA Subvention, and COVID-19 recovery initiatives have played a crucial role in driving the growth of microfinance by targeting financial inclusion and supporting economic recovery.

In recent years, targeted microfinance initiatives and regulatory support have driven portfolio growth and loan disbursements, particularly focusing on financial inclusion in underserved areas like aspirational districts.

**Microfinance Growth and Regional Impact:** The data clearly indicates that the microfinance sector in India has experienced robust growth over the past 4 years, driven by both government initiatives and the increasing role of NBFC-MFIs and small finance banks. This growth has been particularly noticeable in aspirational districts like Chhattisgarh, which have seen a rising share of the national loan portfolio and disbursements. These districts have benefited significantly from targeted initiatives aimed at improving financial inclusion and boosting economic recovery, especially in rural and underserved areas. **Increased Financial Inclusion:** The rise in unique borrowers and loan disbursements indicates a greater penetration of microfinance in rural and underserved communities. This is critical for achieving inclusive economic development and ensuring that the benefits of financial services reach the broader population, especially women, micro-entrepreneurs, and marginalized groups. **Government Support and Frameworks:** The government's policies, such as PM SVANidhi, MUDRA, and COVID-19 recovery schemes, have successfully facilitated the growth of microcredit and helped businesses, particularly micro-enterprises, recover and thrive. In addition, the Updated Microfinance Framework and targeted initiatives have continued to support the sector's expansion, with a clear focus on boosting financial inclusion in aspirational districts.

The overall trend reflects a strong government and sectoral focus on financial inclusion, ensuring that microfinance services are reaching underserved areas and vulnerable populations. This is evident from the growing loan portfolios and disbursements in aspirational districts and the rising number of unique borrowers over the years. Specific regions like Chhattisgarh and other aspirational districts have benefited from this national push, though more granular data for these districts would provide a clearer picture of their relative success.

## 8. Limitations and Scope for further research

lack of specific, detailed data for Chhattisgarh in some areas, especially in unique borrower statistics and loan disbursement figures in specific years (e.g., 2024). The data provided does not offer year-on-year consistency in some years, and aspirational district data needs to be clearly separated, making it difficult to assess the precise contribution of Chhattisgarh within the national context. Much of the data presented is aggregated at the national level. While loan portfolio and disbursement figures are provided annually, there needs to be longitudinal tracking that could help assess the long-term sustainability of these microfinance loans, repayment rates, and the continued support of borrowers in aspirational districts.

## 9. References

1. Goyal, R., & Kumar, S. (2018). Microfinance and rural entrepreneurship development in India. *Journal of Rural Development Studies*, 35(2), 105-118.
2. Gupta, M., & Chauhan, A. (2017). Financial inclusion and rural entrepreneurship: A study of Indian microfinance institutions. *International Journal of Financial Studies*, 6(1), 45-60.
3. Singh, P., & Verma, A. (2019). Microfinance and rural development: A sustainable approach. *Sustainable Rural Development Review*, 4(3), 201-215.
4. Mishra, R., & Singh, K. (2020). Impact of SHGs on rural entrepreneurship in India. *Journal of Entrepreneurship and Innovation*, 8(1), 123-139.
5. Kumar, A., & Sharma, P. (2016). Microfinance and women entrepreneurs in rural India. *Women Empowerment Journal*, 12(2), 87-99.
6. Sinha, R., & Roy, D. (2017). Challenges of microfinance institutions in rural India. *Journal of Financial Studies*, 19(3), 178-192.

7. Desai, A., Mehta, S., & Patel, V. (2018). Microfinance for livelihood enhancement in rural India. *Journal of Development Economics*, 29(2), 55-69.
8. Chakraborty, S., & Sen, R. (2021). Microfinance and poverty alleviation: The rural perspective. *International Review of Social Sciences*, 7(4), 92-108.
9. Das, S., & Mukherjee, A. (2019). Inclusive growth through microfinance in rural India. *Journal of Inclusive Development*, 15(1), 34-50.
10. Verma, S., Prasad, N., & Rao, G. (2018). Evaluating the effectiveness of microfinance programs in India. *Journal of Economic Policy and Research*, 22(3), 67-85.
11. Johnson, S., & Rogaly, B. (1997). *Microfinance and Poverty Reduction*. Oxfam.
12. NABARD. (1992). *Self-Help Group (SHG) – Bank Linkage Programme: A Pilot Project Report*. NABARD Publications.
13. World Bank. (2023). *Country Classification by Income*.
14. Lazar, D. (2008). *Economic Dimensions of Microfinance: Emerging Trends and Perspectives*. Dominant Publishers.
15. Premchander, S. (2009). *Microfinance in India: The State of the Sector*. SAGE Publications.
16. Asian Development Bank. (2000). *Finance for the Poor: Microfinance Development Strategy*. Manila: ADB.
17. Ledgerwood, J. (1999). *Microfinance Handbook: An Institutional and Financial Perspective*. Washington, D.C.: World Bank.
18. Littlefield, E., & Rosenberg, R. (2004). Microfinance and the Poor. *Finance and Development*, 41(2), 38–40.
19. Robinson, M. S. (1998). *The Paradigm Shift in Microfinance: Building Financial Systems for the Poor*. Institute for Development Studies.
20. Sen, A. (2008). *Microfinance: Emerging Trends and Challenges*. NABARD Publications.
21. Bateman, M. (2010). *Why doesn't microfinance work? The destructive rise of local neoliberalism*. Zed Books.
22. Etzensperger, C. (2013). *Microfinance market outlook 2013*. Responsibility Investments AG.
23. Ghate, P. (2007). *Indian microfinance: The challenges of rapid growth*. Sage Publications.
24. Guha, S. (2007). Microfinance for microenterprises: An examination of growth and sustainability issues. *Journal of Developmental Entrepreneurship*, 12(3), 375–389.
25. Guha, S. (2013). Regulatory challenges in Indian microfinance. *Economic and Political Weekly*, 48(20), 38–45.
26. Kar, A. K. (2016). Growth and trend of microfinance in India. *Economic and Political Weekly*, 51(12), 61–68.
27. Mader, P. (2013). Rise and fall of microfinance in Andhra Pradesh. *Development and Change*, 44(5), 973–997.
28. Sharma, P. (2006). *Rural credit in India: Growth and risk analysis*. National Bank for Agriculture and Rural Development (NABARD).
29. Taylor, M. (2001). Microfinance in the neo-liberal era: Between social mission and commercial expansion. *Journal of International Development*, 13(6), 957–970.
30. Wichterich, C. (2012). The microfinance promises in financialized times: A gender perspective. *Development and Change*, 43(3), 817–842.



## **10. Bibliography**

1. [mfinindia.org/assets/images/Micrometer Q2 FY 20-21\\_14.12.2020.pdf](https://mfinindia.org/assets/images/Micrometer%20FY%2020-21_14.12.2020.pdf)
2. Press Release - Micrometer Q4 FY 22-23.pdf
3. <https://www.sidbi.in/files/annual-report-2022.pdf>
4. <https://www.sidbi.in/files/annual-report-2023.pdf>
5. Microfinance Pulse