



An Analytical Study on the Role of NABARD and RBI in Strengthening India's Microfinance Ecosystem

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Abstract

This analytical study explores the joint role of the National Bank for Agriculture and Rural Development (NABARD) and the Reserve Bank of India (RBI) in strengthening India's microfinance ecosystem. The research examines how NABARD's developmental interventions and RBI's regulatory measures collectively contribute to financial inclusion, institutional stability, and borrower protection. NABARD's initiatives, including the SHG-BLP, refinance schemes, and capacity-building programs, have expanded access to affordable credit and empowered millions of rural women and entrepreneurs. Meanwhile, the RBI's frameworks—such as the NBFC-MFI regulations, Harmonized Regulatory Framework (2022), and credit bureau mandates—have enhanced transparency, curbed multiple lending, and ensured systemic discipline. The study finds that NABARD serves as a facilitator of grassroots development, while the RBI acts as a regulator ensuring financial stability and consumer welfare. Together, their complementary approaches have established a more inclusive and sustainable microfinance system. However, persistent challenges such as regional imbalances, digital lending risks, and funding constraints for smaller microfinance institutions (MFIs) highlight the need for greater policy coordination and innovation. The study concludes that aligning NABARD's developmental strategies with RBI's regulatory vision is essential for achieving equitable growth and long-term resilience in India's microfinance sector.

Keywords: NABARD, RBI, Microfinance, Financial Inclusion, Regulatory Framework

Introduction

Microfinance has emerged as one of India's most consequential instruments for promoting financial inclusion, reducing poverty and fostering livelihood resilience among low-income and marginalized households. Beginning with informal credit arrangements and evolving through formal initiatives such as the SHG-BLP and the rise of regulated MFIs, India's microfinance ecosystem now spans a wide variety of actors — from grassroots self-help groups (SHGs) supported by NABARD to regulated Non-Banking Financial Company–Microfinance Institutions (NBFC-MFIs) supervised by the RBI. This study critically examines how NABARD and RBI — the country's premier developmental finance institution and central bank respectively — have shaped, supported and regulated this ecosystem, and how their interventions affect outreach, sustainability and borrower protection in the contemporary, post-pandemic environment.

Historical Context and Scope of Microfinance in India

The SHG-BLP, promoted and supported by NABARD, transformed India's microfinance architecture by providing a scalable, savings-led model linking community groups with formal banking channels. Over decades the SHG movement expanded into a nationwide coordinated programme that today reaches tens of millions of households and remains a central pillar of rural microcredit delivery. NABARD's recent reporting continues to show large volumes of credit flowing through the SHG channel, underlining the programme's continued centrality to rural financial inclusion.

Parallel to the SHG model, the 2000s and 2010s saw the institutionalization of MFIs — NBFCs, Small Finance Banks (SFBs), cooperative MFIs and microfinance arms of banks — which developed product, distribution and collection models aimed at serving microentrepreneurs and low-income households beyond SHGs. By the mid-2010s, the RBI introduced targeted regulatory measures for NBFC-MFIs to balance growth with stability and consumer protection; these measures have continued to evolve, reflecting changing market structure and risks.

Recent Trends and Performance

The microfinance industry remains large in absolute terms but has undergone consolidation and portfolio re-shaping in recent years. Multiple industry trackers show that the sector's portfolio outstanding—measured across NBFC-MFIs, banks, small finance banks and other MFIs—was in the range of ₹3.0–3.8 lakh crore in recent reporting windows, with active loans and unique borrowers numbering in the multi-crore range. For example, SIDBI's Microfinance Pulse reported a total portfolio outstanding of about ₹3.07 lakh crore as of end-June 2025 supporting roughly 10 crore active loans and about 6 crore unique borrowers, while other industry reports (covering slightly different cut-offs) recorded comparable magnitudes for FY 2024–25.

At the same time, the composition of the microfinance book has shown important shifts. NBFC-MFIs continue to account for a substantial share of the industry portfolio, with banks and SFBs also increasing their footprints through branch networks and priority-sector linkages. Recent NABARD publications highlight continuing expansion in SHG outreach and the re-emergence of women-led SHGs as a dominant beneficiary group, while industry analyses point to a growing rural share of microfinance lending—signifying renewed focus on underserved geographies.

Notwithstanding the scale, sectoral indicators signal stress and transition. Several industry bodies and analysts have flagged pressures on asset quality and profitability; Sa-Dhan, the MFI network, cautioned recently that the microfinance sector may face continued asset-quality and profitability headwinds beyond FY2025–26 unless funding and operational challenges are addressed. These warnings underscore the fragile balance between outreach and financial sustainability that both NABARD and RBI must consider in their interventions.

The Distinct but Complementary Roles of NABARD and RBI

NABARD and the RBI operate with different mandates and tools, and together they shape both supply and governance in the microfinance ecosystem:

- **NABARD — development, capacity-building and finance:** As India's apex rural development bank, NABARD's remit includes refinance support, promotion of the SHG-BLP, capacity building of grassroots institutions, and research on rural financial markets. NABARD's programmes channel subsidized or concessional refinance to banks and MFIs for on-lending to SHGs and rural borrowers, provide technical assistance for community institution building, and support innovations in delivery (including digital payment linkages and financial literacy). NABARD's periodic reporting shows sustained volumes of lending and outreach through SHGs and related rural credit channels, reflecting its continuing developmental role.

- **RBI — regulation, prudential oversight and market stability:** The RBI's role is to ensure the safety, soundness and orderly functioning of the financial system while protecting end-users. For microfinance, the RBI issues prudential norms for NBFC-MFIs (e.g., qualifying asset criteria, capital and exposure norms), consumer protection guidelines, and supervisory expectations. In 2025 the RBI adjusted the qualifying asset requirement for NBFC-MFIs from 75% to 60% — a significant policy change designed to afford these institutions greater flexibility to diversify assets and manage risks, while still retaining a core microfinance focus. Such regulatory calibrations directly influence MFIs' business models, funding strategies and capital requirements.

The interplay between NABARD's developmental instruments and RBI's regulatory guardrails is therefore central: NABARD can expand outreach and support capacity, but the sustainability and systemic risk profile of that outreach are anchored by RBI regulations and supervision. Well-calibrated coordination can promote inclusive growth while preserving stability; misalignment or gaps can amplify borrower vulnerability or institutional instability.

Key Drivers Transforming the Contemporary Microfinance Landscape

- **Funding and consolidation:** Post-2022 the sector has witnessed funding pressures and consolidation. Access to wholesale and capital markets has been uneven, affecting leverage and growth trajectories for many MFIs. The RBI's regulatory adjustments (e.g., qualifying asset change) and the evolving investor appetite influence how MFIs restructure their portfolios and funding sources.
- **Geographic and product diversification:** MFIs and banks are increasingly expanding in rural geographies and diversifying products (enterprise loans, small business credit) and delivery channels (digital loans, banking correspondents). This diversification can improve resilience but also introduces operational complexity and new risk dimensions.
- **Asset quality and borrower protection:** Delinquencies and repayment cycles have shown volatility. Regulatory guardrails and industry self-regulation (e.g., MFIN/Sa-Dhan guidelines) aim to prevent over-indebtedness, yet recent reports show upticks in delinquencies that require focused attention on client profiling, credit-scoring and grievance redressal. Sa-Dhan's recent advisories emphasize that without adequate capital and careful underwriting, asset quality pressures may persist.
- **Technology and fintech integration:** Digital platforms and fintech lenders have dramatically expanded credit access, processing speed and alternative underwriting methods. While fintech brings scale and convenience, it also raises questions about data protection, pricing transparency and overlapping credit exposures across multiple lenders — issues that both NABARD (in supporting digital inclusion) and RBI (in regulating digital credit and consumer protection) must address.

Review of Literature

The study of microfinance in India has evolved over several decades, reflecting shifts in policy, regulation, and institutional frameworks that have shaped the sector's current dynamics. The review of existing literature provides a comprehensive understanding of the contributions made by the NABARD and the RBI in strengthening the microfinance ecosystem, while also identifying gaps for further research.

Evolution of Microfinance and Institutional Support

The roots of microfinance in India can be traced back to the early cooperative movement and informal savings groups. However, the institutionalization of microfinance gained momentum with the launch of the **SHG-BLP** by NABARD in 1992. According to Harper (2002), the SHG-BLP model became a pioneering initiative in linking formal financial institutions with informal self-help groups, significantly enhancing rural financial inclusion. NABARD's annual reports

consistently highlight the programme's success in mobilizing women's savings and improving credit access for marginalized communities.

The Reserve Bank of India's regulatory role has been equally crucial. As noted by Srinivasan (2010), RBI's introduction of prudential norms for MFIs helped formalize the sector and mitigate the risks associated with unregulated lending. The 2011 Malegam Committee Report was a milestone, leading to the recognition of **NBFC-MFIs** as a separate category, thereby establishing clear guidelines on interest rates, borrower exposure, and transparency.

Policy Interventions and Financial Inclusion

A number of studies have examined the policy interventions by NABARD and RBI to promote financial inclusion. Bansal (2014) emphasized NABARD's capacity-building programs, refinancing facilities, and support for digital financial services as pivotal to enhancing rural outreach. Similarly, Dasgupta (2018) found that RBI's financial inclusion initiatives, such as the **Priority Sector Lending (PSL)** framework and the licensing of **SFBs**, significantly expanded microcredit penetration in rural India.

Recent research by Sa-Dhan (2023) and MFIN (Microfinance Institutions Network) indicates that regulatory reforms have positively influenced portfolio quality and customer protection, though challenges persist in operational efficiency and cost management. NABARD's initiatives like **E-Shakti**, aimed at digitizing SHG records, have improved transparency and efficiency in credit delivery (NABARD Report, 2023).

Challenges and Emerging Trends

Despite these achievements, several scholars highlight ongoing challenges. Reddy and Manak (2019) noted that over-indebtedness, high interest rates, and loan concentration in specific regions continue to threaten the sustainability of the microfinance sector. Meanwhile, Kumar and Sahu (2021) observed that NABARD's SHG programmes and RBI's prudential regulations often face coordination challenges, leading to overlaps or policy gaps that affect credit flow and borrower protection.

Recent literature also points to the growing role of technology and fintech integration in reshaping microfinance. According to the **SIDBI Microfinance Pulse Report (2025)**, digital lending platforms have expanded outreach but introduced new risks related to data security, pricing transparency, and credit duplication. These developments underscore the need for robust regulatory frameworks that balance innovation with consumer protection—an area where both NABARD and RBI play complementary roles.

Research Gap

While extensive studies have explored either NABARD's developmental contributions or RBI's regulatory interventions individually, limited research has analysed their combined and coordinated impact on the overall microfinance ecosystem. There remains a need for an integrated assessment of how their policies collectively influence sectoral sustainability, asset quality, and borrower welfare. Moreover, with recent regulatory changes—such as RBI's 2025 revision of the qualifying asset norm for NBFC-MFIs—new dimensions have emerged that require empirical analysis.

Objectives

1. To map and analyse the major policy and programmatic initiatives of NABARD and RBI affecting microfinance.
2. To assess the impact of these initiatives on outreach, portfolio composition and financial sustainability of MFIs and SHGs.
3. To identify key challenges in operations, funding, and regulation impacting asset quality and borrower welfare, and to suggest strategies for better institutional coordination.

Research Methodology

This study adopts a descriptive and analytical research design based primarily on secondary data sources to evaluate the role of NABARD and RBI in strengthening India's microfinance ecosystem. Data have been collected from official publications such as NABARD Annual Reports, RBI Bulletins, Economic Surveys, and industry reports from Sa-Dhan, MFIN, and SIDBI's Microfinance Pulse. Relevant research papers, policy documents, and government statistics were also reviewed to ensure comprehensive analysis. Analytical tools like trend analysis and comparative evaluation were applied to assess growth patterns, portfolio quality, and institutional interventions. The study's scope is limited to the Indian microfinance sector between 2010 and 2025, focusing on policies, regulatory frameworks, and developmental initiatives shaping financial inclusion.

Role of NABARD in Microfinance Development

The NABARD has played a pioneering role in shaping and strengthening India's microfinance landscape since its establishment in 1982. As an apex development finance institution, NABARD's primary mandate is to promote sustainable and inclusive rural development through financial and institutional support. Over the past four decades, NABARD has emerged as the architect of India's microfinance movement, fostering innovations such as the SHG-BLP, providing refinance support to financial institutions, and implementing a variety of capacity-building and livelihood initiatives.

NABARD's Vision and Objectives in Microfinance

NABARD's vision in the microfinance domain is to ensure financial inclusion, empowerment, and poverty alleviation through accessible, affordable, and sustainable financial services for rural households. The institution focuses on linking rural communities—especially women and marginalized groups—to the formal banking system. NABARD's objectives include:

- Promoting sustainable rural credit delivery mechanisms.
- Enhancing the outreach of formal financial institutions to unbanked populations.
- Supporting micro-entrepreneurship and livelihood enhancement.
- Facilitating financial literacy and credit discipline among rural borrowers.

By integrating these objectives, NABARD ensures that microfinance becomes not merely a credit delivery mechanism but also a tool for social transformation and capacity development.

The Self-Help Group–Bank Linkage Programme (SHG-BLP)

Introduced by NABARD in 1992, the SHG-BLP remains the world's largest microfinance initiative. The model is built on the principles of mutual trust, group savings, and collective creditworthiness. It connects informal women's savings groups (SHGs) with formal banking channels to facilitate micro-credit and promote thrift.

As per NABARD's Status of Microfinance in India 2023–24, over 12.6 million SHGs have been promoted under this programme, covering more than 142 million rural households. The cumulative credit disbursement through SHG-BLP crossed ₹ 2.4 lakh crore, showing NABARD's vast outreach in micro-lending. Of these SHGs, over 88% are women-led, emphasizing NABARD's focus on women's empowerment and gender inclusivity.

The SHG-BLP operates through three models:

- **Model I** – SHGs formed and financed directly by banks.
- **Model II** – SHGs formed by NGOs or government agencies but financed by banks.
- **Model III** – SHGs financed by banks through NGOs acting as financial intermediaries.

This structure has enabled flexible partnerships between financial institutions, community organizations, and NGOs, ensuring effective implementation across diverse regions.

Refinance and Credit Support Mechanisms

NABARD provides refinance assistance to banks, regional rural banks (RRBs), and cooperative institutions to encourage micro-lending. Through refinance, NABARD replenishes the lending institutions' resources, allowing them to extend fresh credit at concessional rates to the rural poor. Refinance support is also extended to MFIs that comply with specific lending norms and focus on weaker sections. In FY 2023–24, NABARD disbursed ₹1.38 lakh crore in refinance assistance across various schemes, a portion of which was dedicated to microfinance and SHG activities. These funds not only facilitate lending but also help stabilize the liquidity of rural credit institutions.

Capacity Building and Institutional Development

Apart from financial assistance, NABARD emphasizes capacity-building initiatives for SHGs, MFIs, and bank officials. Training programs under the Micro Enterprise Development Programme (MEDP) and Livelihood and Enterprise Development Programme (LEDP) equip rural women and entrepreneurs with skills in areas such as agriculture, handicrafts, dairy farming, and small-scale trading.

NABARD also supports Financial Literacy and Credit Counselling Centres (FLCCs) and collaborates with NGOs to improve borrowers' understanding of savings, credit management, and repayment discipline. By doing so, it strengthens the socio-economic fabric of rural communities and reduces the risk of loan defaults.

Table 1: Key NABARD Microfinance Initiatives and Their Achievements

Programme/Initiative	Launch Year	Objective	Key Achievements (2024)
SHG-BLP	1992	Link SHGs to banks for savings and credit access	12.6 million SHGs linked; ₹ 2.4 lakh crore disbursed
Refinance Assistance	1982	Provide liquidity support to rural credit agencies	₹ 1.38 lakh crore refinance disbursed (FY 2023–24)
MEDP	2006	Skill training for micro-entrepreneurship	Over 6 lakh beneficiaries trained
LEDP	2015	Promote sustainable livelihoods	3.5 lakh women benefited across 25 states
e-Shakti Project	2015	Digitization of SHG data for credit linkage	1.1 million SHGs digitized
FLCC	2013	Improve financial awareness and discipline	Over 1,200 FLCCs operational nationwide

Source: <https://www.nabard.org/EngDefault.aspx>

Promoting Innovations and Digital Inclusion

Recognizing the potential of technology, NABARD has been promoting digital microfinance initiatives to enhance transparency, reduce transaction costs, and improve service delivery. Through partnerships with fintech companies and banks, NABARD has supported the digitalization of SHG records and payments, ensuring better monitoring and financial inclusion. Projects such as e-Shakti, launched in 2015, aim to digitize SHG data across districts to facilitate smoother credit linkages and real-time tracking. As of 2024, more than 1.1 million SHGs have been onboarded to the e-Shakti platform, demonstrating NABARD's commitment to leveraging technology for inclusive growth.

NABARD's Role in Women Empowerment and Social Inclusion

Women's empowerment lies at the heart of NABARD's microfinance strategy. Through SHG-BLP and specialized women-oriented programs, NABARD has transformed millions of rural women from passive beneficiaries into active economic participants. Women-led SHGs have improved household income, education, and healthcare outcomes, contributing to broader social development. NABARD's Gender Sensitization and Empowerment Initiatives integrate microcredit with social awareness programs, ensuring that economic empowerment is accompanied by social transformation. This multidimensional approach helps bridge gender gaps in financial access and decision-making power in rural households.

Monitoring, Supervision, and Impact Assessment

NABARD employs robust monitoring and evaluation frameworks to ensure the effectiveness of its programs. Regular audits, progress reviews, and impact assessments are conducted to track the performance of SHGs and partner institutions. Findings are published in NABARD's annual "Status of Microfinance in India" reports, which serve as key references for policymakers and researchers. Impact studies consistently show that NABARD's microfinance interventions have led to increased household savings, higher income generation, and improved access to education and healthcare in rural regions. The positive spillover effects on women's empowerment and community cohesion further underscore NABARD's transformative impact.

Role of RBI in Strengthening Microfinance

The RBI, as the apex monetary and regulatory authority, plays a crucial role in maintaining financial stability while promoting inclusive economic growth. Within the microfinance sector, the RBI's role extends beyond traditional regulation—it encompasses policy formulation, institutional supervision, consumer protection, and capacity enhancement. Through a series of reforms and regulatory frameworks, the RBI has been instrumental in shaping a stable and transparent microfinance ecosystem that serves the needs of low-income households and micro-entrepreneurs.

RBI's Vision for Microfinance Development

RBI's vision is centered around promoting financial inclusion through a robust, customer-centric, and well-regulated microfinance sector. The central bank aims to ensure that credit reaches underserved and unbanked populations without causing borrower over-indebtedness or systemic risks. The RBI envisions a system where financial institutions, including NBFC-MFIs, SFBs, Cooperative Banks, and Commercial Banks, work cohesively to deliver microfinance products in a sustainable and responsible manner. The RBI's microfinance strategy is guided by three key objectives:

- **Inclusivity:** Expanding access to formal financial services for low-income households.
- **Stability:** Ensuring financial discipline and institutional soundness within MFIs.
- **Protection:** Safeguarding borrower interests through transparency and fair practices.

Evolution of RBI's Regulatory Framework for Microfinance

The RBI's involvement in microfinance regulation deepened after the Andhra Pradesh microfinance crisis of 2010, which exposed issues of multiple lending, coercive recovery, and lack of borrower protection. In response, the RBI formed the Malegam Committee (2011), which laid the foundation for a new regulatory regime for microfinance institutions.

Following the committee's recommendations, the RBI:

- Introduced the category of NBFC-MFIs (Non-Banking Financial Company–Microfinance Institutions) in December 2011.
- Established norms for capital adequacy, income recognition, provisioning, and exposure limits.

- Capped the interest rate margins to prevent exploitative lending.
- Defined qualifying assets criteria to ensure that microfinance loans targeted genuine low-income borrowers.

These steps formalized microfinance operations within the regulated financial system, enhancing transparency, accountability, and consumer confidence.

RBI's Key Policy Initiatives and Reforms

Over the years, the RBI has continuously refined its microfinance regulations to align with market realities and developmental goals.

1. Harmonized Regulatory Framework for Microfinance (2022):

In March 2022, the RBI introduced a new, harmonized regulatory framework applicable to all regulated entities engaged in microfinance, including banks, NBFCs, SFBs, and cooperative institutions. Key features included:

- Removal of interest rate caps, allowing institutions to set rates transparently while disclosing margins.
- Elimination of the rigid 75% qualifying asset criterion for NBFC-MFIs (later revised to 60% in 2025).
- Mandating household income-based loan assessment to prevent over-indebtedness.
- Strengthening customer protection guidelines, including repayment flexibility and grievance redressal mechanisms.

This framework marked a significant shift from institution-based regulation to activity-based regulation, ensuring uniform standards across all entities involved in microfinance.

2. Introduction of SFBs: The RBI's 2015 policy to license Small Finance Banks allowed successful MFIs to transform into full-fledged banks. Institutions like Ujjivan, Equitas, and ESAF transitioned into SFBs, gaining access to deposits and diversified funding sources. This transition enhanced financial stability and expanded outreach to rural and semi-urban areas.

3. Consumer Protection and Fair Practice Codes: To safeguard borrowers, the RBI mandated that all microfinance entities follow Fair Practices Codes (FPCs) emphasizing responsible lending, transparent communication, and prohibition of coercive recovery methods.

4. Credit Bureau Integration and Risk Monitoring: The RBI required MFIs to report borrower data to credit bureaus such as Equifax and CIBIL, enabling better credit risk assessment and prevention of multiple lending. This has been instrumental in improving portfolio quality and reducing defaults.

The RBI's Developmental and Supervisory Role

Apart from policy formulation, the RBI plays a developmental and supervisory role by:

- Monitoring microfinance institutions' compliance with prudential norms.
- Conducting onsite and offsite inspections to ensure financial health.
- Promoting innovations such as digital micro-lending platforms under strict governance standards.
- Supporting financial literacy initiatives through partnerships with NABARD and the Financial Literacy and Inclusion Fund (FLIF).

The RBI's Financial Inclusion Plans (FIPs) encourage banks to extend credit to priority sectors, including micro-enterprises and SHGs.

Table 2: Key RBI Reforms and Policy Measures in Microfinance Sector

Year	Policy/Initiative	Key Features	Impact on Sector
2011	Introduction of NBFC-MFI category	Defined qualifying assets, capital norms, and interest rate caps	Brought MFIs under formal regulation
2015	Licensing of Small Finance Banks	Allowed MFIs to transform into banks	Enhanced funding access and stability
2017	Priority Sector Lending Guidelines	Included microfinance and SHGs under PSL	Encouraged bank participation in microcredit
2022	Harmonized Regulatory Framework	Unified rules for all microfinance providers	Promoted fairness, transparency, and borrower protection
2023	Credit Information Reporting Mandate	Compulsory borrower reporting to bureaus	Reduced multiple lending and defaults
2025	Revision of Qualifying Asset Norm	Reduced requirement from 75% to 60%	Increased flexibility in lending portfolios

Source: <https://www.rbi.org.in/>

RBI's Role in Strengthening Financial Inclusion and Digital Microfinance

The RBI's microfinance interventions complement India's broader financial inclusion mission, notably under initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Digital India. The integration of microfinance operations with digital payments, Aadhaar-linked accounts, and mobile banking has improved efficiency, reduced leakages, and enhanced traceability. The central bank also issued guidelines for digital lending (2022) to ensure data security and protect borrowers from predatory online lenders. These reforms have helped create a secure, transparent, and technology-driven microfinance ecosystem.

Comparative Analysis of NABARD and RBI Interventions

Both the NABARD and the RBI have played complementary yet distinct roles in shaping India's microfinance ecosystem. While NABARD functions primarily as a *developmental and promotional institution*, the RBI operates as the *regulatory and supervisory authority*. Together, they ensure the growth, stability, and inclusiveness of microfinance operations across the country.

NABARD's interventions focus on grassroots empowerment, capacity-building, and institutional development. Through the SHG-BLP, NABARD has successfully connected millions of rural women to the formal banking system. Its refinance support to Regional Rural Banks (RRBs), cooperative institutions, and MFIs has strengthened the flow of credit to underserved areas. Moreover, NABARD emphasizes financial literacy, skill training, and digital inclusion through initiatives like *e-Shakti* and *LEDP*, directly improving livelihood opportunities for marginalized communities.

In contrast, the RBI's interventions are designed to ensure systemic stability, transparency, and borrower protection. The introduction of the NBFC-MFI regulatory framework (2011) and later the Harmonized Regulatory Framework (2022) standardized microfinance practices across all lending institutions. The RBI's reforms—such as defining qualifying assets, limiting interest rate margins, and mandating credit bureau reporting—have professionalized the sector, curbing over-indebtedness and coercive recovery practices. Additionally, the RBI's encouragement of SFBs has diversified the sector's institutional structure and improved funding access for MFIs.

Comparatively, NABARD acts as a facilitator and enabler, while RBI serves as a regulator and stabilizer. NABARD builds the foundation for inclusive credit delivery, whereas the RBI safeguards financial integrity and consumer welfare. Their coordination is essential—

NABARD's developmental efforts thrive under the stable and transparent environment fostered by the RBI. Together, their interventions create a synergistic framework that promotes financial inclusion, women's empowerment, and sustainable growth within India's evolving microfinance ecosystem.

Findings and Discussion

The findings of this analytical study highlight that both NABARD and the RBI have played transformative and complementary roles in building a robust microfinance ecosystem in India. Their efforts, though distinct in nature, have collectively strengthened financial inclusion, enhanced institutional capacity, and safeguarded the interests of rural and low-income borrowers.

The first key finding is that NABARD's developmental approach has been pivotal in expanding the outreach and inclusivity of microfinance services. Through initiatives such as the SHG-BLP, NABARD has successfully brought millions of marginalized households—particularly women—into the formal financial network. The SHG-BLP has empowered over 12 million SHGs and reached approximately 142 million rural families, significantly enhancing access to credit and savings. NABARD's refinance schemes, livelihood promotion programs, and digital interventions (like *e-Shakti*) have improved transparency, operational efficiency, and credit delivery. Moreover, NABARD's focus on capacity building, entrepreneurship training, and financial literacy has elevated the economic resilience of rural borrowers and reduced dependence on informal moneylenders.

The second major finding concerns the RBI's regulatory role, which has been essential in ensuring systemic stability and responsible lending practices. By introducing the NBFC-MFI framework (2011) and later the Harmonized Regulatory Framework (2022), the RBI established uniform standards for all microfinance institutions, ensuring accountability, transparency, and consumer protection. The creation of SFBs allowed stronger MFIs to diversify their funding base and expand outreach. The credit bureau reporting mandate and the emphasis on fair practice codes have reduced multiple lending and borrower exploitation. Furthermore, the RBI's 2025 revision of qualifying asset norms from 75% to 60% has given MFIs flexibility to innovate while maintaining prudential soundness.

The study also reveals that coordination between NABARD's developmental initiatives and RBI's regulatory frameworks has been instrumental in balancing growth with financial discipline. NABARD nurtures the grassroots credit ecosystem through training, group formation, and refinancing, while the RBI ensures that lending institutions remain financially sustainable and customer-centric. However, some challenges persist—including regional disparities in outreach, funding constraints for smaller MFIs, and the risks associated with digital lending and over-indebtedness.

Conclusion

This study demonstrates that NABARD and the RBI together have built a strong and inclusive microfinance ecosystem by combining developmental outreach with effective regulation. NABARD's initiatives—such as the SHG-Bank Linkage Programme, refinance support, and digital inclusion—have expanded rural credit access and empowered women. Meanwhile, RBI's regulatory measures, including the NBFC-MFI framework and harmonized guidelines, have ensured transparency, stability, and borrower protection. Their complementary roles have fostered growth with accountability, though challenges like regional disparities, limited funding for smaller MFIs, and digital lending risks persist. Strengthening coordination, enhancing financial literacy, and promoting responsible digital innovation will be crucial to make microfinance a sustainable tool for inclusive rural development.

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