International Journal of Arts and Social Science www.ijassjournal.com
ISSN: 2581-7922,
Volume 8 Issue 11, November 2025

"Decadal Performance Review of Nepal's Microfinance Sector: Profitability, Growth, and Efficiency Perspectives"

Krishna Prasad Chaulagain[1], Smarika Thapa[2]
[1,2]*Researcher, Nepal*

Abstract: *This study analyzes the financial performance of Nepalese microfinance institutions (MFIs) over a ten-year period from July 2014 to July 2024, with a particular focus on profitability, efficiency, productivity, growth, and outreach. Using secondary data from Nepal Rastra Bank (NRB), the study employs ratio and trend analyses to evaluate sector-wide financial health and sustainability. Results indicate that while MFIs experienced robust growth and high profitability during 2015–2019, subsequent years showed declining return on equity (ROE), shrinking net interest margins (NIM), rising operating expenses, and increasing cost per borrower, signaling operational inefficiencies and sustainability risks. Productivity trends indicate that staff members are handling larger loan amounts while serving fewer clients, showing a focus on bigger loans that could limit access for smaller or low-income borrowers. Deposit and loan growth trends further highlight liquidity pressures and slowing sectoral momentum. The findings underscore the dual challenge MFIs face in maintaining financial viability while fulfilling social outreach objectives. Policy recommendations include enhancing digital transformation, cost efficiency, risk management, diversified revenue streams, strategic consolidation, and regulatory support to strengthen institutional resilience and ensure sustainable growth of Nepal's microfinance sector.*

Keywords: *Microfinance Institutions (MFIs), Financial Performance, Financial Sustainability, Trend Analysis, Efficiency.*

I. Introduction

Microfinance has emerged as a key instrument for promoting financial inclusion, poverty reduction, and grassroots entrepreneurship in developing countries. In Nepal, the microfinance sector plays a crucial role in extending financial services to low-income households, particularly in rural areas where access to formal banking remains limited. The evolution of microfinance institutions (MFIs) over the past decade has been remarkable, both in scale and impact, contributing significantly to employment creation, women empowerment, and livelihood enhancement.

The microfinance industry in Nepal operates under the regulatory oversight of the Nepal Rastra Bank (NRB). It comprises wholesale and retail MFIs, including licensed "D" class institutions, cooperatives, and development-oriented organizations. Since the promulgation of the Microfinance Policy 2008 and subsequent regulatory reforms, the sector has experienced rapid expansion in outreach, branch networks, and financial portfolios. However, alongside this growth, concerns about the financial health and sustainability of MFIs have intensified. High operating costs, competition, interest rate caps, and portfolio quality issues have posed challenges to their long-term viability.

Assessing the financial health of MFIs is therefore essential to ensure that growth is both inclusive and sustainable. Financial health can be measured through key performance indicators such as profitability, efficiency, productivity, growth, and outreach ratios. These indicators provide a comprehensive understanding of how effectively MFIs utilize resources, manage risks, and generate sufficient returns to sustain operations. This study conducts a trend analysis covering fiscal years 2014-2024AD to evaluate the performance of Nepal's microfinance industry.

1.2 Statement of the Problem

Although Nepal's microfinance sector has expanded rapidly, there is limited empirical evidence on how its financial health has evolved over time. Most prior studies have analyzed either short-term performance or specific institutional cases, without providing a decade-long trend analysis of the overall industry. Moreover, questions remain about whether the sector's financial performance has kept pace with its outreach and social objectives. Key concerns include:

- Have MFIs in Nepal maintained profitability and operational efficiency over the years?
- Are productivity and outreach expanding in line with the sector's mission?
- What do the financial trends reveal about the sustainability and risk position of the industry?

1.3 Objectives of the Study

The general objective of this study is to evaluate the financial health of Nepalese microfinance institutions (MFIs) through a decade-long trend analysis covering the period from 2014 to 2024. Specifically, the study aims to analyze the trends of key financial performance indicators such as profitability, efficiency, productivity, and outreach to understand the operational and financial dynamics of the sector. It further seeks to examine the overall growth patterns and sustainability of the microfinance industry. Finally, the study intends to provide policy-oriented recommendations to strengthen financial performance, enhance institutional resilience, and support the long-term sustainability of the microfinance sector in Nepal.

1.4 Scope and Limitations of the Study

The study covers licensed microfinance institutions operating under NRB's supervision during fiscal years 2014–2024. It evaluates their financial performance using secondary data published by NRB. The scope includes indicators of profitability, efficiency, productivity, growth, and outreach. However, the study is limited by data availability, possible reporting inconsistencies. It focuses on trend analysis rather than causal determinants, which may be explored in future research.

II. Literature Review

2.1 Theoretical Framework

The financial performance of Microfinance Institutions (MFIs) is fundamentally anchored on several theoretical frameworks that delineate their operational and strategic imperatives. These include Financial Sustainability Theory, Institutional Efficiency Theory, and Social Intermediation Theory.

Financial Sustainability Theory posits that MFIs must generate sufficient revenue to cover their operational costs without relying on external subsidies, emphasizing the critical need for self-sufficiency in their financial strategies. Ibrahim et al. noted that without securing financial sustainability, the overarching goal of poverty alleviation remains jeopardized, as MFIs must simultaneously aim to maintain financial soundness alongside their mission to serve the economically disadvantaged (Ibrahim et al., 2018). MFIs must achieve financial sustainability in order to effectively serve poor borrowers, who are typically characterized by low savings capacity, irregular income patterns, and a high risk of loan default (Githaiga et al., 2022). Financial sustainability denotes the capacity of MFIs to generate sufficient revenue to meet their total operating expenses without compromising their long-term viability(Mia et al., 2016). Leite et al. (2019) stated that maintaining financial sustainability allows MFIs to provide essential financial services over the long term, particularly to underserved populations. The authors articulate that key performance indicators, such as operational self-sufficiency (OSS) and financial self-sufficiency (FSS), are critical for evaluating an MFI's capability to operate autonomously while achieving their social objectives. Similarly, Gupta et al. (2023) highlight that MFIs must navigate financial risks to sustain their financial performance, reinforcing the idea that sufficient financial health directly correlates with the stability and reach of their programs.

Institutional Efficiency Theory underscores the importance of optimal resource allocation to maximize the efficiency with which MFIs deliver financial services. Research indicates that an increase in the cost per borrower significantly impairs an MFI's ability to achieve financial sustainability, supported by findings showing that higher operational costs correlate negatively with sustainability (Bayai & Ikhide, 2018). Efficient resource allocation leads to better financial outcomes, allowing MFIs to provide essential services to their clients while maintaining a viable operational structure (Abate et al., 2013). Ensuring high levels of efficiency allows MFIs to operate

sustainably and impactfully, fostering their ability to serve economically marginalized clients effectively (Lovelace, 2011). The need for operational efficiency is particularly pertinent in light of the competitive landscape faced by MFIs, which demands not just the delivery of credit but also the provision of other financial services, such as savings and insurance (Tlili, 2022). Research indicates that efficient MFIs tend to achieve higher financial sustainability, which in turn enhances their capacity to fulfill their mission of poverty alleviation (Dieu et al., 2020). The determinants of institutional efficiency encompass various internal and external factors. Internal factors include the governance structure and managerial practices, both of which have been shown to significantly affect the operational capacity and performance of MFIs (Dieu et al., 2020). For instance, studies emphasize the role of good governance and sound risk management in enhancing the overall efficiency of MFIs, thereby enabling them to mitigate the risks associated with financial intermediation (Leite et al., 2019). These improvements contribute to better performance and sustainability, as institutions that adhere to robust governance frameworks typically realize more efficient operational models (Aliyu et al., 2023).

Social Intermediation Theory accentuates the dual mission of MFIs, which is to achieve social outreach while ensuring financial health. Collectively, these theoretical frameworks provide a comprehensive lens through which the financial health of MFIs can be evaluated using quantitative indicators. They elucidate how MFIs can navigate the complexities of their operational environments to fulfill their critical missions in society while also maintaining financial viability. By integrating these perspectives, researchers and practitioners can derive nuanced insights into the dynamics at play within the microfinance sector. The concept of "mission drift" has emerged as a critical concern within the literature. This phrase describes the phenomenon where MFIs, responding to market pressures, may prioritize financial sustainability at the expense of their social objectives, potentially leading to a reduction in the depth and breadth of outreach to poor clients (Mumi et al., 2020). Financial returns are necessary for survival, they should not overshadow the fundamental motive of social importance that drives MFIs to operate (Singh, 2023). This tension between financial viability and social mission remains a pivotal point of discussion, with some scholars suggesting that successful MFIs must reconcile these competing interests effectively (Tamanni & Besar, 2019).

2.2 Analytical Framework

The analytical framework is developed to systematically evaluate financial health using five major dimensions and associated indicators.

2.2.1 Profitability Ratios

Profitability reflects the ability of MFIs to generate income relative to assets or equity. The following ratios are used:.

- Return on Equity (ROE)
- Net Interest Margin

2.2.2 Efficiency Ratios

Efficiency measures how effectively MFIs manage operating expenses relative to income or borrowers.

- Operating Expense Ratio (OER)
- Cost per Borrower (CPB)

2.2.3 Growth and Outreach

Productivity ratios assess staff performance and operational efficiency.

- Loan Portfolio Growth Rate
- Borrower Per Staff Member
- Average Loan Size

2.2.4 Trend Analysis

Growth ratios show expansion in the financial capacity of MFIs.

- Deposit Growth Rate
- Loan and Deposit Growth Rate

2.2.5 Productivity

Outreach measures the social dimension of MFIs, i.e., the extent to which they reach target clients.

- Loan portfolio Per Staff
- Operating Expenses Per Staff
- Operating Expenses Growth Rate vs Staff Growth Rate
- Loan Portfolio Per Staff vs Borrower Per Staff Member

These indicators collectively reflect both the financial and social dimensions of institutional performance.

2.3 Research Gap

While previous studies have examined the financial performance of individual microfinance institutions (MFIs) or focused on short-term periods, none have conducted a comprehensive, decade-long assessment (2014–2024) of the overall financial health of Nepal's microfinance industry. The limited integration of trend analysis and ratio-based evaluation has further constrained understanding of long-term sustainability patterns. This study addresses that gap by systematically analyzing the evolution of profitability, efficiency, productivity, and outreach of Nepalese MFIs over the past decade. Morduch (2000) highlighted that financial sustainability is vital for expanding the impact of MFIs, as it ensures continued service delivery to low-income clients. In Nepal, Shrestha (2017) reported moderate profitability and growing outreach among selected MFIs, while Chaulagain (2022) identified key determinants of performance, including lending systems, regulatory frameworks, and information technology adoption. Dhungana and Paudel (2019) observed persistently high costs per borrower, mainly due to operational challenges in rural areas. Despite these contributions, a comprehensive, decade-long trend analysis of the sector's financial health remains lacking—an empirical gap that this study seeks to fill.

III. Research Methodology

3.1 Research Design

This study employs a descriptive and analytical research design. The descriptive design is used to present the existing financial performance of Nepalese microfinance institutions (MFIs), while the analytical approach examines trends and patterns over a ten-year period from 2014 to 2024. The purpose is to measure the financial health of the microfinance industry through the analysis of key financial performance indicators such as profitability, efficiency, productivity, growth, and outreach ratios.

The study adopts a quantitative method, as it primarily relies on secondary numerical data drawn from data from the NRB. The use of trend and ratio analysis helps to identify performance trajectories and financial sustainability patterns across time.

3.2 Nature and Sources of Data

The study is exclusively based on secondary data collected from NRB, academic journals, and publications from financial oversight institutions. These sources provide systematic and consolidated information on the profitability, efficiency, outreach, and productivity indicators of Nepal's microfinance sector over the duration of the study period.

3.3 Population and Sample

As of 2025 July, Nepal has over 52 licensed "D" class microfinance institutions regulated by the NRB. For this study, the population includes all licensed MFIs operating between fiscal year 2013/14 and 2023/24.

3.4 Methods of Data Analysis

The data collected were organized in time-series form and analyzed through ratio analysis and trend analysis techniques.

1. Ratio Analysis:
   Financial ratios are computed to measure profitability, efficiency, productivity, growth, and outreach. Ratios are used to evaluate the sector's overall financial health and sustainability.

2. Trend Analysis:
   The study applies percentage change and line graph trends to examine the direction and consistency of key performance indicators over time.

3. Interpretation:
   Findings are interpreted in light of theoretical and empirical frameworks, comparing results across different years to identify improvement or deterioration in performance.

3.5 Reliability and Validity of Data

All data were collected from official and audited sources such as NRB, ensuring data reliability. Trend consistency was verified through cross-checking of overlapping datasets. To enhance validity, only consistent and comparable indicators were used across all years.

IV. Results and Discussion

This chapter presents the analysis and dis cussion of the financial health of Nepalese microfinance institutions (MFIs) during the period 2014 to 2024. The evaluation is based on five key dimensions — profitability, efficiency, productivity, growth, and outreach — using ratio and trend analyses. The findings are interpreted in light of the regulatory, economic, and operational developments that shaped the microfinance industry over the decade. The results reflect both the achievements and challenges faced by MFIs in maintaining financial sustainability while fulfilling their social mission.

4.1 Financial Performance Indicators of Microfinance Industry from July 2014 to July 2024

4.1.1 Profitability

a. ROE (%) :

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ROE %	29%	41%	39%	31%	23%	25%	16%	30%	25%	8%	11%

Table 1. ROE

In figure:

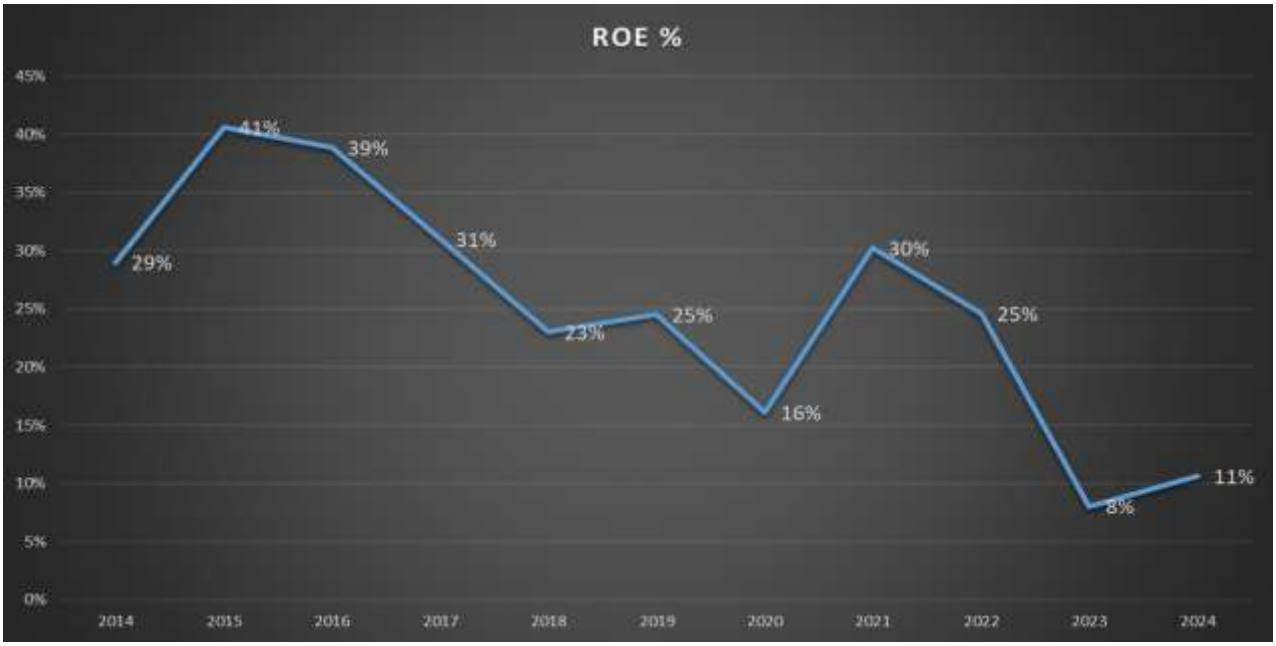

Figure 1: ROE

As shown in the above Fig 1, ROE peaked at 41% in 2015, followed by a steady decline till 2020, reflecting possible profit drop or rising equity. A temporary recovery occurred in 2021–2022, but 2023 saw a sharp fall to 8%, likely due to losses or high expenses. 2024 showed slight recovery to 11%, but performance remains well below earlier years.

b. Net Interest Margin:

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Net Interest Margin	10%	10%	11%	9%	7%	6%	7%	7%	7%	6%	5%

Table 2. Net Interest Margin

In figure:

Figure 2: Net interest margin

From Fig, 2 Net Interest Margin (NIM) was high (10–11%) in 2014–2016, indicating strong profitability. From 2017 onward, it steadily declined to 5% by 2024, likely due to regulatory interest rate caps, increased competition, and rising cost of funds. A 5% NIM in 2024 is a red flag for MFIs — if this trend continues, profitability and sustainability are at risk

4.1.2 Efficiency Ratio:

a. Operating Expenses Ratio:

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Expenses Ratio %	36.52	36.11	36.80	31.54	29.09	28.35	37.40	44.75	30.16	48.68	49.18

Table 3. Operating Expenses Ratio

In Figure:

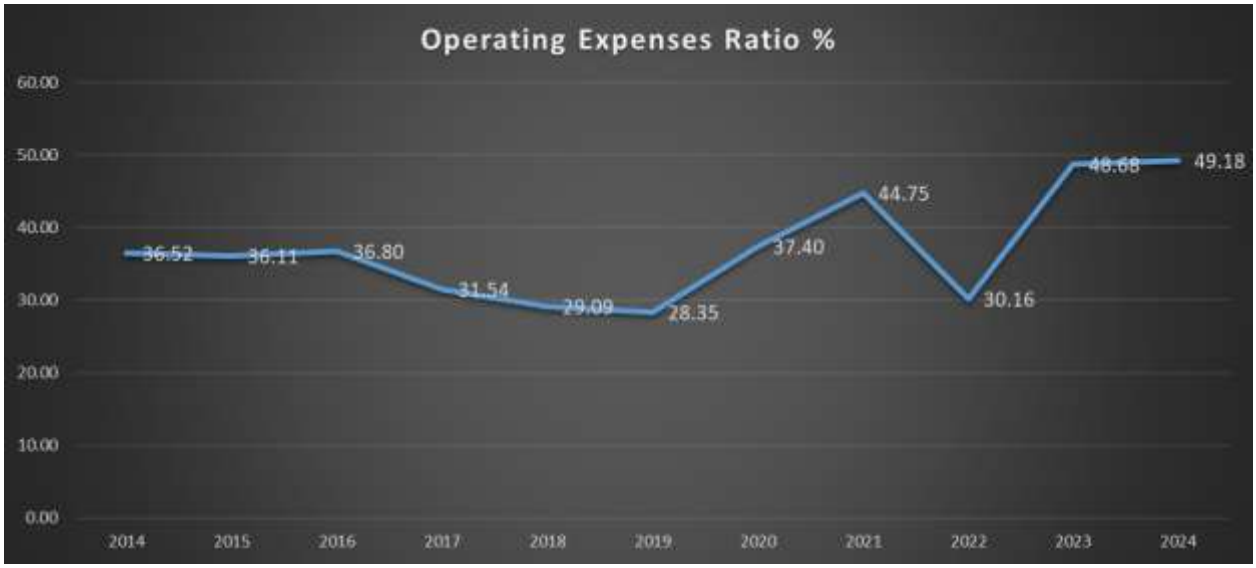

Figure 3: Operating expenses ratio

From 2017–2019, MFIs experienced an efficiency phase driven by digitization, streamlined operations, and economies of scale. However, in 2020–2021, operating costs surged due to network expansion, regulatory compliance, and tech investments. By 2023–2024, a crisis phase emerged with a sharp rise in OER—likely from declining income, inflation, operational inefficiencies, and loan delinquencies. Sustained OER above 40% signals a serious threat to sustainability in the MFI sector.

b. Cost Per Borrowers:

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cost per borrowers in Rs.	1988	2832	3654	3485	3983	3951	6594	10043	6588	14423	16452

Table 4. Cost Per Borrowers

In Figure:

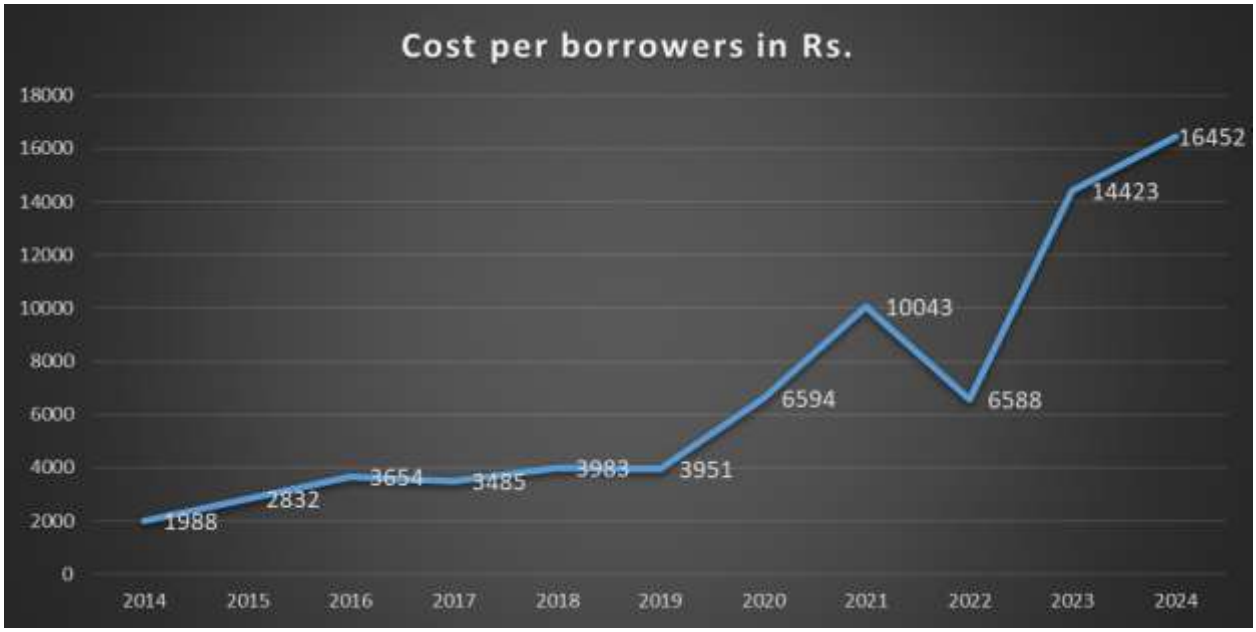

Figure 4: Cost per borrowers

From 2014–2019, Cost per borrower (CPB) rose gradually but remained under control, reflecting stable growth and operational scaling. However, from 2020–2024, CPB surged sharply (up to Rs. 16,452), signaling inefficiencies and sustainability concerns due to falling borrower base, rising staff costs, and regulatory pressures. High CPB threatens financial sustainability, leading to higher lending rates, reduced outreach, and lower investor confidence.

4.1.3 Growth and Outreach

a. Loan Portfolio Growth Rate(%):

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Loan Growth Rate %	-	1	41	38	37	61	12	39	23	-4	5

Table 5. Loan Portfolio Growth Rate (%)

In Figure:

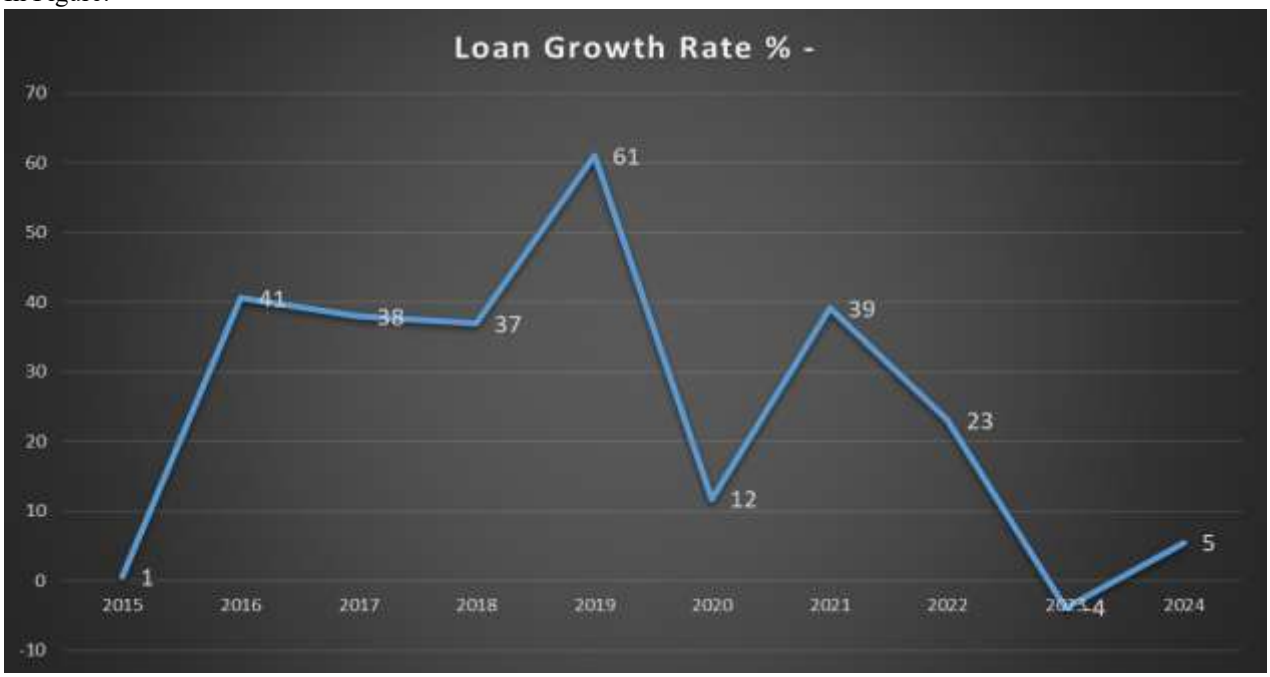

Figure 5: Loan portfolio growth rate

From 2016–2019, MFIs saw aggressive loan growth (37–61%), which, without strong credit controls, could increase Portfolio at Risk (PAR). The -4% contraction in 2023 suggests possible portfolio correction, write-offs, or reduced disbursements. A modest 5% recovery in 2024 hints at post-crisis stabilization or strategic shift toward sustainable growth.

b. Borrower Per Staff Member:

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Borrowers per Staff member	250	188	182	177	160	154	146	143	142	133	123

Table 6. Borrower Per Staff Member

In Figure:

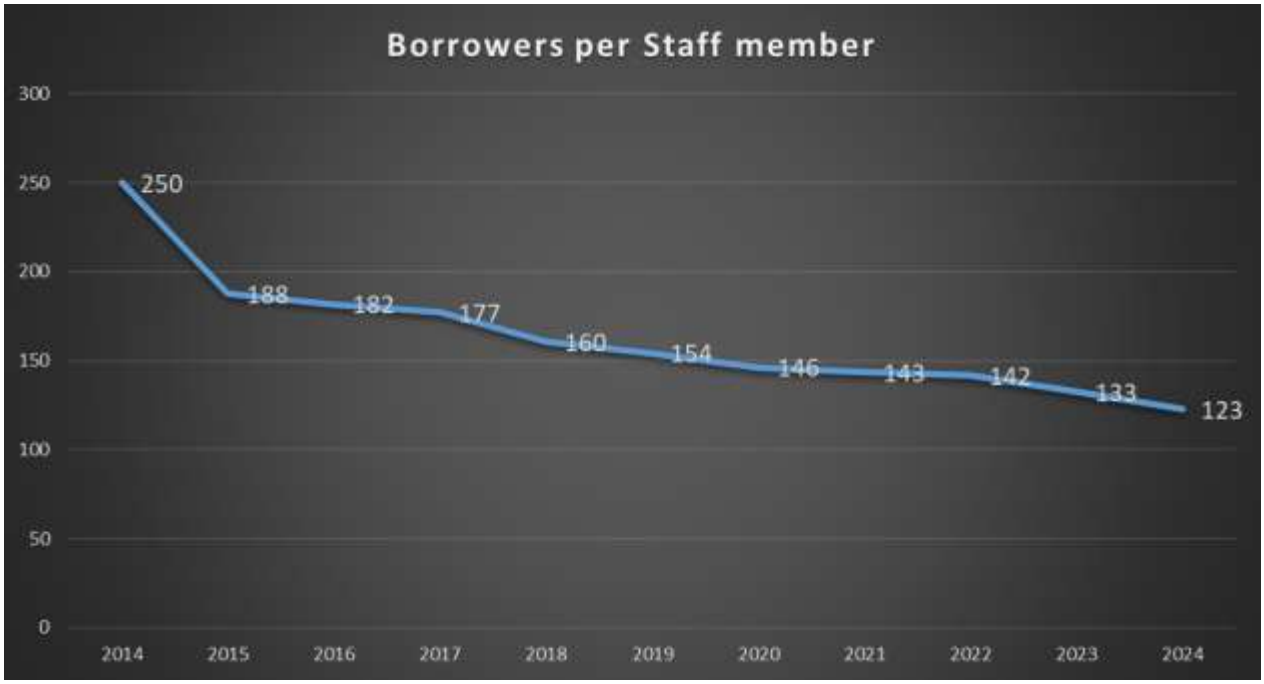

Figure 6: Borrower per staff member

Over the past decade, the number of borrowers served per staff has declined significantly from 250 in 2014 to 123 in 2024, representing a 51% drop in productivity. This downward trend suggests that staff growth has outpaced borrower growth, potentially indicating operational inefficiencies unless justified by factors such as branch expansion or new compliance roles.

c. Average Loan Size:

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Average loan size per borrowers NPR	32382	50806	59579	67595	78743	87757	94399	122174	136141	144831	171147

Table 7. Average Loan Size

In Figure:

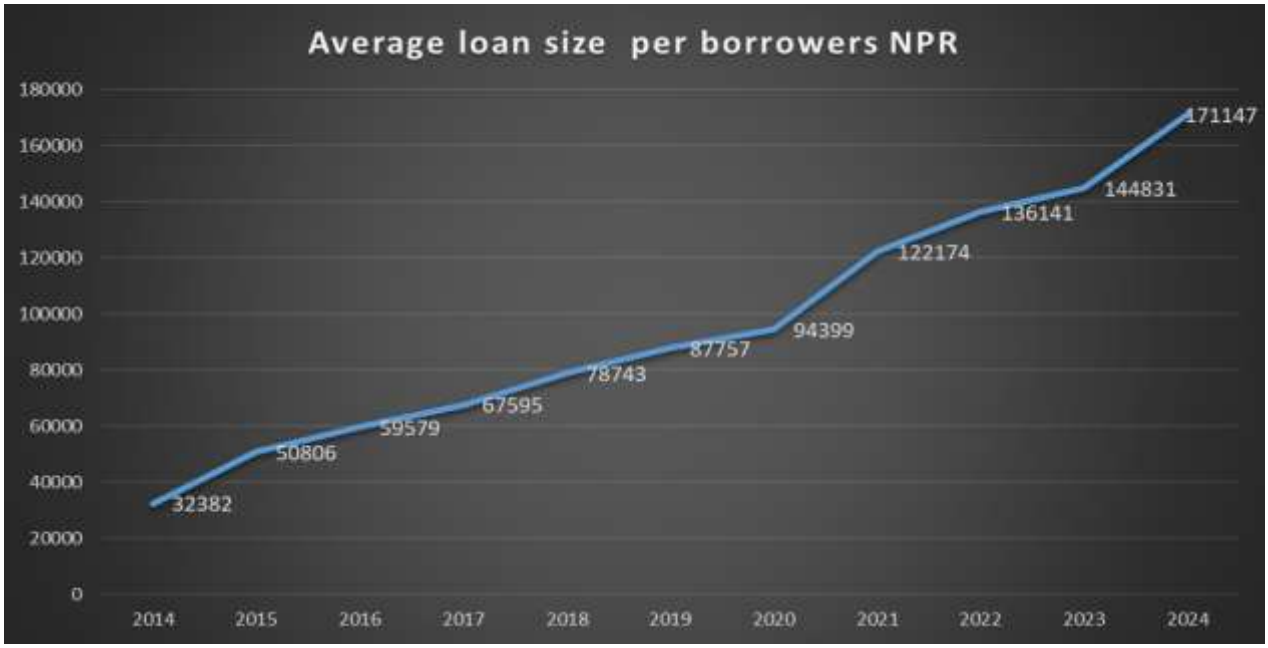

Figure 7: Average loan size

Over the past 11 years, the average loan size increased significantly from NPR 32,382 to 171,147, marked by sharp growth spurts of 57% in 2015, 29% in 2021, and 18% in 2024. This growth in the loan portfolio has been fueled by both an expanding borrower base and larger individual loan amounts.

4.1.4 Trend analysis

a. Deposit Growth Rate:

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Deposit Growth Rate %	0.00	43	53	43	44	73	24	23	22	5	6

Table 8. Deposit Growth Rate

In Figure:

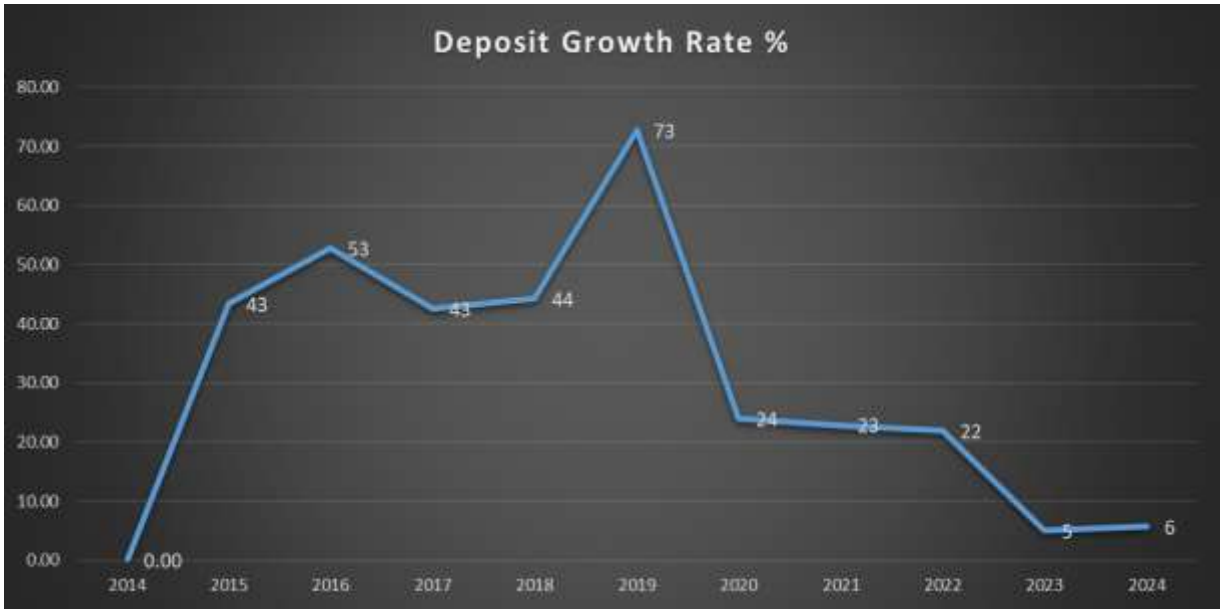

Figure 8: Deposit growth rate

From Fig 8, Deposit growth surged rapidly between 2015–2019 (up to 73%), reflecting growing trust, outreach, and mobilization efforts. However, from 2020 onward, growth slowed significantly, falling to just 5–6% by 2023-2024, suggesting market saturation, competition, or limited deposit mobilization strategy. This slowdown may impact future liquidity and lending capacity.

b. Loan and Deposit Growth Rate:

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Loan Growth Rate %	0	1	41	38	37	61	12	39	23	-4	5
Deposit Growth Rate %	0	43	53	43	44	73	24	23	22	5	6

Table 9. Loan and Deposit Growth Rate

In Figure:

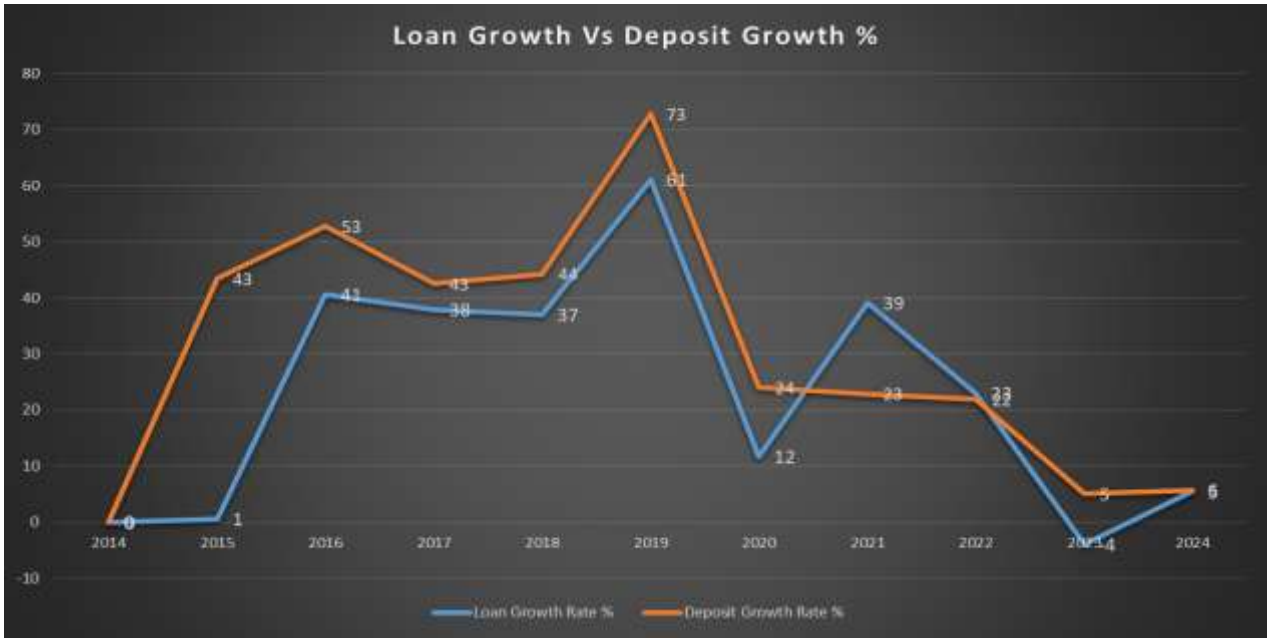

Figure 9: Loan growth vs deposit growth

From 2015 to 2019, both loan and deposit growth were strong, with deposits growing faster — indicating expanding outreach and trust. After 2020, loan growth fluctuated and even turned negative in 2023, while deposit growth steadily declined. This reflects slowing operations, possible liquidity stress, and weakened financial momentum in recent years.

Comparative Analysis: Deposit Growth vs Loan Growth

Key Insights:

2016–2019: Very strong and balanced growth in both loans and deposits.

2021: Loan growth (39%) outpaced deposit growth (22.87%) → potential liquidity pressure or reliance on external borrowing.

2023–2024: Major slowdown in both → could reflect post-COVID stabilization or tighter regulations.

4.1.5 Productivity

a. Loan Portfolio Per Staff (NPR In Mn) :

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Loan portfolio per staff (NPR In Mn)	8	10	11	12	13	14	14	18	19	19	21

Table 10. Loan Portfolio Per Staff (NPR In Mn)

In Figure:

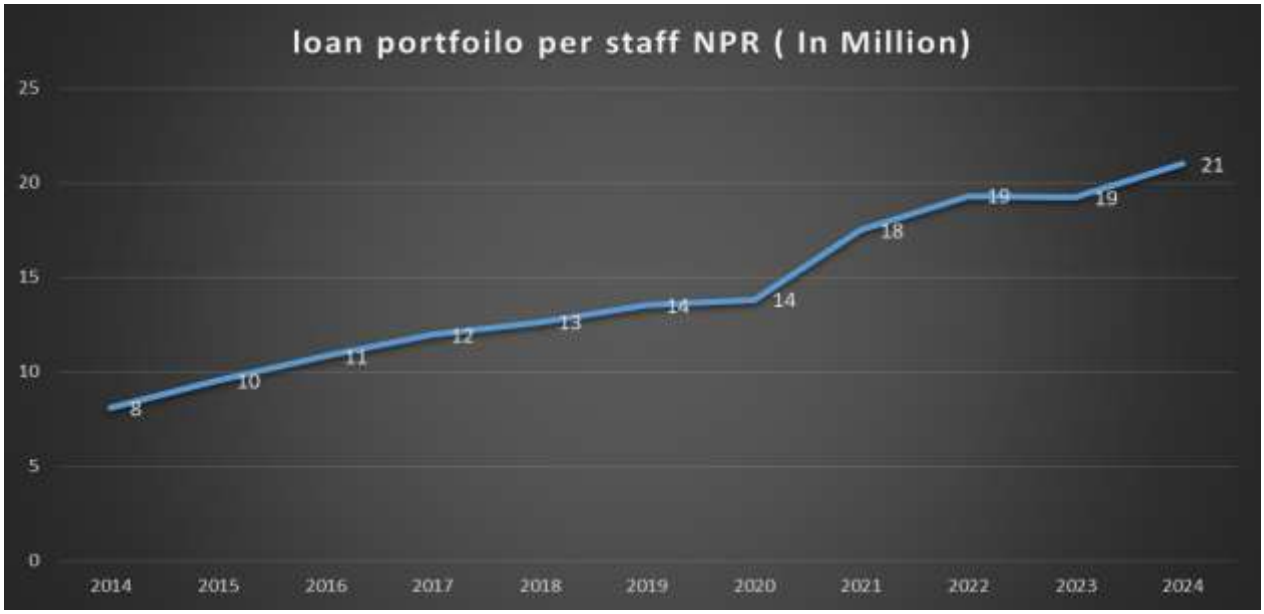

Figure 10: Loan portfolio per staff

The loan portfolio per staff increased steadily from Rs. 8 million in 2014 to Rs. 21 million in 2024, showing an increment in loan size every year.

b. Operating Expenses Per Staff Growth Rate:

Table 11. Operating Expenses Per Staff Growth Rate

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Expenses per staff Growth Rate%	-	6.9	24.9	-7.1	3.6	-4.6	58.3	49.2	-35.1	104.9	5.4

In Figure :

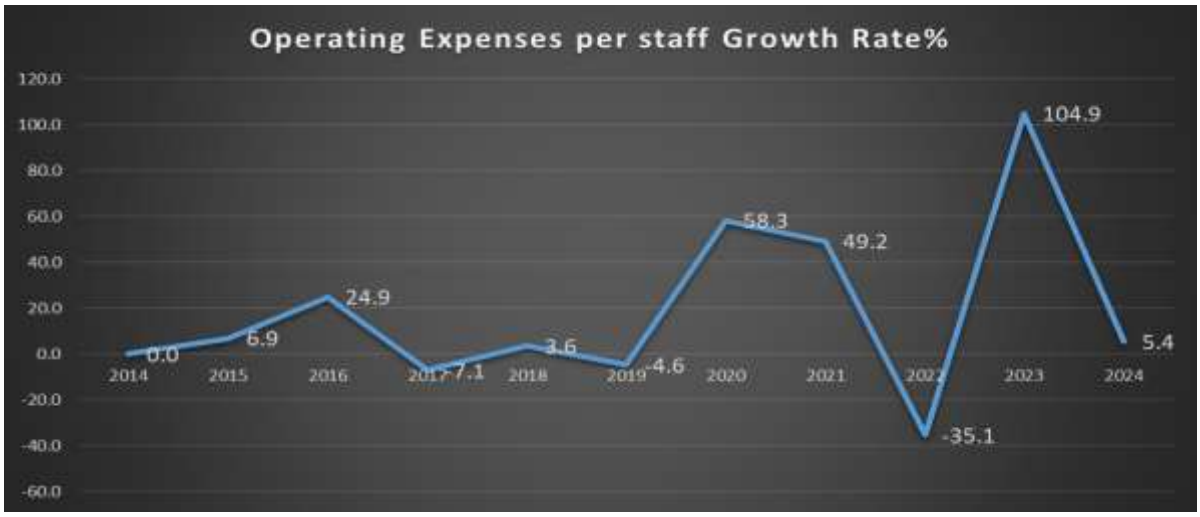

Figure 11: Operating expenses per staff growth rate

Operating expenses per staff showed high volatility over the years. Moderate growth in early years turned into sharp fluctuations — with major spikes in 2020 (58.3%), 2021 (49.2%), and a peak in 2023 (104.9%), indicating rising cost pressures. Negative growth in some years (e.g., 2022: -35.1%) suggests cost-cutting. Overall, the trend reflects unstable cost management, raising concerns about long-term sustainability.

c. Operating Expenses Growth Rate Vs Staff Growth Rate:

Table 12. Operating Expenses Growth Rate Vs Staff Growth Rate

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating expenses growth rate %		39.73	54.74	15.94	34.39	43.40	73.37	63.75	-27.58	97.79	1.81
Staff growth rate %		30.67	23.91	24.83	29.75	50.29	9.54	9.75	11.65	-3.48	-3.41

In Figure:

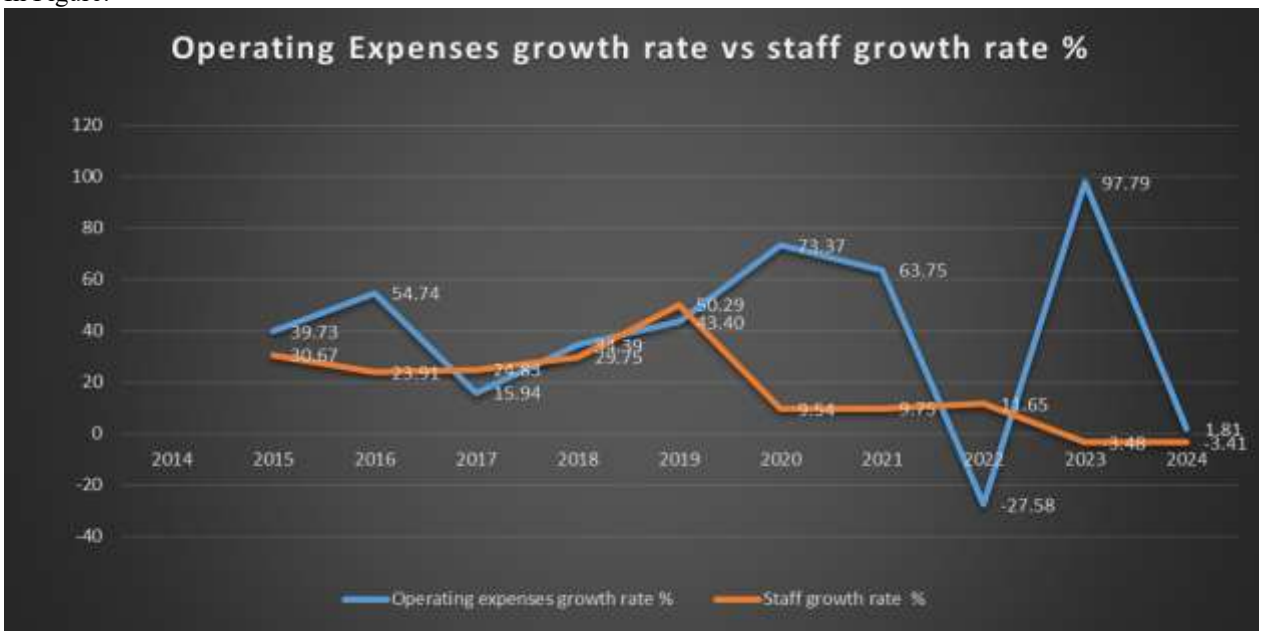

Figure 12: Operating expenses growth rate vs staff growth rate

From 2015 to 2019, both operating expenses and staff grew steadily, showing balanced institutional growth. However, from 2020 onward, operating expenses rose sharply (e.g., 73.37% in 2020, 97.79% in 2023) while staff growth remained low or negative, especially in 2022–2024. This indicates a rising cost burden per staff, possibly due to salary hikes, compliance costs, or operational inefficiencies — signaling declining cost efficiency and a need for better expense control.

d. Loan Portfolio Per Staff vs Borrower Per Staff Member:

Table 13. Loan Portfolio Per Staff Vs Borrower Per Staff Member

Date	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Loan Portfolio per Staff (In Million)	8	10	11	12	13	14	14	18	19	19	21
No. of Borrowers per Staff Member	250	188	182	177	160	154	146	143	142	133	123

In Figure:

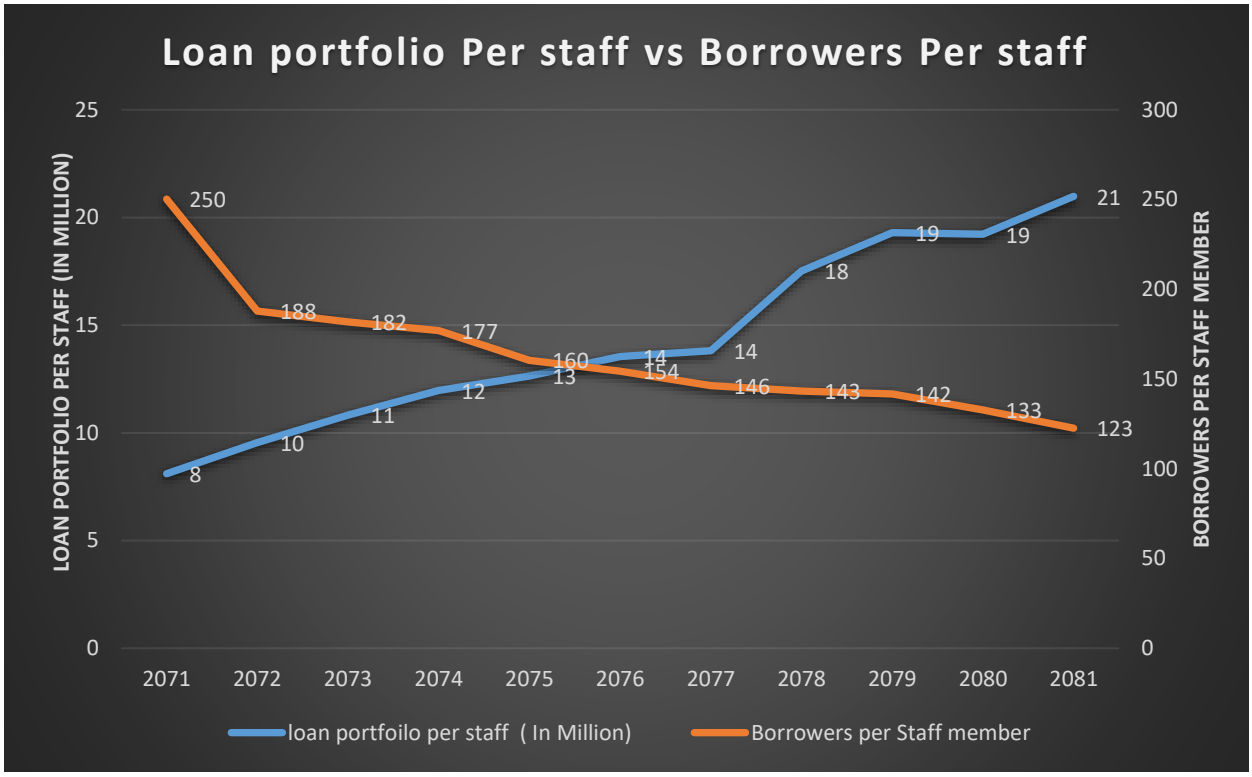

Figure 13: Loan portfolio per staff vs number of borrower per staff

Over the past 11 years, the Loan Portfolio per Staff steadily increased from NPR 8 million to NPR 21 million, indicating a consistent rise in staff productivity and loan size managed per employee. In contrast, the Number of Borrowers per Staff declined from 250 to 123, suggesting that while staff are handling larger loan volumes, they are serving fewer clients. This shift may reflect a strategic move toward larger individual loans, or a focus on quality over quantity. However, it also raises considerations about client outreach and portfolio diversification.

4.2 Discussion of Findings

This chapter interprets the decade-long financial performance trends of Nepalese microfinance institutions (MFIs) from fiscal year 2014 to 2024, focusing on profitability, efficiency, growth, outreach, and productivity indicators. The findings reveal significant structural and operational shifts influenced by regulatory changes, competition, macroeconomic instability, and evolving institutional strategies.

4.2.1 Profitability Analysis

The profitability indicators demonstrate a cyclical but declining trend. Return on Equity (ROE) peaked at 41% in 2015, signaling robust profitability during the sector's expansion phase. However, the subsequent decline until 2020 and the sharp fall to 8% in 2023 reflect reduced earnings capacity and rising equity bases, possibly due to

stricter provisioning norms and pandemic-induced credit stress. The partial recovery to 11% in 2024 indicates early signs of stabilization but remains well below the historical average.
Similarly, the Net Interest Margin (NIM) contracted steadily from 10–11% in 2014–2016 to merely 5% in 2024. This decline highlights growing pressure from regulatory interest rate caps, intensified competition, and rising funding costs. A NIM below 6% is concerning for MFIs whose operational models depend heavily on interest income to sustain outreach and cover administrative costs. If this trend persists, it could undermine long-term financial sustainability.

4.2.2 Efficiency Indicators
The efficiency metrics paint a mixed picture. The Operating Expense Ratio (OER) remained under control until 2019 due to digitization and cost optimization. However, from 2020 onward, OER escalated beyond 40%, driven by network expansion, compliance costs, and inflationary pressures. Sustained high OER indicates deteriorating cost efficiency and potential operational vulnerabilities.
Likewise, the Cost per Borrower (CPB) surged sharply after 2020, reaching NPR 16,452 in 2024. This rise suggests increased administrative costs, declining borrower base, and growing human resource expenses. High CPB directly affects financial viability by forcing institutions to raise lending rates or compromise on outreach to maintain margins, which contradicts the social mission of microfinance.

4.2.3 Growth and Outreach Trends
The loan portfolio growth rate reveals aggressive expansion between 2016–2019 (37–61%), followed by contraction in 2023 (-4%), signaling credit tightening or portfolio correction. The moderate 5% recovery in 2024 suggests the sector's gradual move toward quality-based and sustainable lending. Borrower outreach efficiency weakened over the decade — borrowers per staff fell from 250 to 123, a 51% decline. This implies that staffing increased faster than client growth, suggesting either operational inefficiencies or strategic expansion that has yet to yield proportional returns. Meanwhile, the average loan size rose sharply from NPR 32,382 to NPR 171,147, reflecting a shift toward larger loans and possibly higher-income borrowers, potentially reducing inclusivity.

4.2.4 Trend Analysis: Deposits and Loans
Deposit mobilization was strong between 2015–2019 (up to 73% growth), indicating growing public confidence and outreach. However, growth slowed sharply after 2020, hovering around 5–6% by 2024. This stagnation may signal market saturation, reduced public trust, or intensified competition from other financial institutions. Comparative analysis shows that loan growth outpaced deposit growth in 2021, creating potential liquidity pressure. In 2023–2024, both declined sharply, possibly reflecting post-COVID economic recovery, cautious lending, or tighter regulatory controls. Overall, the trend suggests weakening financial momentum and growing liquidity risks.

4.2.5 Productivity Analysis
Loan portfolio per staff rose steadily from NPR 8 million to NPR 21 million, indicating that each staff member now manages a larger loan volume, improving apparent productivity. However, the simultaneous fall in borrowers per staff and spikes in operating expenses per staff (especially in 2020–2023) indicate rising cost pressures and possible staff inefficiencies.

The disconnection between operating expenses growth and staff growth from 2020 onward further underscores inefficiency — expenses grew at nearly double the pace of staff expansion. This implies poor cost management, wage inflation, or regulatory-driven spending. The inverse relationship between rising loan portfolio per staff and declining borrower per staff suggests a structural shift toward fewer but larger loans, improving portfolio yield but weakening outreach to small borrowers.

V. Conclusion and Recommendations

5.1 Conclusion
The analysis of Nepal's microfinance industry (2014–2024) reveals fluctuating financial performance with declining profitability, rising operating costs, and slower growth momentum. Key indicators such as ROE, NIM, and deposit growth have deteriorated sharply since 2020, reflecting macroeconomic headwinds and operational inefficiencies. Although loan portfolio and staff productivity have improved in value terms, outreach per staff and cost control remain major concerns. The sector's expansion has increasingly shifted toward higher-value lending, potentially compromising the mission of serving low-income and marginalized groups. Over the decade, Nepalese MFIs have demonstrated resilience and adaptability but face emerging sustainability risks. Declining margins,

rising operational costs, and weakening outreach efficiency point toward structural imbalances. The transition from a high-growth, high-return phase (2015–2019) to a cost-heavy, low-margin phase (2020–2024) underscores the need for operational reform and strategic recalibration. Without improved cost efficiency, technological innovation, and prudent risk management, the sector's long-term viability may be jeopardized.

5.2 Recommendation

The findings of this study hold significant implications for policymakers, regulators, and practitioners. Microfinance institutions (MFIs) should prioritize strengthening cost efficiency and digital transformation by adopting advanced digital solutions for client management, mobile banking, and data analytics to minimize transaction costs and enhance service delivery. Diversifying revenue streams is equally vital; MFIs are encouraged to explore non-interest income sources to mitigate declining net interest margins (NIMs) and sustain profitability. In addition, improving risk and cost management through stronger internal audits, cost-control systems, and regular performance benchmarking can help identify and address efficiency gaps. Furthermore, revitalizing deposit mobilization strategies by enhancing public trust through improved customer service, financial literacy initiatives, and competitive deposit products will be crucial for strengthening liquidity and reducing dependence on external funding. MFIs must also rebalance growth with outreach—while larger loan sizes may yield higher returns, maintaining focus on low-income clients remains essential to uphold their social mission and ensure inclusivity. Strengthening human resource productivity through performance-based incentives, regular training, and the use of technology-driven operations can increase efficiency and borrower outreach without compromising service quality.

At the policy level, Nepal Rastra Bank should consider providing regulatory flexibility, effective supervision & monitoring and supportive frameworks, including adaptable interest rate policies, to encourage innovation, lower compliance burdens, and foster healthy competition among MFIs. Lastly, promoting strategic consolidation through mergers or alliances among smaller institutions could enhance economies of scale, improve capital adequacy, and build institutional resilience for long-term sustainability.

References

[1] Abate, G. T., Borzaga, C., & Getnet, K. (2013). Cost-efficiency and outreach of microfinance institutions: Trade-offs and the role of ownership. *Journal of International Development, 26*(6), 923–932. https://doi.org/10.1002/jid.2981

[2] Aliyu, A., Gambo, N., Enesi, O. E., & Ibrahim, M. (2023). Central bank regulations and the financial sustainability of national microfinance banks in Nigeria. *European Journal of Accounting, Auditing and Finance Research, 11*(10), 73–97. https://doi.org/10.37745/ejaafr.2013/vol11n107397

[3] Bayai, I., & Ikhide, S. (2018). Financing structure and financial sustainability of selected SADC microfinance institutions (MFIs). *Annals of Public and Cooperative Economics, 89*(4), 665–696. https://doi.org/10.1111/apce.12207

[4] Chaulagain, K. P., & Lamichhane, B. D. (2022). Determinant factors of microfinance performance in Nepal. *Journal of Nepalese Business Studies, 15*(1), 46–59.* https://doi.org/10.3126/jnbs.v15i1.50380

[5] Dhungana, B., & Paudel, R. (2019). Efficiency analysis of microfinance institutions in Nepal. *Nepalese Journal of Banking and Finance, 13*(1), 45–62.*

[6] Dieu, T., Nguyen, T. H., Anh, P. T. V., Dang, T. V. P., Thai, T. K. O., Nguyen, A., … & Vu, H. T. T. (2020). Financial performance and corporate governance in microfinance: Evidence from Vietnam. *European Journal of Business and Management.* https://doi.org/10.7176/ejbm/12-3-12

[7] Githaiga, P. N., Soi, N., & Buigut, K. K. (2022). Does intellectual capital matter to MFIs' financial sustainability? *Asian Journal of Accounting Research, 8*(1), 41–52. https://doi.org/10.1108/ajar-06-2021-0080

[8] Gupta, A., Gupta, S., & Sapra, R. (2023). Impact of financial risk on the financial performance of microfinance institutions: A literature review. *Sachetas, 2*(2), 67–72. https://doi.org/10.55955/220007

[9] Ibrahim, Y., Ahmed, I., & Mohd, M. (2018). The influence of institutional characteristics on financial performance of microfinance institutions in the OIC countries. *Economics & Sociology, 11*(2), 19–35. https://doi.org/10.14254/2071-789x.2018/11-2/2

[10] Leite, R. d. O., Mendes, L., & Sacramento, L. C. (2019). To profit or not to profit? Assessing financial sustainability outcomes of microfinance institutions. *International Journal of Finance & Economics, 24*(3), 1287–1299. https://doi.org/10.1002/ijfe.1718

[11] Lovelace, K. B. (2011). Does offering microsavings make sense for microfinance institutions? *The American Economist, 56*(2), 15–27. https://doi.org/10.1177/056943451105600204

[12] Mia, M. A., Nasrin, S., & Cheng, Z. (2016). Quality, quantity and financial sustainability of microfinance: Does resource allocation matter? *Quality and Quantity, 50*(3), 1285–1298. https://doi.org/10.1007/s11135-015-0205-1

[13] Morduch, J. (2000). The microfinance schism. *World Development, 28*(4), 617–629. https://doi.org/10.1016/S0305-750X(99)00146-8

[14] Mumi, A., Joseph, G., & Quayes, S. (2020). Organizational and legal institutions, and the performance of microfinance institutions as hybrid entities. *Journal of Accounting & Organizational Change, 16*(3), 285–309. https://doi.org/10.1108/jaoc-02-2020-0022

[15] Shrestha, S. (2017). Financial performance of microfinance institutions in Nepal: A case study approach. *Journal of Nepalese Business Studies, 10*(2), 56–70.*

[16] Singh, K. (2023). Social performance, financial risk and financial performance in microfinance institutions. *International Journal of Bank Marketing, 42*(4), 768–793. https://doi.org/10.1108/ijbm-01-2023-0005

[17] Tamanni, L., & Besar, M. H. A. (2019). Profitability vs poverty alleviation: Has banking logic influenced Islamic microfinance institutions? *Asian Journal of Accounting Research, 4*(2), 260–279. https://doi.org/10.1108/ajar-05-2019-0039

[18] Tlili, A. (2022). What are the determining factors of the sustainability of microfinance institutions in the MENA region: A theoretical study and an empirical investigation for the case of 22 MFIs. *Journal of Global Economy, 18*(3), 198–208. https://doi.org/10.1956/jge.v18i3.664