

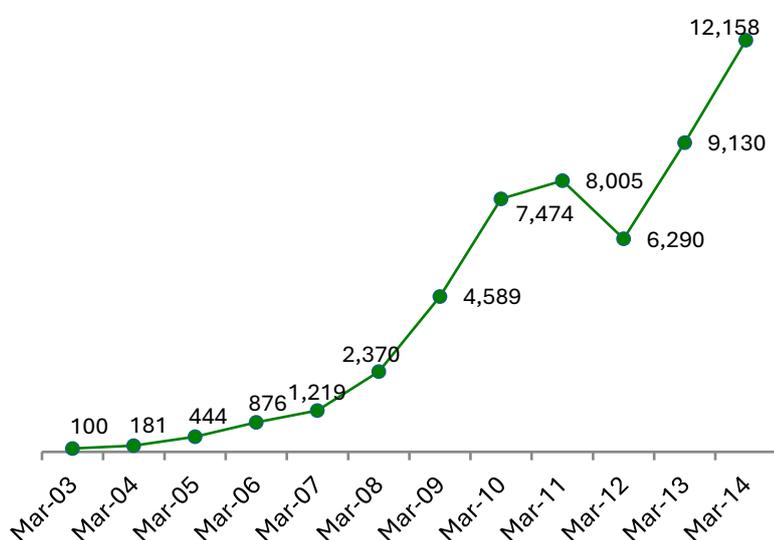
## The dilemma in 21<sup>st</sup> century microfinance

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The dramatic growth of microfinance in the early 2000s hit the headlines of the world's media resulting from the declaration by UNESCO of 2005 as the Year of Microcredit. This action drew focused attention to microfinance and served to popularize the activity globally, on the one hand, and to invite scrutiny, on the other. The practice of microfinance has continued to grow but it has been vexatious ever since. Around 100 million borrowers of microcredit have been reached by MFIs in India alone and perhaps over 200 million throughout Asia. The proponents of microfinance claim substantial gains for the activity while the now large band of critics question these claims and instead attribute harm to it.

**Currently, this is the great dilemma in microfinance:** is it beneficial to provide access to micro-credit (and incidentally other services like micro-deposits, micro-insurance and financial as well as digital literacy) for low income households across the world or is it harmful because people with marginal resources are tempted to obtain credit from multiple sources and, thereby, fall into a debt trap?<sup>1</sup> The issue here is, are poor people's lives facilitated by microcredit or is it a cause of further immiserisation resulting from the availability of easy money?

Since M-CRIL was there at the start, undertaking research related to micro-credit



activities from as early as 1985 but becoming more formally engaged in the late 1990s, we deployed our data and research skills to the study of the activity in detail, initially in India but soon all over South Asia and beyond. Amongst other tools we created CRILEX, an index of Indian microcredit growth to map the trajectory of the sector.<sup>2</sup> As the accompanying graph shows, the provision of microcredit grew very rapidly

during the early 2000s but stalled with a series of sector crises by the end of the decade. In India, the first crisis event was the curtailment of the practice of microfinance

<sup>1</sup> See for instance the latest write up on debt crises amongst microfinance borrowers in Bihar

[https://article.wn.com/view/2025/11/09/Where\\_is\\_the\\_outrage\\_Victims\\_of\\_Bihar\\_s\\_debt\\_crisisaskwhy/](https://article.wn.com/view/2025/11/09/Where_is_the_outrage_Victims_of_Bihar_s_debt_crisisaskwhy/)

<sup>2</sup> CRILEX was based on the number of borrowers (with a 60% weight) provided loans by Indian MFIs and the amount of portfolio outstanding (40%) with those borrowers.

(effectively a ban) in Andhra Pradesh by a state government ordinance in October 2010. This action followed months of adverse publicity about borrowers in the state getting into debt traps as well as coercive practices by MFI staff – including staff staging *dharnas* (sit downs) outside homes and threatening to take away household possessions like furniture and utensils – if borrowers with delinquent loans (with overdues) did not regularize their accounts immediately. Since MFIs operated mainly in rural areas to begin with, microfinance was blamed for multiple suicides in the countryside. Yet, various areas of Andhra Pradesh are well known to have high farmer suicide rates – particularly amongst cotton farmers who have to contend with variability in production.<sup>3</sup> There was little evidence of a direct link between these suicides and microfinance but the immediate political capital in a dramatic ban on “exploiting the poor” was too tempting for the state government to ignore. Since the four major MFIs in India at that time – SKS Microfinance, SHARE Microfinance, Spandana and BASIX – were all based in the state, it accounted for 40% of the microfinance portfolio in India as a whole. Not surprisingly, these large MFIs were hugely impacted and the latter three all but collapsed as a result of the ban. Only SKS, flush with funds from its IPO of July 2010, survived this crisis. Indeed, the publicity around the SKS IPO, the first MFI IPO in India, likely played a role in heightening the debate around the benefits of and concerns about microfinance and probably hastened the imposition of the ban on microfinance.

Microfinance had reached a head and outside India there were dramatic eruptions in Bosnia, Morocco, Nicaragua and Pakistan at the same time. Within India, shortly before, there was also a crisis in the Kolar district of Karnataka. Here also there were reputed to be a series of suicides apparently resulting from over-lending and coercive collection practices of MFIs. However, this crisis was not stimulated by political action but was based on a *fatwa* (Islamic edict) by the local Anjuman Committee labelling microfinance lending as “un-Islamic” on account of public perceptions about the practice of microfinance.<sup>4</sup> In the aftermath of the AP crisis, M-CRIL, as a respected independent research agency, was asked by the state association of MFIs in Karnataka (AKMI), to investigate the issues of over-lending and suicides. While our study confirmed the over-lending concern, the causation between coercion and suicides turned out to be highly tenuous; while a few suicides had occurred in the recent past these could not be related directly to microfinance loans since moneylender debt and lifestyle financing issues were also involved. The Kolar Anjuman Committee itself was sheepish about the suicide rumours. It did not go beyond lateral references to distress and denied that suicides were taken into account for its *fatwa*. This incident is typical of

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<sup>3</sup> Memdani, Laila; Memdani, Azim & Memdani, Anisha, 2024. **Farmers’ Suicides in India: A qualitative study of Andhra Pradesh (AP) and Telangana states of India**, Indian Journal of Community Medicine, July 2024.

<sup>4</sup> Anjuman Committee is a local level administrative body of Muslim educational, social welfare or religious organisations in India or Pakistan.



the conjectural nature of microfinance debates in the context of the dilemma between benefits to many and harm to a few.

Emerging from these crises the growing emphasis on social performance of MFIs received a considerable fillip. Based on our observation of issues in MFIs' transparency in pricing and other aspects of their relations with clients, M-CRIL had already launched its social rating product with MFIs in India, Bangladesh and Pakistan. The initial social rating – of Cashpor Microfinance – was undertaken as early as 2005, well before, the crises started to happen. Later, the tool was developed further in conjunction with Microfinanza Rating using Ford Foundation support; three more social ratings were undertaken in India and two in Pakistan based on interest from microfinance development banks there. The objective of the social rating was to determine on behalf of the growing group of international investors in MFIs whether or not their potential investees were transparent in their pricing, explained their lending conditions to clients, applied fair as well as humane collection processes from delinquent borrowers and provided dignified working conditions for its staff. The product was well received but never acquired the traction of the institutional rating and gradually receded in importance with the establishment of the Client Protection Standards in 2015. [This experience will be elaborated in another publication].

**...and the critics of microfinance remain unsatisfied leaving the dilemma of serving low income households in a financially feasible environment unresolved**

Social performance and client protection assessment processes were intended to ensure that MFIs adhered to basic and humane standards in their relations with clients; but while these tools have been instrumental in holding MFIs to account on many of the issues of transparency and fairness, observers of the sector have never been fully convinced. Both in individual countries like India and Cambodia with vibrant microfinance sectors and in other countries there remains a determined lobby of critics. The key argument of the critics is that microfinance has grown too fast over the years and that it continues to grow too fast. As a result, it has become a money spinning machine that has lost touch with its original objective of serving low-income clients in favour of money making.

**Cursory field assessments:** While MFI leaders throughout Asia continue to pay lip service to the social objectives of microfinance, in practice, portfolio growth remains the key motivator for MFI managements. There are apparently two reasons for this: First, socially oriented assessments such as CPP certification are based on detailed reviews of documented MFI policies but are followed only by quick field visits to determine the application of those policies to MFIs' relationships with their borrowers. Cost considerations (including MFIs' and investors') lack of willingness to pay adequately for the service mean that the work of the social (or client protection) assessment must be completed in a short period of time. And the well-known dilemma

of the financial (or accounting) audit process spills over here as well; how incisive can the social assessment agency be without offending the MFI client? For the agency, there is the risk that a competitor will be preferred by the MFI the next time one of their investors insists on a social assessment? As a result, the efficacy of the assessment tools as a means of ensuring social performance of MFIs, is more limited than it should be.

**Spreadsheet investing:** The investors – mostly European but also from the US and, in recent years, increasingly from East Asia – are doubly culpable in this matter. Beyond a point, not only are they unwilling to pay enough for social assessments that enable thorough field investigations to take place but their decision making on the quantum of investments in an MFI tends to be based on a flawed process. This can best be termed “spreadsheet investing”, MFIs that present detailed business plans on spreadsheets promising high levels of growth (and also high returns on investment) are able to generate more investor funds. In India, the facility of commercial bank lending to MFIs as part of the banks’ priority sector lending obligations means that the debt-equity ratio calculation can extend borrowings by MFIs from banks to up to ten times the amount of equity provided. The more equity is invested, the more this inflates MFI financial resources for spreading amongst a growing numbers of borrowers; many multiples of the investment result in more money available to be turned over. In theory this helps to serve more clients with larger volumes of lending, but in practice there is considerable overlap between client cohorts of MFIs given their overlapping areas of operation. Borrowers take loans from multiple MFIs and are even able to game the system by borrowing from one MFI to pay another. Credit bureau reporting and RBI regulations have attempted to limit multiple borrowing but there are many ways for both MFIs and their borrowers to sidestep the rules and what has been achieved is not much more than “stemming the tide”.

### **Throwing the baby out with the bath water**

In this context, the critics are right, but they overstate their case against MFIs as much as the latter do in claiming to serve the interests of their low income-borrowers. If the result of the criticism is to raise hackles amongst the public, it creates a publicity seeking intervention opportunity for politicians and bureaucrats. The outcome of this phenomenon can be, as it was in Andhra Pradesh in 2010, a complete halt on lending to low-income households. But a halt on institutional lending to households does not bring the credit needs of such households to a halt; what it does mean is that they are thrown back at the mercies of informal moneylenders – landowners in rural areas who provide employment during peak agricultural seasons, local grocery stores that supply food or other household items, input suppliers for production activities, buyers of agricultural produce, local market agents who buy the production of village or neighbourhood level artisans and so on. These relationships cannot be controlled by



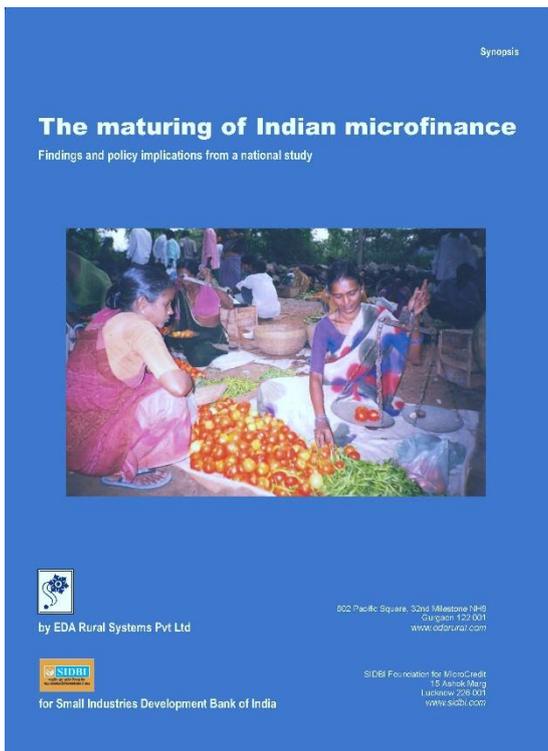
government ordinances. Economic interaction does not come to an end because institutional lending has been stopped, it simply moves to other levels where the dependency of the borrower is even greater than it is in the case of the allegedly exploitative MFIs.

As for the economic and social impact of the practice of microfinance lending, there have been many studies and the general consensus is that the evidence of benefit to borrowers is weak. A December 2025 article by a journalist, an outspoken sceptic of microfinance, emphasizes this lack of evidence.<sup>5</sup> The article cites a 2019 paper by two UK-based academics, Maren Duvendack (University of East Anglia) and Philip Mader (Institute of Development Studies) incorporating a review of 32 reviews since 2010 of studies of financial inclusion impact “though only 11 were found to be rigorous enough to be included” in their analysis. The Duvendack and Mader paper apparently found that the effects of the provision of financial services on poverty indicators, health and social outcomes were “small and inconsistent” and there was no evidence of positive changes in behaviour among people with recent access to financial services. However, the provision of micro-deposit services did have some positive effect and there were also positive results of financial services on women’s empowerment but this was more due to customer education than financial services. None of these reviews was able to

provide a picture of the indebtedness patterns resulting from the provision of the micro-credit component of financial inclusion.

These comments and results, largely match the findings of EDA/M-CRIL. We have been involved in key studies of microfinance impact over the years since 2001. The baseline for the impact study of the first DFID India microfinance support project with SIDBI was undertaken in 2001-04 by an EDA team led by Frances. The study involved an extensive survey with a sample of more than 5,000 households, 4,000 of them MFI customers and 1,400 non-customers drawn from 20 MFIs operating in various parts of India. Albeit the first stage of an extensive multi-stage exercise, it found that there was extensive use of micro-credit for investment (relative to non-clients) resulting in new

and expanded non-agricultural micro-enterprises and to some increase in enterprise



<sup>5</sup> David R Whitehouse, December 2025. “The Rise and Fall of Financial Inclusion” in his development blog termed The Dark Side of Development. <https://drdavidwhitehouse.substack.com/p/the-rise-and-fall-of-financial-inclusion>

income. Cross sectional analysis of the baseline data (comparing older with more recent clients) provided an indication of a possible shift out of poverty (to non-poor categories) for around 20% of the sample. This study was hailed as a major early contribution to the research on microfinance impact.<sup>6</sup>

More recently, during 2014 to 2019, EDA (later M-CRIL) was commissioned by DFID in partnership with Oxford Policy Management to undertake an evaluation of the financial inclusion component of the Poorest States Inclusive Growth Programme implemented by SIDBI in the four states of Bihar, Madhya Pradesh, Odisha and UP. Baseline data from nearly 4,000 households reduced to 3,300 reporting at endline due to attrition from the MFIs that the panel was drawn from. The results showed that financial inclusion had improved from 38% to 47% during the three year period between the baseline and endline surveys in these poorest states of India and that the gap between the more advanced groups of households and the most vulnerable groups had shown a statistically significant reduction. Similarly, women's agency had improved from an index score of 47 compared to 41 at baseline. Measured by the Poverty Probability Index there was a positive change by 9 percentage points for the rural sample and by 13 percentage points for urban client households, with a similar degree of change across different categories of household, but with continuing poverty in poor districts and for SC/ST households (higher than the overall average). There were significant changes in the proportion of women using their own mobile phones (Endline EL, 50%, Baseline BL, 34%), having their own savings accounts (EL87%, BL60%), reporting an equal say in household decision making (EL83%, BL54%) and (included as a significant indicator of women's empowerment, even if not a direct focus of the programme) a decrease in reported experience of domestic violence (EL18%, BL31%). Problems in repayment had however increased from 6% at baseline to nearly 17% at endline. Overall changes over the three year period were encouraging though not overwhelming.

### **A reluctant RBI was eventually compelled to intervene to mitigate the mayhem**

In India, the Reserve Bank of India (RBI, the central bank) initially resisted involvement in the microfinance sector. Recalling an initial meeting with an RBI Deputy Governor as long ago as 1999, a group of microfinance industry leaders at the time (including myself) were firmly told that we could not expect any engagement from the RBI because the overall portfolio of the sector (no more than ₹30 crore at the time and a minuscule proportion – less than 0.05% of the loan portfolio of the banking sector) did not justify it. It was only at the time of the Andhra Pradesh crisis that the central bank realised that it was not just a matter of the quantum of finance (₹20,000 crore portfolio outstanding by

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<sup>6</sup> EDA, 2005. **The maturing of Indian microfinance – findings and policy implications from a national study.** In its wisdom (and by its bureaucratic rules), SIDBI tendered the endline stage of the evaluation, commissioning the lowest bidder irrespective of issues of reputation of the commissioned agency and irrespective of the benefits of a single agency undertaking both stages of the evaluation. The resulting endline study remains quietly under wraps.



then) but also that of protecting the financial interests of over 27 million borrowers that was involved.

Since then, RBI has developed expertise and established inspection teams for supervising microfinance NBFCs and its central government charter means that complaints can be managed by it at the central level rather than being subject to the separate mercies of multiple state governments or district level bureaucrats. M-CRIL played its part in contributing to the development of the regulatory framework, including making submissions to the Malegam Committee that investigated the issues behind the AP crisis during the initial 2011-13 period when microfinance regulation was being developed. Subsequently, we have been engaged with both Sa-Dhan and MFIN at various times in supporting the application of and adherence to those regulations.

### **And in Cambodia there was a veritable firestorm...**

Even more than the practice of microfinance in India, Cambodian microfinance has drawn fiery criticism in recent years. It all started with the publication in August 2019 by LICADHO, an NGO styled as a “national Cambodian human rights organisation”, of a monograph reporting on land loss and other abuses in the Cambodian microfinance sector. Again, as in India, these abuses were associated with lack of adequate internal control mechanisms in a fast growing sector. Starting with about 50,000 clients and a total loan portfolio of over US\$3 million in 1995, the microfinance sector grew steadily, providing loans to a total of 2.1 million households (excluding the microfinance portfolios of banks), with a portfolio of US\$9.4 billion by the end of 2022. This was over 30% of Cambodia’s estimated GDP of \$29.96 billion in 2022.<sup>7</sup> Assuming a 35% average return on capital on microfinance loans (since effective interest rates alone are in the range of 23-25%) this amounted to a microfinance contribution of nearly \$3.3 billion (~11%) to the GDP of Cambodia.<sup>8</sup>

The LICADHO report titled: **Collateral Damage: Land loss and abuses in Cambodia’s microfinance sector**,<sup>9</sup> accused Cambodian MFIs of reckless lending by offering loans to clients who could not afford to repay them and then pressurising the clients into repaying loans through “coercive land sales or other unethical measures”. Despite the disclaimer by LICADHO that the report “seeks to highlight issues that researchers discovered in **target areas** (emphasis added), such as land loss, that clearly stand to undermine the human rights of a significant and growing section of Cambodia’s poor. Further research is necessary to determine the full extent and severity of the issues raised in this report” it set off a storm of debate, particularly amongst detractors of microfinance, not only about Cambodian microfinance but also about microfinance

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<sup>7</sup><https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KH>

<sup>8</sup> Extracted from M-CRIL, November 2023. **An impact assessment of microfinance in Cambodia** – a report commissioned by the Cambodia Microfinance Association (of MFIs) widely known as CMA.

<sup>9</sup> [http://www.licadho-cambodia.org/reports/files/228Report\\_Collateral\\_Damage\\_LICADHO\\_STT\\_Eng\\_07082019.pdf](http://www.licadho-cambodia.org/reports/files/228Report_Collateral_Damage_LICADHO_STT_Eng_07082019.pdf)



generally.<sup>10</sup> There were even calls for an international commission to establish the extent of land loss by Cambodian microfinance borrowers and other abuses of human rights by MFIs in Cambodia.

At the time, M-CRIL issued a sobering advisory, saying that the LICADHO interviews were undertaken in a limited number of 10 communes across the four provinces of Kampong Cham, Kandal, Prey Veng and Tbong Khmum, in addition to the city of Phnom Penh. The report did not specify the 10 communes covered but that does not significantly affect the analysis. Essentially, LICADHO had

- **sought out borrowers who faced repayment difficulties** rather than discover what proportion of the total actually faced such difficulties and what those difficulties were to obtain a statistically valid assessment of the scale of the problem, and it became apparent from our analysis that
- **the proportion of those borrowers with repayment difficulties who were actually interviewed was very small** – less than 0.2% (2 in 1,000) of the total number of loans in the study area. If, as shown by the research of M-CRIL and by MFI research departments we assume multiple borrowing by around 40% of the borrowers, the number of borrowers in extreme stress identified by the LICADHO team becomes 0.27% (1 in 370).

M-CRIL's position on distress caused by microfinance has always been that there are large numbers of low-income households whose lives are facilitated by microfinance with loans at annual effective interest rates (currently) of the order of 20-25% in Cambodia compared with informal market rates of around 60-120%. The extent of distress is, in fact, no more than the economic stress found in any society; it is inappropriate to blame it exclusively on microfinance. We issued a series of three advisories to this effect, at the time, cautioning against extreme interpretations of the LICADHO findings.<sup>11</sup>

### **So, M-CRIL was commissioned by CMA to undertake an impact study**

Nevertheless, with Cambodian microfinance continuing to grow at a rapid rate, and with “microloan” sizes increasing to astronomical levels (relative to other countries) the sector still attracts the ire of the sceptics. The average size of loans outstanding to typical microfinance borrowers was around \$6,000 (3 times GDP per capita) in 2022, having grown from less than \$3,000 (2 times per capita income) in 2017 and compared with typical loans outstanding in India, Bangladesh, Myanmar of less than \$1,000 per

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<sup>10</sup> <https://www.khmertimeskh.com/50632531/cambodias-microfinance-a-growth-engine-not-a-debt-trap/>

<sup>11</sup> **Microfinance Alert in Cambodia: Real Issues or Scaremongering?** M-CRIL advisories on the implications – 3 notes, 1,2 & 3, October-November 2019.



household (25-40% of per capita income). Typical headlines are “Microfinance in Cambodia: Troubling Trends Challenge Effectiveness”.<sup>12</sup>

Indeed, troubled by such headlines and by investigations into MFI lending behaviour launched by IFC amongst others, the Cambodia Microfinance Association commissioned M-CRIL to undertake a nation-wide microfinance impact study in 2022. The impact study was specifically commissioned “to assess the success and overall impact of the microfinance sector since the start-up of the programme up to the present. This assessment also aim[ed] to understand how micro-finance contributes to the improvement of clients’ living standards, community development, children’s access to school and contributes to poverty reduction and economic growth.”<sup>13</sup> M-CRIL was selected for this study based on our knowledge and experience of Cambodia, our reputation for diligence in research, our field experience and our ethical approach to analysis and reporting. It was expected that M-CRIL’s findings would be widely accepted and enable both Cambodian and international stakeholders to develop an understanding of the impact of microfinance on low-income households in the country.

The field study, conducted through 2022 covered about 3,000 households with micro-credit loans. Given the difficulty in measuring household incomes in informal settings, M-CRIL did not attempt to enumerate it. We did enumerate borrowing levels and household perceptions of change in well being over the previous 5 years. Given the widespread coverage of microfinance in all parts of Cambodia, there was no possibility of comparing respondent borrowers with a control group. Overall, what emerged was that, in the context of the international criticism of their large loan size, the Cambodian microfinance community does itself a disservice. The survey of borrowing households shows that 62% of outstanding MFI loans were in accounts of less than \$3,000 (whereas just over 14% of outstanding loans were in accounts of size greater than \$10,000 holding 59% of the total portfolio) – see figure below. The logical conclusion here is that Cambodian MFIs have graduated well beyond microfinance and unnecessarily attract scrutiny by calling large accounts micro-loans.

One of the recommendations of the M-CRIL study was that Cambodian MFIs should split their portfolios (and by extension operations) into separate categories of microfinance and SME lending, respectively below and above \$3,000. This is not to say that the remaining 1.3 million borrowing households (out of 2.1 million MFI borrowers in 2022) – with outstandings less than \$3,000 – were necessarily doing well but it is to emphasise, as M-CRIL has done for many years (all over Asia, not just in Cambodia)

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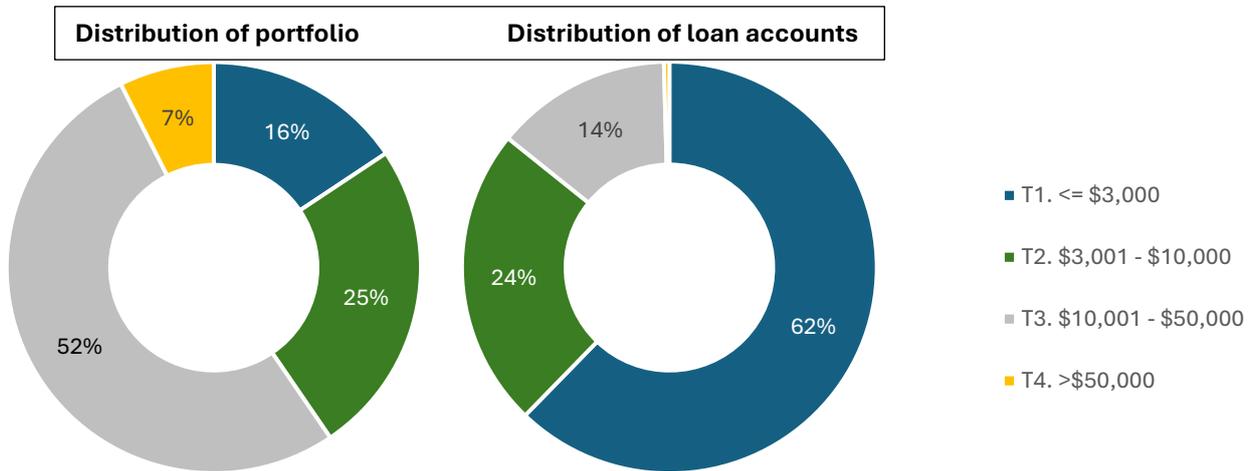
<sup>12</sup> Felicity Hurley, *The Financial Analyst*, 18 November 2024. Plus, Elaine Pearson, Human Rights Watch, 13 October 2025. “Cambodia’s Microloan ‘Debt Traps’ Test the World Bank.” Human Rights Watch argues that Cambodian microfinance institutions, backed by investors such as IFC, are targeting Indigenous communities with predatory lending and debt collection practices.

<sup>13</sup> Terms of Reference for the CMA commissioned impact assessment in Cambodia.



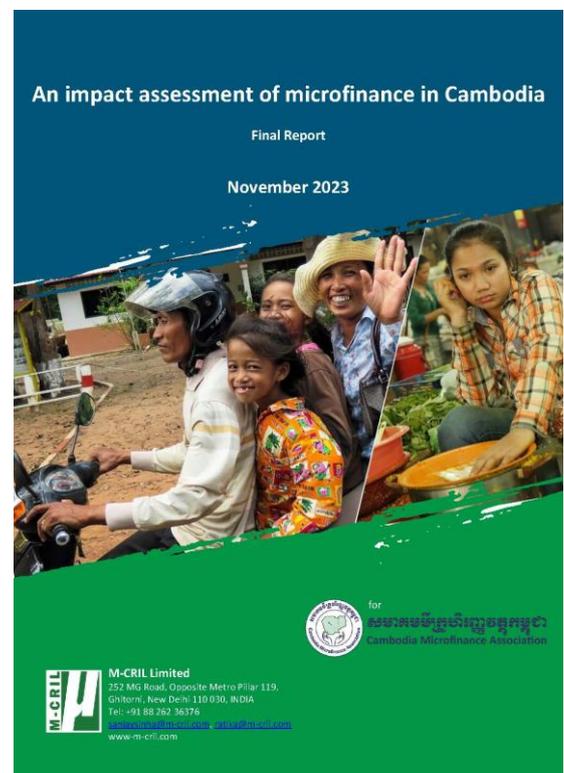
that SME lending needs more complex protocols and higher staff skill levels than microfinance. The latter segment, on the other hand, needs relatively more empathy to be appropriate for the low-income clients it serves. Mixing the two segments results in confused objectives and confused loan officers.

**Figure 8.1 Distribution of microfinance portfolios in Cambodia**



**...and the conclusions of the study<sup>14</sup>**

**To quote,** “The international discourse on Cambodian microfinance assumes a high level of sporadic repayment stress amongst microfinance borrowers. The findings of this assessment indicate that while there is a degree of such repayment stress (more so among poor households), there is stress for around 24% of borrowers, the concern that this results in many of them losing their land (even implying landlessness and destitution for large numbers of borrowers) is grossly over-stated. There [has been] loss of some land in about 0.5% of cases in the past 6 months and perhaps up to 6% over a five-year period (that included the effects of Covid). This type of loss entails the sale of small plots of land, any cases of landlessness that may result are rare and this study did not discover any. Most borrowers faced with repayment stress coped with the situation [with temporary] borrowing from relatives/friends/associates followed by borrowing from moneylenders. Less frequent are the sales of high value assets (mainly motorbikes or other



<sup>14</sup> M-CRIL, November 2023, *op cit.*

household assets) and (of grave concern) the temporary lowering of food intake. Land sale is the last resort. While there is some Focus Group input in this study that indicates distress, it is the extreme cases (real or hearsay) that remain in borrowers' minds and not necessarily always the benefits. The real possibility of the loss of some assets resulting from their borrowing is acknowledged by MFI clients in the sample for this study.

**“In consideration of impact,**

- **Some two-thirds of the sample reported improvement in their lives in the last five years. Amongst them, 31% reported substantial economic benefit and life improvements** while another 36% reported some improvement.
- **The lives of nearly 25% of sample households had deteriorated.** The remaining 8% gave mixed responses – “somethings have improved, while others have worsened.”
- **However, less than 20% of the sample attributed any change in their lives directly to loans. About 13% said that borrowing helped in improving their lives and 5% attributed deterioration directly to credit.**

“Furthermore, **while nearly 6% reported some sales of land over the past five years, 20% [even] reported purchases of some land.** Neither did many of the former attribute land sales exclusively to “too many loans” nor did many of the latter report “access to credit” as a crucial factor in the purchase of land. In both cases credit was one factor **cited by some responding households.**

**On the behaviour of MFIs and their staff,**

“Life is complex; there is no straightforward correlation of distress with financial services. And there is no general environment of distress amongst microfinance clients. Nevertheless, some lives have been directly affected by a vicious cycle of debt. This happens in any financial services activity, whether from lending by microfinance service providers or by the regulated commercial banking sector. It happens in every country in the world whether with low income or high-income populations.

“At the same time, **there are some misguided elements in the microfinance sector...**input [from Focus Group Discussions] shows that these could be loan officers being overzealous in managing overdues in their operational areas or, in a few cases, managements of MFIs allowing such behaviour through implicit approval. As socially conscious institutions, microfinance lenders should address the issues that affect households that become enmeshed in a vicious cycle of debt and work to ameliorate the conditions of those affected as well as to minimize the recurrence of distress.”

**So, do we accept the conclusion that microfinance has achieved its objectives and no longer needs subsidy support?**



As described above, the AP crisis forced the RBI in 2011 to change its stance of regarding the microfinance sector as inconsequential. The sector had grown in terms of numbers of households served even if its portfolio was still less than 1% of the total for the overall financial system. In the M-CRIL Microfinance Review for 2010 we wrote,

“...with 26.7 million borrower accounts the size of the microfinance sector now more than matches significant parts of the Indian financial system in terms of the number of citizens affected. This number is nearly 1.5 times the total number of borrower accounts serviced by the Regional Rural Banks and is 26% of the total number of small credit accounts (up to ₹2 lakh, \$4,400) held by the entire banking sector. If allowed to be seen as part of the mainstream financial system, the microfinance sector would have a 21% share of the total number of small borrower accounts and a 40% share of all micro-accounts (less than Rs25,000, \$555).”

The evolution of the sector continued through the 2010s with more and more NGO MFIs having converted to non-bank finance companies in order to be eligible for “priority sector funds” lent by the commercial banking sector. This was a major stimulant of this conversion. It was also a way of opting for the considered and considerate regulation (and, by extension) the protection of the central bank from predatory local politicians. There are now about 80 microfinance NBFCs under the RBI regulatory ambit.

And the sector itself has evolved further. As documented in the M-CRIL Microfinance Review, 2014 (Figure 4.5, page 25), institutional borrowings (read, priority sector funds from Indian commercial banks) accounted for nearly 70% to over 80% of MFI funds over the period 2007 to 2014. This high level of funding has continued and, as referred to above, results in equity funds being leveraged up to 10 times in the financing of MFIs. But since then commercial banks have increased their own microfinance portfolios in two ways, first by acquiring the portfolios of NBFCs MFIs – starting with the acquisition of BSS Microfinance by Kotak Mahindra Bank in 2016 – around a dozen of the larger MFIs have now merged with commercial banks while 8 others have transformed into Small Finance Banks. As a result, commercial bank microfinance portfolios (loan accounts less than ₹3 lakh, US\$3,500) have now reached 48% of the ₹381,000 crore (around \$45 billion) total microfinance portfolio in the country.

Recent (2025) concerns about the quality of microfinance portfolios notwithstanding, the growth of commercial bank engagement with microfinance is an ongoing process with their direct microfinance portfolios continuing to expand and likely to be larger than the microfinance NBFC and NGO portfolios by March 2026. On this basis the integration of microfinance with the overall financial sector is well advanced and the dream of integration behind the request for RBI regulatory interest in 1999 is close to being achieved. India has, by far, the largest microfinance sector in the world. The suggestion, therefore, that the Gates Foundation’s announced withdrawal from

subsidising micro-finance is somehow a retreat is inappropriate.<sup>15</sup> On the contrary, it is an achievement; those of us who care about social performance may not be happy about a noticeable degree of stress (as well as some distress) amongst microfinance clients but its integration with commercial banking can only be celebrated; it contributes to financial inclusion, engaging the least privileged sections of society more fully into the modern economy. There is huge room for poverty reduction support for low-income households but that is a matter for governments to address, through *inter alia* subsidised work and direct benefit programmes, as distinct from it being the responsibility of the financial sector.

### **To conclude on microfinance and its dilemmas...**

Ultimately, in the practice of microfinance there is ongoing tension between providing access to finance and maintaining as well as growing that access by collecting repayments in a humane and socially acceptable manner. Some MFIs even try to combine this effort with other development objectives including financial literacy and women's empowerment. Journalists going out looking for distress – three cases here, five cases there – come aggressively challenging M-CRIL's assessment of MFI adherence to social performance and client protection. They need to consider whether it would be better to bring the whole dilemma to a close, as in Andhra Pradesh, by depriving millions of people of access to cheap credit (yes, cheap, relative to the informal market rate) or whether an ongoing effort to ensure social consciousness in the rollout of financial inclusion does, in fact, contribute to greater well-being. M-CRIL's findings from the field are clear, many borrowers benefit, others are less fortunate and may be worse off, a few get into trouble but there is no environment of distress. Western academics and journalists are welcome to draw attention to cases of distress but the negative effects of a singular focus on *pareto optimality* can also cause more harm than good. This is not a happy outcome for millions who subsist with small amounts of finance provided in a broadly fair environment as opposed to the oppressive environment prevalent in the informal market.

[SS: 12 January 2026]

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<sup>15</sup> By Whitehouse, 2025, op cit.