

# Growth of Microfinance

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**Abstract:** This paper examines the growth and impact of microfinance as a change for financial inclusion and poverty reduction. Over the past few decades, microfinance has expanded significantly, providing low-income individuals, particularly women, with access to small loans, savings, and insurance. The paper explores the factors driving this growth, including technological innovation, the rise of mobile banking, and the increasing involvement of impact investors. It also highlights how microfinance institutions (MFIs) have evolved to offer a wider range of financial products tailored to the needs of neglected group.

However, the paper also addresses the challenges facing the sector, such as over-indebtedness, high interest rates, and questions of sustainability. While microfinance has succeeded in improving access to capital for many, concerns remain about its long-term effectiveness in reducing poverty.

Looking ahead, the paper discusses the impact of microfinance in entrepreneurship and entrepreneurs. The research concludes that while microfinance has played a pivotal role in promoting economic empowerment as it helps the small sector business for development and also startup companies.

**Keywords:** Microfinance, Poverty Reduction, Mobile Banking, MFIs.

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## I. INTRODUCTION

### ➤ Growth of Microfinance

Microfinance has revolutionized financial services by offering small-scale credit and financial products to those excluded from traditional banking systems. Originating as an initiative to combat poverty, it has now transformed into a global movement contributing to economic growth and social development. Microfinance institutions (MFIs) have played a key role in empowering underserved populations by providing them with the means to invest in small businesses, agriculture, education, and healthcare. The growth of microfinance can be attributed to its adaptability and alignment with Sustainable Development Goals (SDGs), especially those related to poverty alleviation, gender equality, and economic growth.

The sector has witnessed innovations such as digital lending platforms and mobile banking, which have expanded its reach to remote and underserved areas. However, this growth also brings challenges, including over-indebtedness, regulatory issues, and maintaining the balance between social objectives and profitability.

The reason that I chose this topic is to analyze the growth and development of entrepreneurs with the help of microfinance and also the challenges faced by the small scale industries.

In this paper I have narrowed down microfinance in entrepreneurship.

(The role microfinance in developing entrepreneurs)

Entrepreneurship plays a critical role in driving economic growth, creating jobs, and promote innovation. However, aspiring entrepreneurs, especially in developing economies, often face significant barriers in accessing financial resources to start or expand their businesses. Microfinance bridges this gap by providing small-scale loans, savings options, and other financial products tailored to the needs of low-income individuals with entrepreneurial aspirations.

By targeting individuals who lack access to traditional banking systems, microfinance institutions (MFIs) empower them to transform their ideas into viable businesses. These services not only enable economic independence but also encourage local development, reduce unemployment, and improve living standards.

### ➤ Objectives

- To examine the role of microfinance in enabling startup ventures
- To analyze the impact of microfinance on the growth and sustainability of micro and small enterprises.
- To evaluate the effectiveness of microfinance in promoting innovation and entrepreneurial skills.
- To study the role of microfinance in empowering women entrepreneurs.
- To identify the challenges faced by entrepreneurs in accessing and utilizing microfinance.

## II. REVIEW OF LITERATURE

*Mulondo Andrew(2020)* The study emphasizes the contribution of microfinance services to the expansion of small businesses in Uganda. However, due to a number of problems, including high loan interest rates, the growth of small businesses has been steadily declining, and microfinance services delivery is still subpar. The study's goal is to determine whether microfinance services significantly impact Kamuli Municipal Council small business growth.

*Muhammad Sajid Saeed(2014)* The study demonstrates how Microfinance Institutions (MFIs) have provided small loans with convenient payback terms to millions of impoverished individuals worldwide. In addition to highlighting the microfinance operations carried out by MFIs, the research paper of them identifies the key obstacles to the expansion of microfinance in both developed and developing countries. Lack of financial stability, unchecked expansion, cultural and value barriers, systematic frauds, bureaucratic roadblocks, state intervention, methodological flaws, and a lack of credit rating agencies are the main reasons preventing the adoption of microfinance.

*Saravanan and Devi Prasad (2017)* The study examines a sizable panel of financing for Self-Help Groups (SHGs) in 30 Indian states between 2007 and 2015. By grouping the panel among four banks according to funding, they discover a strong and favorable correlation between SHG savings and outstanding loans and bank financing in each state. Using panel regression frameworks with both state-specific and time-varying fixed variables, they found a favorable correlation between bank loan savings rates and outstanding loans for SHGs. The growth of SHGs has had a favorable impact on bank loans, especially from the public and private sectors, over the years, as our panel model has further demonstrated.

*Sakshi Varshney(2012)* The study emphasizes how the microfinance industry has been rising quickly in recent years. Microfinance has taken center stage as a potentially effective channel for providing unbanked segments of the population with financial services. With 188 million customer accounts, or 18% of the world's total population in the developing world, India has the biggest concentration of borrowers. The summary presented in that discussion emphasizes the concept

and origin of microfinance, as well as its funding sources and channels.

*Dr. Sanjeeb Kumar Dey(2015)* The study focuses on the two main issues and problems that India faces. The lack of adequate credit facilities for the unemployed and impoverished was the factor under investigation. These two elements have emerged as the most difficult obstacles to the nation's sustainable development. Over the past 20 years, significant strides have been achieved in developing innovative methods for providing sustainable financial services to the underprivileged. With the use of a tool like microfinance, poverty reduction, sustainable development, and economic growth can be accomplished successfully.

## III. THE ROLE OF MICROFINANCE IN ENABLING STARTUP VENTURES

Startup initiatives are made possible in large part by microfinance, particularly for business owners without access to standard financial facilities. Microfinance institutions assist people, especially those from low-income backgrounds, in starting and expanding their enterprises by offering small loans, savings plans, and other financial services. Even without collateral or a solid credit history, these loans enable business owners to invest in equipment, purchase inventory, or pay for operating expenses. By providing flexible repayment terms and frequently providing training or mentorship to assist business owners thrive, microfinance also promotes entrepreneurship. In addition to boosting employment and the local economy, this assistance encourages social empowerment and financial inclusion, particularly for women and underprivileged areas. To put it briefly, microfinance facilitates the removal of financial obstacles, allowing individuals to transform their concepts into successful enterprises and promoting overall economic growth.

## IV. THE IMPACT OF MICROFINANCE ON THE GROWTH AND SUSTAINABILITY OF MICRO AND SMALL ENTERPRISE

Another key objective of microfinance is to support the growth and continuity of micro and small enterprises. Microfinance institutions offer loans, savings, and other financial services tailored to the needs of small businesses. This support helps entrepreneurs manage their operations, expand their businesses, and continue their work over time. The growth of micro and small enterprises contributes significantly to the local economy by creating job opportunities and boosting productivity.

MSEs can so strengthen their resilience, withstand economic setbacks, and support local job creation and economic expansion. Over time, microfinance empowers marginalized communities and creates a virtuous cycle of economic growth by promoting greater financial inclusion in addition to helping businesses expand.

## **V. EVALUATING THE EFFECTIVENESS OF MICROFINANCE IN PROMTING INNOVATION AND ENTREPRENEURIAL SKILLS**

Microfinance also plays an important role in encouraging innovation and developing entrepreneurial skills. By providing access to capital, microfinance enables entrepreneurs to experiment with new ideas, products, and services. Additionally, it helps individuals build their business skills, such as financial management and marketing. This empowers entrepreneurs to grow their businesses and make informed decisions, which is crucial for long-term success.

Furthermore, a lot of microfinance organizations provide training courses that give borrowers the fundamental entrepreneurial abilities needed to maintain and expand a firm, like marketing, financial management, and business planning. Better decision-making, more operational effectiveness, and a stronger capacity to adjust to shifting market conditions can result from these abilities. However, a number of issues, like the quantity of loans, a lack of advanced business training, or the risk aversion of certain entrepreneurs, may restrict the impact of microfinance on innovation. Despite these obstacles, microfinance can effectively assist the development of entrepreneurial potential and creativity, especially in low-resource environments, when paired with support services like mentor-ship.

## **VI. THE ROLE OF MICROFINANCE IN EMPOWERING WOMEN ENTREPRENEURS**

One of the critical areas where microfinance has had a significant impact is in supporting women entrepreneurs. Microfinance programs often focus on women, who may have limited access to financial resources due to social and cultural barriers. By providing women with the financial tools they need, microfinance helps them start and grow their businesses, leading to greater economic independence. Supporting women entrepreneurs also promotes gender equality and strengthens communities.

Furthermore, a lot of microfinance initiatives explicitly target women since they understand how they may influence economic development in communities and families. In addition to providing financial assistance, these programs frequently offer networking opportunities, training, and mentorship, all of which assist women in gaining critical entrepreneurial abilities including leadership, company management, and financial literacy. Women who receive this all-encompassing support become more self-assured, independent, and capable of assuming leadership positions in their communities. By overcoming gender hurdles and advancing gender equality in business, women who are successful in their endeavors not only enhance their individual financial well-being but also contribute to the larger socioeconomic development of their communities.

## **VII. IDENTIFYING THE CHALLENGES FACED BY ENTREPRENEURS IN ACCESSING AND UTILIZING MICORFINANCE**

Despite its benefits, there are challenges that entrepreneurs face when accessing and using microfinance. Many entrepreneurs struggle with understanding the terms and conditions of loans, or they face difficulties in repaying them. Additionally, some individuals may find it challenging to use the loans effectively to grow their businesses. One major problem is that microfinance institutions (MFIs) have strict eligibility requirements that make it hard for new or unofficial business owners to get approved. These requirements may include a minimum amount of business experience, a group-based guarantee, or a specific income level. Furthermore, although while microloans are usually smaller than those from commercial banks, they might still have high interest rates, which can be problematic for companies with narrow profit margins. Additionally, entrepreneurs may have low financial literacy, which makes it more difficult for them to comprehend loan terms, repayment plans, or efficient money management. Another obstacle may be geographic; since most MFIs are found in cities, rural business owners may find it difficult to obtain funding.

In certain instances, microfinance programs might not offer enough mentorship or training, two essential support services for businesses to make the most of the money. Lastly, societal and cultural barriers can prevent women and other underrepresented groups from obtaining microfinance because they may encounter prejudice or a reluctance to take on debt, especially in rural or conservative regions. These difficulties have the potential to limit microfinance's ability to promote sustainability and entrepreneurial growth.

### VIII. DATA ANALYSIS AND INTERPRETATION

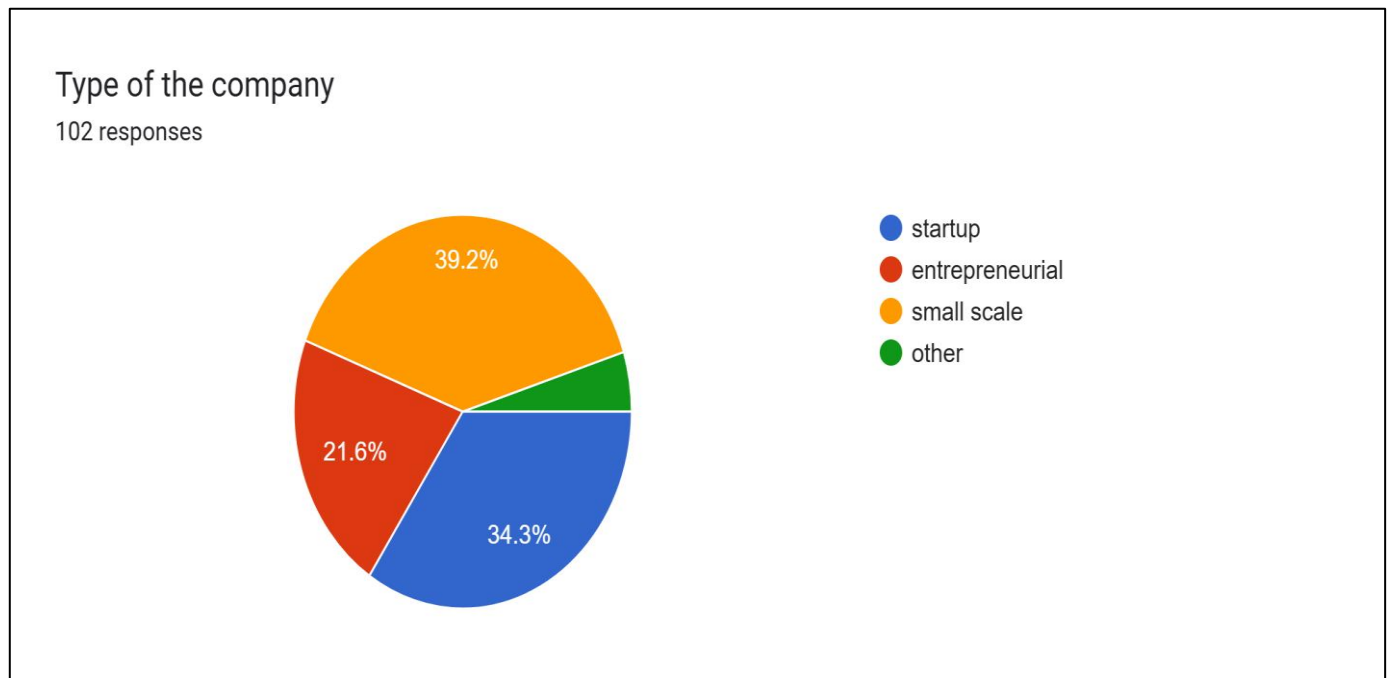


Fig 1: Type of the Company

The major type was startup and small scale industries.

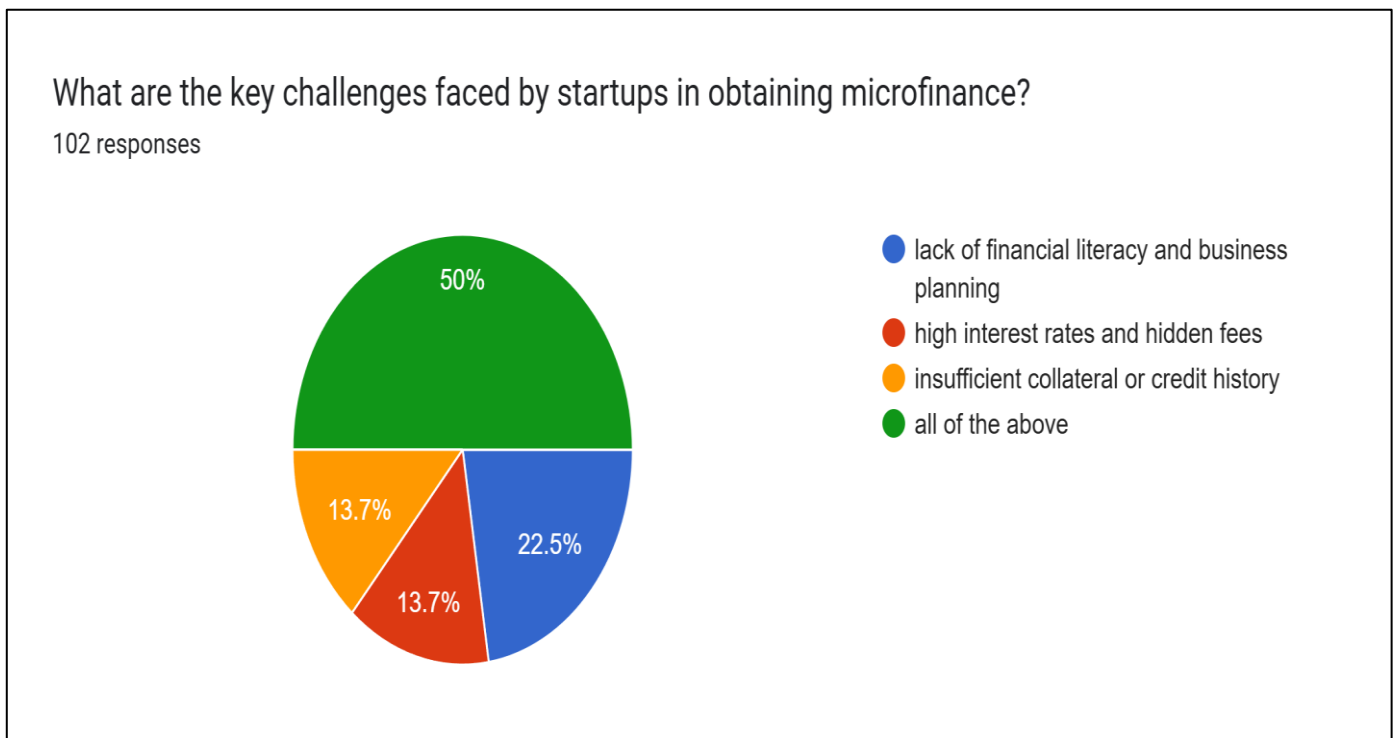


Fig 2: Key Challenges Faced by Startups

The analysis of the survey shows that 50% respondents says that they face all the issues like lack of financial literacy and business planning high interest rates and hidden fees, insufficient collateral or credit history. But mainly 22.5%

respondents says that they are lacking in financial literacy and business planning, which should be sort out by proving workshops, special courses, etc.

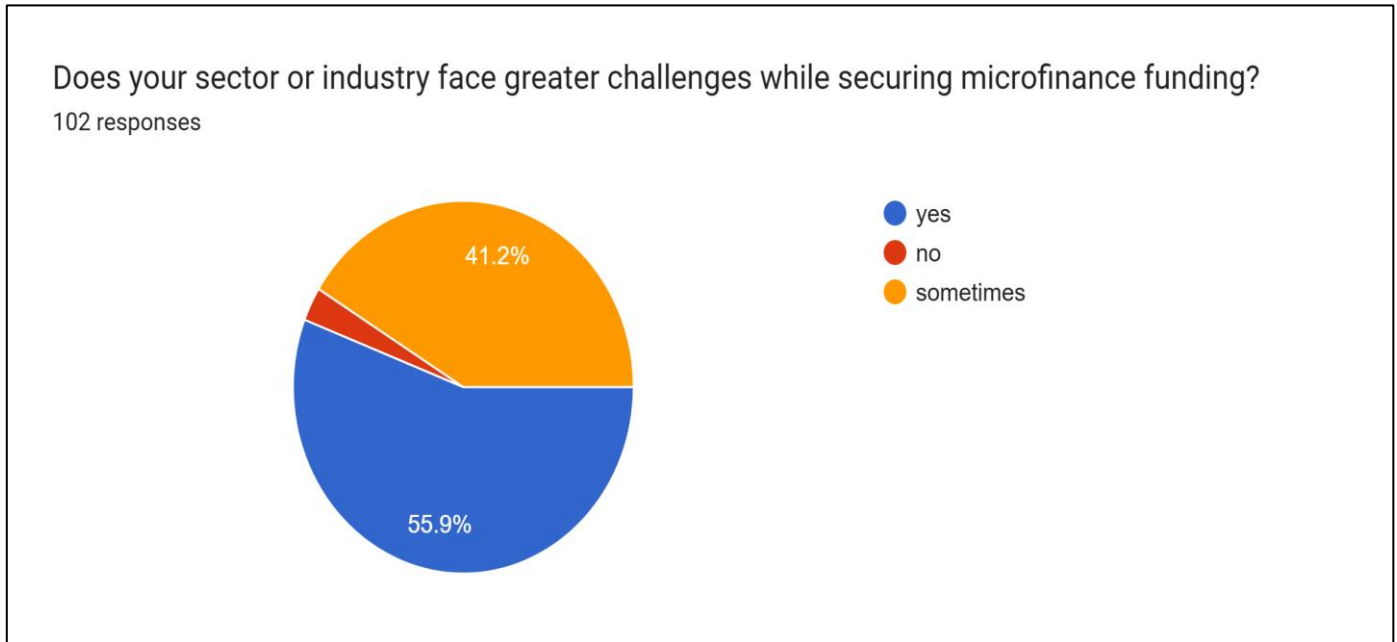


Fig 3: Sector or Industry which Face Greater Challenge

The data indicates that 55.9% industries face greater challenges while securing microfinance funding, which will be greater disadvantage for the people to access microfinance

. So this should be cleared out by changing certain policies and regulations in-order to access microfinance in wider range.

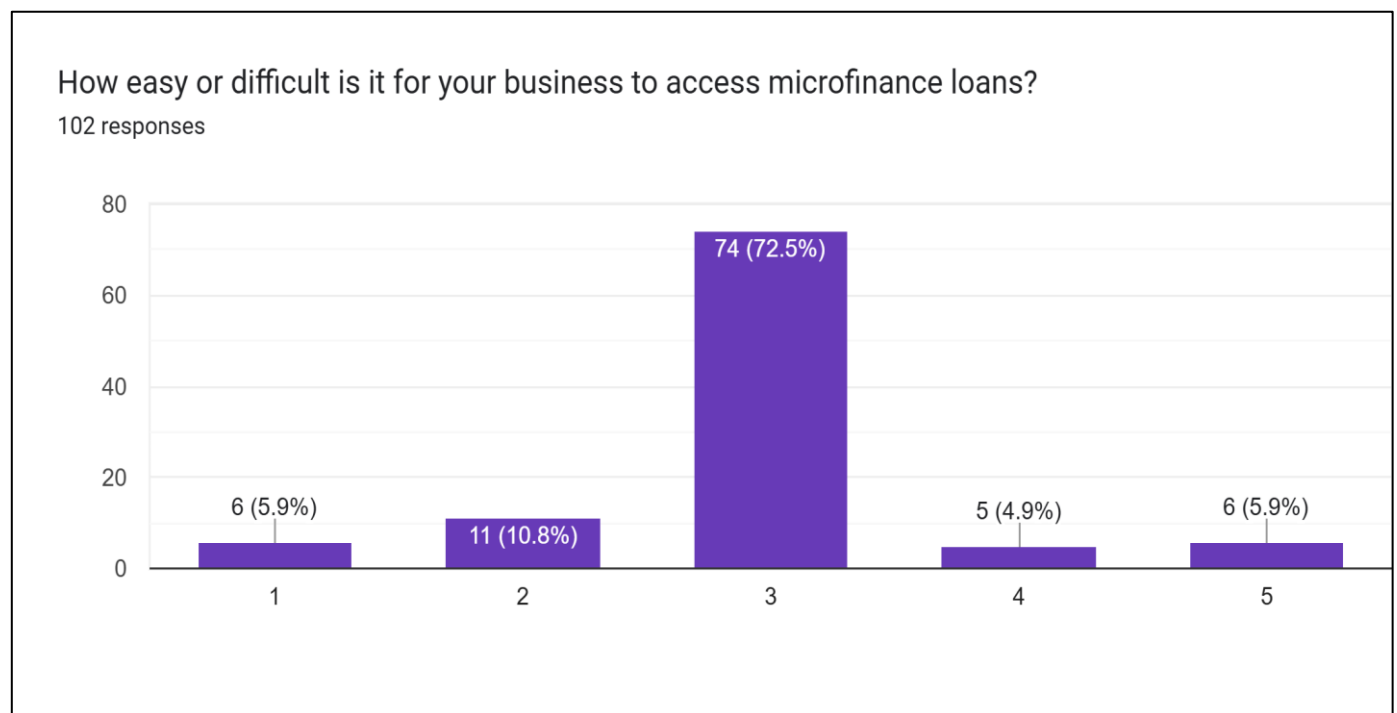


Fig 4: Access Level of Microfinance Loans

The data reveals the access level of microfinance loans for the business people. 72.5% people says that the level of accessing the loans was at the medium level. Hence some

modifications can be done in-order to make the access level easier for the customers.

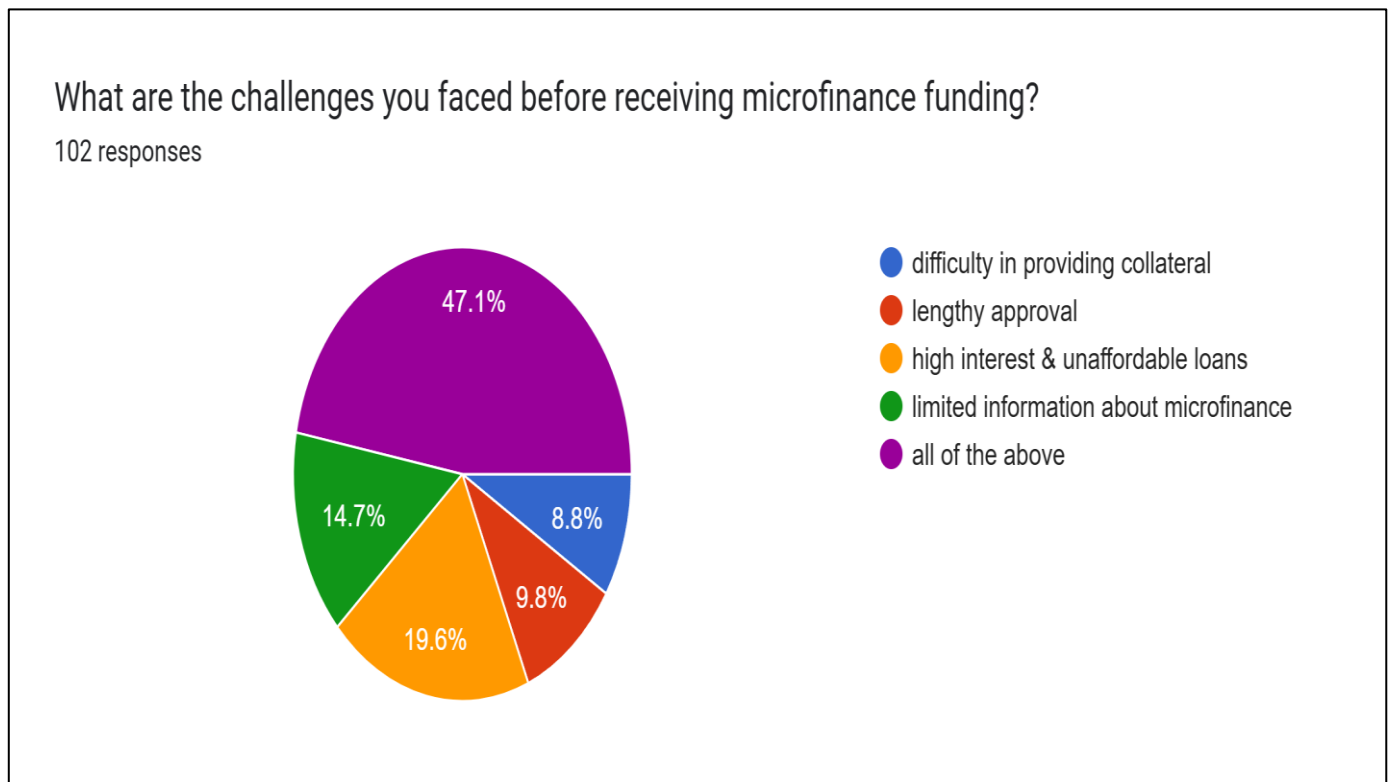


Fig 5: Challenges Faced Before Receiving Microfinance

The data analysis shoes that 47.1% people faced all the challenges like difficulty in providing collateral, lengthy approval, high interest and affordably loans, limited

information about microfinance etc. Banks which provides microfinance loans can considered all of these and should modify their regulations for the welfare of the people.

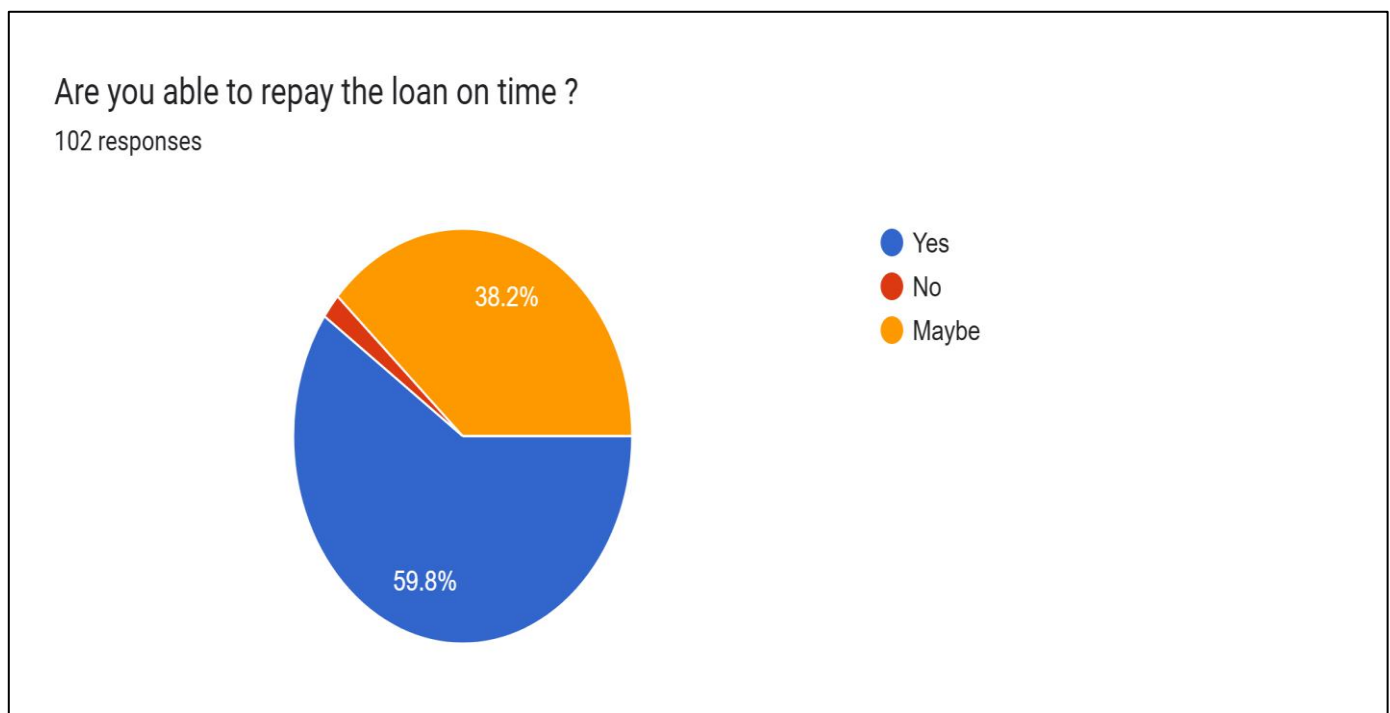


Fig 6: Repayment of Loan

The survey shows that 59.8% people were able to repay the microfinance loans, but 38.2% people says that they may

or may not be able to repay the loans.and only less number of people were unable to repay their microfinance loans.

Do you think microfinance has a long term impact on your ability to innovate and improve your business

102 responses

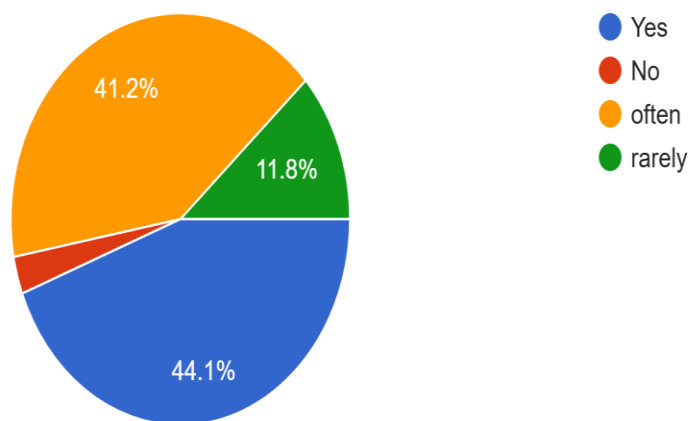


Fig 7: Gains Received After Getting Microfinance Loans

Fig 7, The Data Shows that 44.1% People Believe that its Impact Results in Long Term by the Ability to Innovate

and Improve their Business. which is a Good Outcome from Microfinance

Do you feel that your business is now more profited than before you received microfinance loans

102 responses

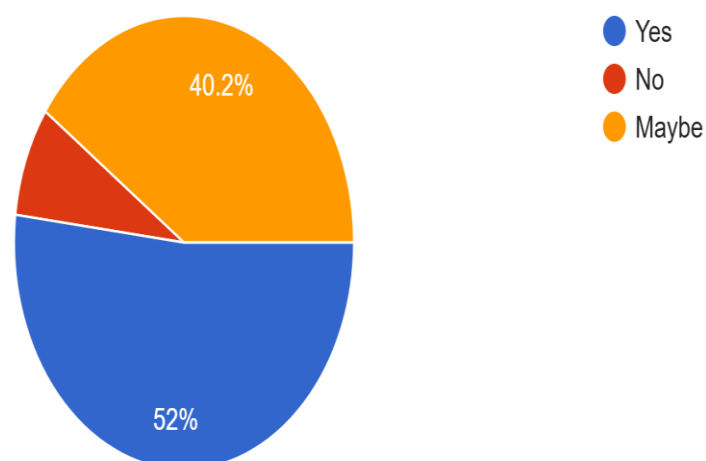


Fig 8: The Study Reveals that 52% Business People have been More Profited by Receiving Microfinance Loans at the Same Time 40.2% People Responds that Sometimes they might Receive more Profits and Sometimes May Not





Fig 9: The Data Analysis Shows that only 14.7% Respondents Were Totally Satisfied with the Amount they Received and 78.4% Replied that it was a Kind of Which Defines that they were not Completely Satisfied with the Amount they Received. This Shows that Amount Received is not Enough to Meet Their Business Needs

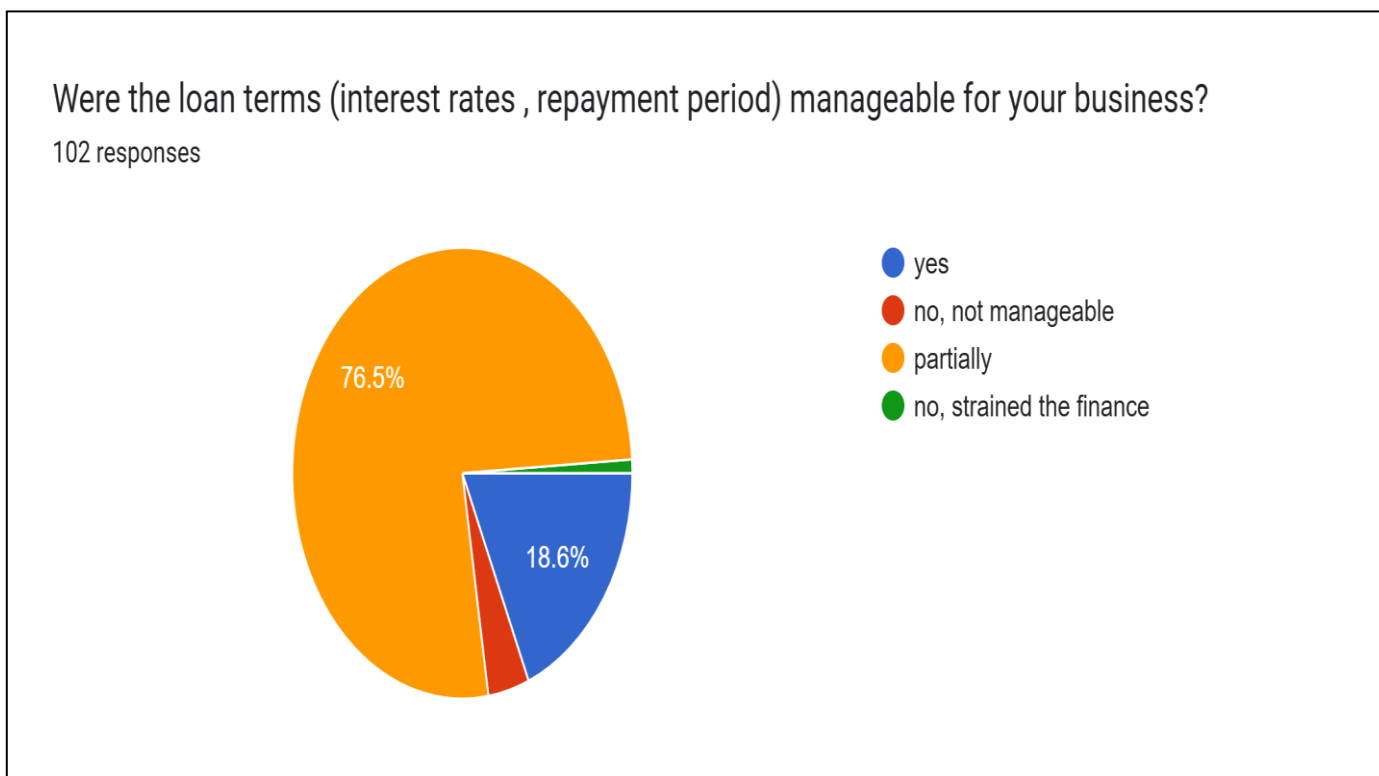


Fig 10: The Data Collected Shows that 76.5% Respondents were Partially able to Manage the Loan Terms, it Shows that the Terms and Conditions should be Modified to the Needs of the Business and they Should be Able to Access the Loans Easily



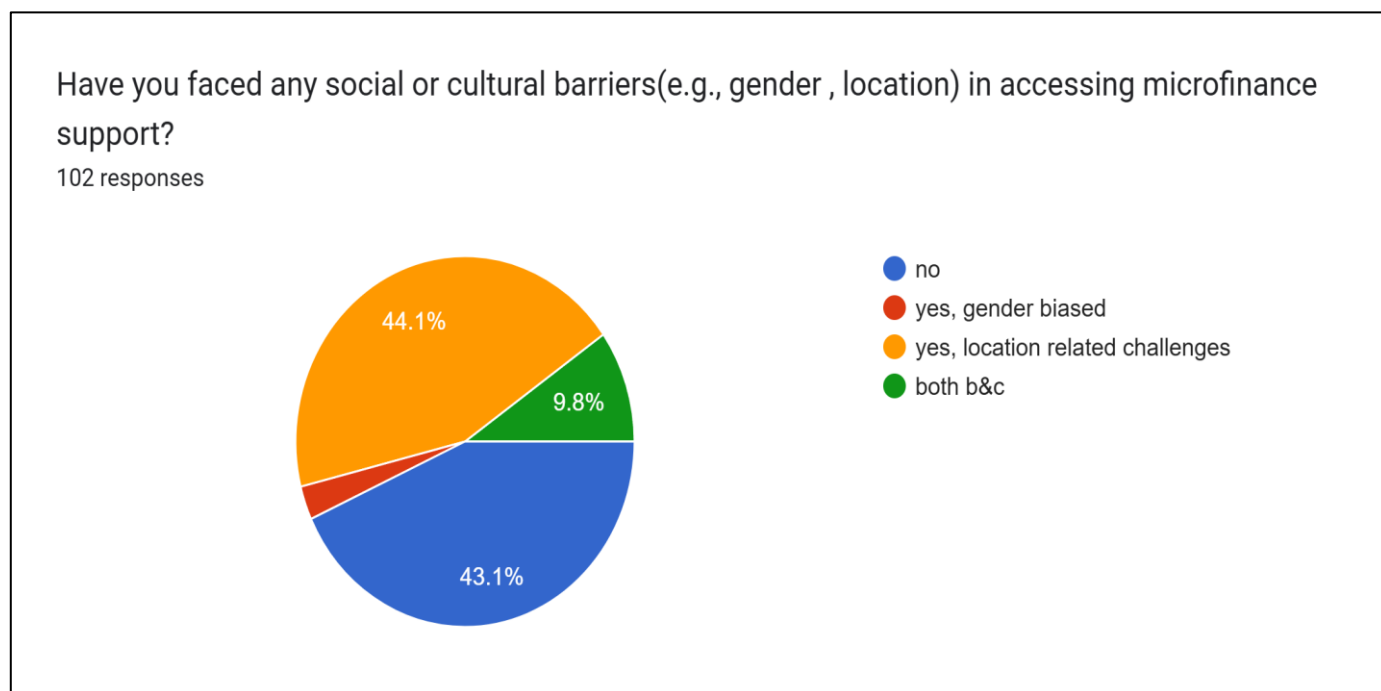


Fig 11: The Survey Shows that 44.1% Respondents Says that they Face Some Challenges Based on Location at the Same 43.1% Respondents Says that they don't Face any Challenges based on Social or Cultural Barriers. So the only Challenge which is Majorly Happening in the Current Situation is Location Based Challenges for the People which Should be Rectified

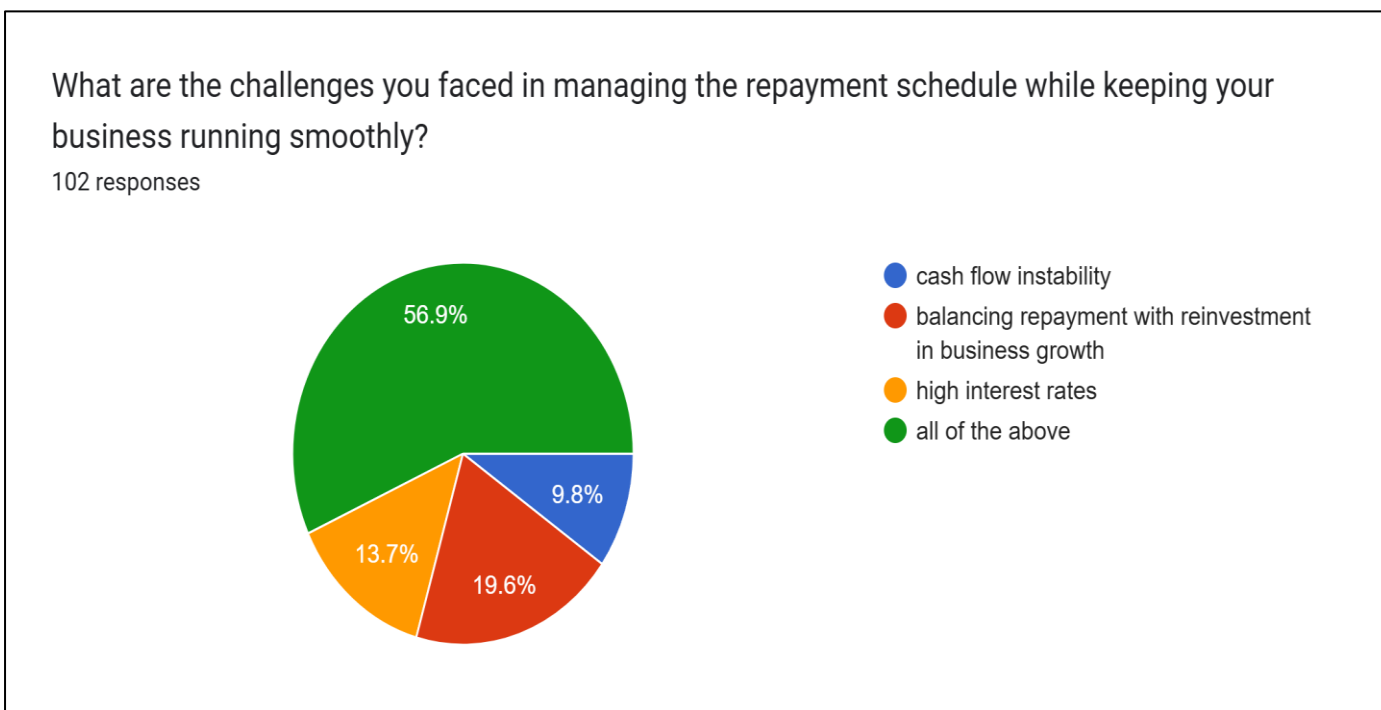


Fig 12: The Data Analysis Shows that 56.9% Respondents Faces all most all the above Challenges which are Cash Flow Instability, Balancing Repayment with Reinvestment in Business Growth, High Interest Rates etc.

## IX. FINDINGS

- A significant number of startups (22.5%) struggle with financial literacy and business planning, which affects their ability to secure and manage microfinance effectively.

- A majority of respondents (55.9%) face considerable challenges when trying to access microfinance, such as high interest rates, collateral requirements, and complicated approval processes.
- Many recipients (78.4%) feel the loan provided are insufficient to meet their business needs, indicating that microfinance institutions may need to reassess loan sizes.

## X. SUGGESTIONS

- Provide targeted financial literacy workshops and business planning courses to help startups navigate the challenges of securing and using microfinance effectively.
- Advocate for changes in policies to simplify the loan application process, reduce collateral requirements, and lower interest rates, making microfinance more accessible to small-scale industries.
- Microfinance institutions should consider adjusting loan amounts to better meet the needs of small businesses and modify repayment terms to accommodate cash flow cycles and business growth.

## XI. CONCLUSION

Microfinance plays a critical role in supporting startups and small-scale industries, yet several challenges hinder its full potential. Despite the positive impact of microfinance in promoting business growth and innovation, many entrepreneurs face difficulties in accessing loans, understanding financial concepts, and managing repayment terms. The data reveals that insufficient financial literacy, inadequate loan amounts, and high interest rates are significant barriers to the success of microfinance initiatives. To enhance the effectiveness of microfinance, it is essential to focus on improving financial literacy, revising policies to ease access, and ensuring loan amounts and terms are more aligned with the actual needs of businesses. With these changes, microfinance can become a more powerful tool for sustainable economic development and supporting the growth of small businesses and startups in developing economies.

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