

Assessing the Effectiveness of Regulated Small Borrowing in India



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Prepared for the

Micro Finance Industry Network

March 2026



National Council of Applied Economic Research
NCAER India Centre, 11 Indraprastha Estate, New Delhi 110 002, India

About NCAER

NCAER, the National Council of Applied Economic Research, is India's oldest and largest independent economic think-tank, set up in 1956 to inform policy choices for both the public and private sectors. For more than six decades, NCAER has served the nation with its rich offering of applied policy research, unique data sets, evaluations and policy inputs to central and state governments, corporate India, the media and informed citizens. It is one of the few think-tanks worldwide that combine rigorous analysis and policy outreach with deep data collection capabilities, especially for large-scale household (HH) surveys.

About MFIN

Micro Finance Industry Network (MFIN) was established in 2009 as an association for Non-Banking Financial Company-Microfinance Institutions (NBFC-MFIs) and was recognised by the Reserve Bank of India (RBI) as India's first Self-Regulatory Organisation (SRO) for the NBFC-MFIs in 2014. Currently, MFIN members are RBI-regulated entities (REs), comprising NBFC-MFIs, Banks, Small Finance Banks (SFBs), and Non-Banking Financial Companies (NBFCs) which collectively account for more than 90% of the industry's Gross Loan Portfolio (GLP). Associates include Business Correspondents (BCs), Credit Information Companies (CICs), Insurance companies and Fintech companies among others.

Keeping the larger objective of financial inclusion in mind, MFIN focuses on creating an enabling policy and business environment for its members to pursue responsible finance, with the highest standards of customer protection and corporate governance. In pursuit of this goal, MFIN works closely with microfinance providers, regulators, government bodies, and key stakeholders across 36 states and union territories, spanning 721 districts including 112 aspirational districts, to ensure that credit reaches low-income households.

MFIN operates through three verticals – SRO, Advocacy & Development, and State Initiatives, playing an invaluable role in the robust development of the microfinance sector.

The impact of microfinance can be seen in its extensive outreach, over 75 million women borrowers are currently being served through small, easily serviceable, collateral-free loans with doorstep delivery, designed especially for women excluded from formal banking. These efforts have positively impacted nearly 300 million individuals, enabling a vast unbanked and underserved population in India to access formal credit, even in the remotest regions of the country.

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Foreword

Microfinance has become a pivotal mechanism for advancing financial inclusion in India by enabling low-income households, especially women, to access formal credit that supports livelihoods, enhances household income, and stimulates local economic activity. Over the past decade, the sector has grown substantially in reach, scale, institutional diversity, and digital delivery channels. As microfinance continues to evolve, there is an increasing need for robust, evidence-based insights into borrower experiences and the ways in which institutional practices influence outcomes.

NCAER conducted a comprehensive national survey of 10,342 borrowers across 10 states, encompassing 50 districts, 300 pin codes, and 19 REs. Building on NCAER's 2011 baseline study, this research significantly broadens both geographic coverage and analytical scope, offering a detailed assessment of borrower profiles, loan utilization, repayment behaviour, financial awareness, and levels of digital adoption.

The findings underscore the critical role of microfinance in expanding access to formal credit for low-income households and reducing dependence on informal lenders. Most borrowers deploy their loans for productive activities, such as starting or expanding enterprises, thereby supporting household incomes and generating local employment. The study also identifies positive trends in savings behaviour, financial awareness, and responsible borrowing. At the same time, it highlights opportunities to further strengthen the sector, particularly through greater adoption of digital payments, enhanced financial literacy initiatives, and careful assessment of household indebtedness to ensure borrowing remains manageable and sustainable.

I would like to express our sincere gratitude to MFIN for facilitating the study and for their continued support throughout its execution. I also extend our appreciation to the NCAER study team, led by Mr P.K. Ghosh and Dr Poonam Munjal, for their rigorous research and dedicated efforts in successfully completing the study. We are equally grateful to the participating REs, borrowers, field agencies, and enumerators, whose cooperation and diligence were essential in ensuring the accuracy and reliability of the data collected.

It is our hope that the insights from this report will serve as a valuable reference for policymakers, sector regulators, lenders, and practitioners, supporting informed decision-making and contributing constructively to discussions on strengthening the effectiveness and sustainability of microfinance in India.

New Delhi
March 2026

Professor Anil K Sharma
Secretary and Operations Director
NCAER



Acknowledgement

We would like to express our sincere appreciation to MFIN for entrusting us with this study and for their continued guidance and support throughout the course of the study. The inputs and feedback provided by the MFIN team, particularly Dr Alok Misra, Mr Swetan Sagar, and Ms Kshama Mishra, were instrumental in shaping the study design, survey approach, overall execution and report finalisation.

We extend our gratitude to the participating REs and their field teams for facilitating the data collection process. We are especially thankful to the borrowers who generously shared their time and experiences, forming the foundation of the analysis presented in this report.

Our sincere appreciation also goes to our survey partners – the Indian Society for Applied Research & Development, Delhi; Universal Mercy Foundation, Delhi; Society for Applied Research & Development, Kolkata; and Development Evaluation Society of India, Delhi – for their support during the fieldwork. The study team further acknowledges the dedicated efforts of their field investigators and supervisors, whose commitment to data quality ensured the reliability of the findings. Our thanks also go to Mr Amit Sharma, Demographix Lab Private Limited, for his assistance in developing the Computer-Assisted Personal Interviews (CAPI) programme used in the survey.

We are grateful to Dr Poonam Gupta, Ex-Director General, NCAER, for her interest and encouragement, and to Dr Anil Kumar Sharma, Secretary and Operations Director, NCAER, for his valuable overall support throughout the study.

It is our hope that the findings of this study will serve as a useful resource for policymakers, practitioners, and other stakeholders, contributing to informed decision-making in the microfinance sector.

Study Team

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Abbreviations and Acronyms

| | | | |
|------|--|----------|---|
| AIR | All-Inclusive Interest Rate | HCES | Household Consumption Expenditure Survey |
| APR | Annual Percentage Rate | HH | Household |
| ATM | Automated Teller Machine | HS | Higher Secondary |
| BBPS | Bharat Bill Payment System | IRDP | Integrated Rural Development Programme |
| BC | Business Correspondent | IRR | Internal Rate of Return |
| BFIL | Bharat Financial Inclusion Limited | JLG | Joint Liability Group |
| CAGL | CreditAccess Grameen Ltd | KFS | Key Fact Sheet |
| CAPI | Computer-Assisted Personal Interview | KYC | Know Your Customer |
| CB | Credit Bureau | MF | Microfinance |
| CGRM | Customer Grievance Redressal Mechanism | MFIN | Micro Finance Industry Network |
| CIC | Credit Information Company | MGNREGA | Mahatma Gandhi National Rural Employment Guarantee Act |
| CIR | Credit Information Report | MoSPI | Ministry of Statistics and Programme Implementation |
| CLIP | Credit Life Insurance Product | MPCE | Monthly Per Capita Expenditure |
| CSP | Customer Service Point | MPCI | Monthly Per Capita Investment |
| DTI | Debt-To-Income | NABARD | National Bank for Agriculture and Rural Development |
| EIR | Effective Interest Rate | NBFC | Non-Banking Financial Company |
| EMI | Equated Monthly Instalment | NBFC-MFI | Non-Banking Financial Company-Micro Finance Institution |
| FGD | Focus Group Discussion | NCAER | National Council of Applied Economic Research |
| FI | Financial Institution | NRLM | National Rural Livelihood Mission |
| FOIR | Fixed Obligation to Income Ratio | | |
| FPC | Fair Practice Code | | |
| FY | Financial Year | | |
| GLP | Gross Loan Portfolio | | |



| | | | |
|------|----------------------------------|-------|--|
| OBC | Other Backward Classes | SEWA | Self-Employed Women's Association |
| OTP | One Time Password | SFB | Small Finance Bank |
| OVD | Officially Valid Document | SFMC | SIDBI Foundation for Microcredit |
| PA | Per Annum | SHG | Self-Help Group |
| PAN | Permanent Account Number | SIDBI | Small Industries Development Bank of India |
| PE | Private Equity | SPOC | Single Point of Contact |
| PLI | Product Literacy Index | SRO | Self-Regulatory Organisation |
| PP | Percentage Points | ST | Scheduled Tribes |
| PPS | Probability Proportional to Size | TAT | Turnaround Time |
| Q | Quartile | ToT | Training Of Trainers |
| RBI | Reserve Bank of India | TPP | Third Party Product |
| RE | Regulated Entity | UPI | Unified Payments Interface |
| Rs | Rupees | WAIR | Weighted Average Interest Rate |
| SBLP | SHG Bank Linkage Programme | | |
| SC | Scheduled Castes | | |

EXECUTIVE SUMMARY

The crucial role of microfinance in bridging the credit gap for low-income households, who are often excluded from the formal banking system, is widely acknowledged. By providing small, collateral-free loans, microfinance empowers individuals, particularly women, to initiate or grow income-generating activities, thereby strengthening household finances, creating local employment, and enhancing overall community resilience.

Yet microfinance is not a magic bullet. Its outcomes can vary significantly depending on context, implementation, and borrower circumstances. Therefore, regular evaluation of small borrowing practices is crucial to understanding their impact and refining approaches to better serve low-income households. This report represents a significant step taken in that direction. It presents a comprehensive analysis of microfinance borrowers in India, based on a nationally representative survey conducted by NCAER across 10 major states (covering 50 districts and 300 pin codes) and 19 REs. Drawing from over a decade of research on the impact of small borrowing, this study builds upon the 2011 NCAER baseline report, expanding its geographical scope and analytical depth. It aims to assess the effectiveness of small borrowing in India by examining borrower profiles, awareness of microfinance and insurance products, usage patterns, cost of borrowing, borrower-lender interactions, repayment behaviours, and digital adoption.

Survey design and methodology

The study employed a multi-stage, stratified sampling method to ensure national representation. A total of 10,342 borrowers were surveyed through centre-based interviews and home visits, complemented by various Focus Group Discussions (FGDs). The survey instrument was carefully pilot-tested and administered via Kobo Toolbox to collect data on demographics, loan characteristics, digital behaviour, and economic indicators.

A multi-tiered training approach was adopted to prepare field teams. First, a central Training of Trainers (ToT) at NCAER equipped regional coordinators with knowledge of the questionnaire's content, flow, and digital administration. These coordinators then led regional sessions with NCAER staff across all survey states, providing hands-on training to field investigators and supervisors. The focus was on understanding the study's objectives, mastering the questionnaire, ensuring accurate data recording, and effectively using the Kobo platform.

The key findings from the study are highlighted below.

A typical microfinance borrower's household

As per RBI's definition, "Microfinance loan is a collateral-free loan given to a household having annual household income up to Rs 3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children." The survey shows that a typical microfinance borrower, based on simple average of sample population, is

A married woman, educated up to secondary level with a household size of around 4 having an annual income of Rs 3.1 lakh per annum (p.a.) and mostly located in rural areas (67.5%). She contributes to the household income, and the primary occupation of her household is petty trade/business. She also possesses various types of identity documents like PAN Card, Aadhaar and Voter ID which are required for Know Your Customer (KYC).

Household finances & indebtedness

An analysis of the household income showed that 78% of the borrowers were contributing to their household's income, which varied by state & by level of education but not so much by location (rural/urban). Like, economic participation of borrowers in more prosperous states of Tamil Nadu, Maharashtra and Telangana was more than 90% while in Bihar (58.4%) and Assam (68.7%) it was much lower.

The average number of earning members was 2 (out of a HH size of 4.4 members) with an average annual household income of Rs 3.1 lakh (Rs 25,844 per month¹). Punjab had the highest average annual HH income of Rs 4.34 lakh and also the highest number of earning members (2.4). Maharashtra being one of the prosperous states reported the lowest average annual HH income of Rs 2.62 lakh, which could be because of relatively remote locations within the state targeted by the REs for offering microfinance. Similarly, borrowers in urban locations had higher annual income than those in rural areas.

Petty trade or business, such as small retail shops, street vending, or home-based sales was the primary source of income for about 33.5% of the households, followed by casual labour (17.5%), self-employment (16.1%), salary (15.15%) and agriculture & allied activities (13.9%). The main secondary sources of income were agriculture and allied activities and casual labour (~27% each) followed by

petty trade (18.7%), self-employment (13.7%) and salary (9.9%).

The Monthly Per Capita Expenditure (MPCE²) of the overall sample was Rs 3,742, typically higher in urban areas (Rs 4,237) than rural (Rs 3,504), and variations were observed across states as well. Economic capacity seemed to be related to level of education, with uneducated borrowers having the lowest MPCE of Rs 3,407 and those having higher secondary (HS) education and above with highest MPCE of Rs 4,053 indicating better financial literacy and income potential.

Household investments were mainly on purchase of tools/machinery and other productive assets for business and 52.6% of the borrowers reported investing in the last one year. The average Monthly Per Capita Investment (MPCI) (for those investing) was Rs 577 (~Rs 2,539 per household per month). For the entire sample, average investments per household per month was Rs 1,209 per HH.

Borrower households reported average monthly savings of Rs 3,200. This finding is consistent with the NABARD bi-monthly survey report on 'Rural Economic Conditions & Sentiment Survey'³ which suggests that HHs utilise about 13.8% of their income in savings. All borrowers had a savings account in their name and about 30% had multiple accounts. Among traditional saving practices 71.9% kept money at home, about a quarter saving in Post Office accounts, and 19% with SHGs.

¹It is to be noted that while the annual income for a microfinance HH is capped at Rs 3 lakh, the income data in the survey is self-reported and there may be overestimations due to temporary or seasonal earnings, changes in household composition (adult children starting to earn while still unmarried), improved income overtime etc., that influenced the recall value at the time of survey.

²Ratio of total month expenses (on food, non-food and non-routine expenses) to number of household members

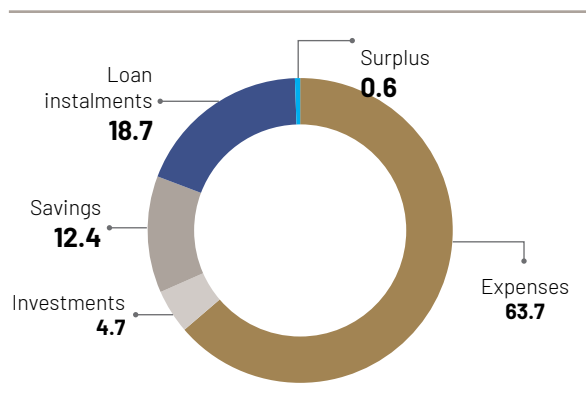
³September 2025, NABARD. "Rural Economic Conditions & Sentiments Survey"

Over half of borrowers saved for medical needs, emergencies, and children’s education, while more than a quarter saved for social or religious ceremonies or to expand/improve their business.

About 90.9% (9,402) of the borrowers had only one loan from the parent RE⁴ and 61% had only one loan from parent RE and no loans from other sources and 25.4% had two loans. The proportion (86.4%) of borrowers having up to two loans matches the Equifax credit bureau report (as of Sep’25) that cites 90.7% of borrowers having up to two loans. The overall Fixed Obligation to Income Ratio (FOIR) of the sample at 18.7% was well within the RBI prescribed limit of 50%. Further analysis indicates that FOIR & therefore indebtedness increases with number of loans and crosses 25% with two loans, 40% with four loans and breaches the 50% cap with six loans.

The study critically examines whether FOIR alone is sufficient to assess household indebtedness. Analysis of income utilisation (**Figure 1**) shows that households spend approximately Rs 16,465 per month on expenses, Rs 4,827 on loan instalments, Rs 1,209 on investments, and Rs 3,200 on savings. In total, about 82.4% of household income is absorbed by expenses and loan repayments, leaving limited surplus.

Figure 1: Use of HH income (%)



Although the RBI threshold allows FOIR to extend up to 50%, once household expenses and saving and investment needs are

considered, the effective surplus available for additional loan servicing is far lower. The analysis suggests that only about 10-12% of income can realistically be allocated towards additional loan repayments, implying that a prudent cut-off FOIR, including existing debt, would lie in the range of 28% to 30%. Reliance solely on the RBI FOIR cap to estimate additional credit capacity risks over-indebting borrowers, particularly in the face of income shocks or unforeseen expenses. This underscores the need for more comprehensive household-level assessments of indebtedness, that include assessment of HH expenses as well.

Access, cost of microfinance loans and usage

Microfinance has been envisioned as a key pillar of financial inclusion, with the objective of making loanable funds accessible to low-income households that have not been a part of the formal credit system. This exclusion from formal lending channels had made such households rely on local sources of funds that do not come under the purview of any monitoring agency or regulator. These include moneylenders and local shopkeepers who loan out small sums of money to these borrowers while maintaining arbitrary terms of lending such as charging extremely high interest on loan. In the previous study undertaken between NCAER and MFIN⁵ in 2011, informal loans were found to constitute as much as 46% of all reported loans and 47% of the total amount borrowed by households. In the survey of microfinance borrowers conducted for the current study, only 1% of individuals reported resorting to informal sources of borrowing alongside formal loans. So, over the last 14 years this reduction in reliance on informal borrowing complemented with increased borrowing from REs is a good metric to gauge the much-needed expansion of access for the bottom-of-the-pyramid to the formal lending system.

⁴Parent RE refers to the focal financial institution selected for each PIN code; the survey targeted its current borrowers, who were identified, sampled, and interviewed.

⁵2011, NCAER. "Assessing The Effectiveness of Small Borrowings in India"



Since the time they first got associated with the parent RE, 54.3% of the surveyed borrowers reported having taken more than 1 loan from them, indicating vintage of at least 1 year – some had higher vintage of 2, 3 and more than 3 years as well. In terms of loans outstanding at the time of the survey, as has been cited earlier, close to 91% of the respondents held single loans with the parent RE. The remaining 9% of borrowers showed some variation across geography with Karnataka and Bihar standing out at 22% to 24% of borrower proportion having more than one active loan from the parent RE at the time of the survey along with urban India (14.6%). Banks were also seen to hold a relatively higher share of the borrowers who were running multiple loan accounts simultaneously. Multiple loans being extended to the same customer can be an outcome of the dual effect of REs wanting to retain their clients by trying to satisfy the latter's credit demand and the underwriting norms & lender cap per borrower prescribed by MFN in its guardrails.

A review of all details of the latest active loan taken from the parent RE, as captured in the survey, shows that a typical microfinance loan is

A principal average amount of Rs 51,222, received by the typical microfinance borrower described above, for a tenure of 23 months (roughly, 2 years) at an average rate of interest of 23.9%. The main charges levied on this loan include interest, credit life insurance, and processing fee. Other costs associated with such a loan can include health insurance and third-party products (0.9% and 0.1% of the total cost respectively), depending on the customer's choice of availing additional products & services at the time of borrowing. The monthly average instalment that is paid on the typical microfinance loan is approximately Rs 2,993.

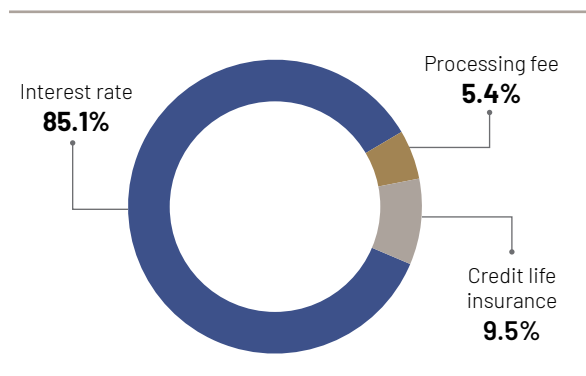
The survey shows variations around these averages of a typical loan across states, REs and locations, emerging likely from differences in income and loan-absorption capacity. A higher loan amount is received by urban borrowers (Rs 54,209) compared to their rural counterparts (Rs 49,784). The largest ticket size among the surveyed states was reported in Tamil Nadu (Rs 63,473) while the smallest was in Assam (Rs 42,140). SFBs extended loans averaging at Rs 55,445, which is larger than the overall average loan size. Most of these loans are being repaid at a monthly frequency (by 58.4% of all 10,342 borrowers) with banks seen to be prescribing a weekly repayment schedule for close to 72% of its clients. In terms of the fixed sum paid as instalment for these loans, the largest amount was also attributed to banks (Rs 3,533 per month) based on the collected data which could be due to relatively large loan sizes coupled with shorter tenure. In terms of the interest that borrowers reported as being charged, the rate was seen to range from 23.5% to 24.5%. A finding worth highlighting here is that the interest rate being charged by non-deposit taking REs such as NBFC-MFIs is not markedly different from the deposit-taking entities (banks) that consequentially have the advantage of sourcing cheaper funds for lending.

Data on various costs associated with microfinance loans was captured while surveying the borrowers. Other than interest charged, processing fee for the applied loan (Rs 914) and credit-linked life insurance (Rs 1,547) were the primary costs noted by the borrowers in their answers. An overall average premium of Rs 1,330 was seen to be charged to the borrowers who opted to purchase health insurance while taking credit from the RE.

In order to provide a comprehensive view of the overall cost of borrowing prevailing in the industry, a comparative analysis was undertaken as part of this report. For this, responses of a subset of 1,472 borrowers

out of the total 10,342 was considered, who were able to specifically cite their loans details including and limited to amount of loan received from the lender, interest rate charged on it, loan tenure, processing fee and cost of life insurance purchased with the loan. The average loan amount for this subset was Rs 57,469 and the average associated cost was Rs 16,503. Based on these 1,472 complete responses, shares of each cost component was inferred as shown in (Figure 2), with interest rate making up 85.1% of the total cost incurred by a borrower.

Figure 2: Cost components of a loan

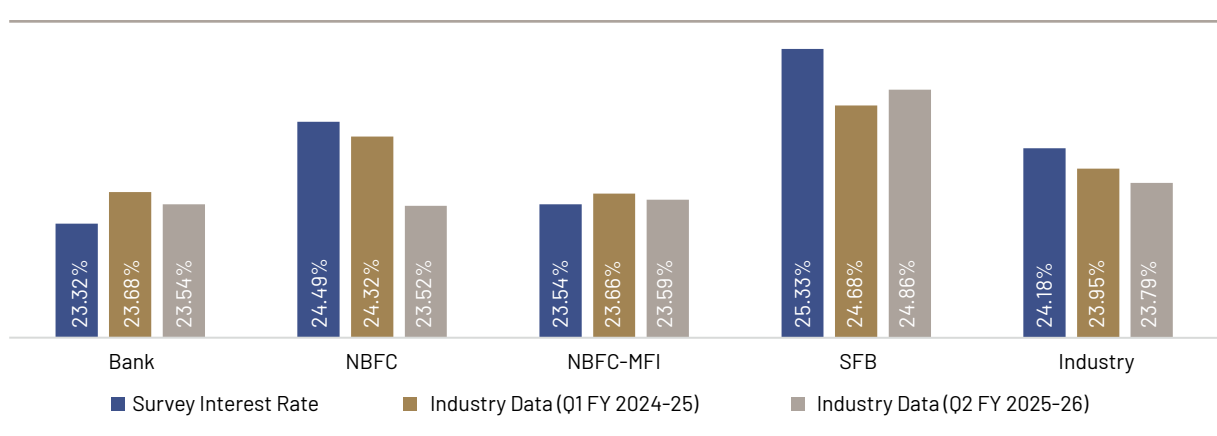


The analysis was extended to compute the weighted average interest rate (WAIR) being charged by each type of RE, followed by calculation of both Annual Percentage Rate (APR) levied by each RE type as well as the Effective Interest Rate (EIR) (including

insurance cost that is not an income for the lender RE but a cost to the borrower). The WAIR was compared with the rates reported to MFIN in the latest quarter as well as the quarter immediately preceding the borrower survey (Figure 3), further validating the survey findings. For the borrower, average rate of interest was computed from the survey data to be 24.2% which compares well with the industry average of 23.8% for the quarter July to September 2025. Across different RE types, the weighted average APR for the lenders was calculated at 27.3%, ranging between 24.1% and 30.3%. The EIR computed for the client had a minimum of 28.0% and an average of 33.0%. This gap between interest charged by the RE and that incurred by the borrower stood at a minimum of 3.4% for banks.

The alternative to borrowing at these calculated rates for microfinance borrowers was estimated to be much costlier from the report's computations based on qualitative discussions, ranging between an APR of 97% and 178% for a year charged by moneylenders. In reality the APR could be much higher as the moneylenders also levy interest on interest if the customer is unable to repay the principal and/or the interest component of the loan as per agreed schedule.

Figure 3: Comparison of survey interest rates with industry data

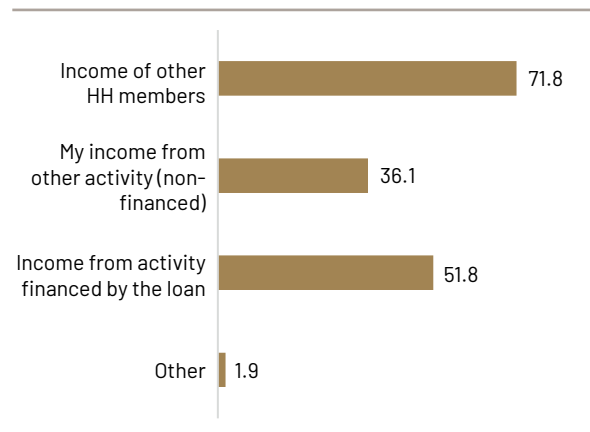


With regard to purpose of borrowing these funds, survey respondents were also inquired about the final utilisation of microfinance loans they had taken. Almost half of the surveyed borrowers (48.1%) said they were using the loan to invest in existing business while others mostly reported having used the funds for investing in new business, farm activity, construction for business purpose and construction of house. Together these were listed by 94% of the surveyed borrowers as the avenues where they utilised the loan. Prior to RBI's Master Direction of 2022, there was an end-use restriction according to which these collateral-free loans to low-income borrowers had to be used for income generating activities. However, despite changes in the microfinance landscape in 2022 and removal of the mandate on purpose of lending, most of the loans extended to clients by the REs during this survey were found to be income-generating loans.

Repayment behaviour

Ensuring timely payment of loan instalments is essential to the operation of JLGs as the borrowers understand the importance of maintaining good credit behaviour. To make timely loan repayments, the borrowers rely on several avenues as depicted in **Figure 4**. They primarily bank on income of other household members (close to 72% of the surveyed customers) or on the income from activities for which they had utilised the loan (51.8%). Generation of income from a productive activity funded by the loan is a befitting parameter to measure the efficacy of microcredit and certain states like Madhya Pradesh, Assam and Maharashtra performed well in this aspect with approximately 82% of borrowers in each state reporting sourcing of funds in the said manner. On the other hand, this share of customers was the lowest at a mere 7.0% for Telangana, highlighting the possible need to ensure proper utilisation of loans for income generating activities.

Figure 4: Distribution of borrowers (%) by top sources of repayment



For the low-income households that microfinance industry caters to, repayment of loans is a pervasive concern. Such households have limited means of livelihood and are required to carve out a portion of their constrained income to pay off any credit taken to fund their needs. To assess the prevailing borrower sentiment towards loan repayments, the survey respondents were asked if they faced any challenge during repayment of their loan with the parent RE. While 76.1% of borrowers did not cite any difficulty in paying for the loans, another 21.5% admitted that even with some trouble, timely payments were managed. However, a section of the respondents (2.4% of the 10,342 borrowers) reported their inability to make timely payments and needing support for fulfilling their loan obligations. These borrowers who found it difficult to pay back their loans were found to be concentrated in Karnataka (10.5% of customers) and Tamil Nadu (4.7%).

Another aspect of repayment behaviour studied in the report and also pertinent to the evolving financial landscape of the country is the adoption of digital methods by the borrowers to make payments for their loans. There is still considerable improvement to be seen in this area as around 87% of the microfinance customers were not making digital repayments for their loans. A few states

where adoption of digital mechanisms of loan payments was extremely low were Assam (only 2.3% of customers) and Karnataka (only 5.8%). Additionally, NBFC clients showed higher digital payment adoption rates with a relatively lower share of 73% of the customers saying no to having used digital applications for making loan payments. Around 12% of the remaining sample who responded positively to doing digital loan transactions relied unanimously on UPI citing its simplicity, direct linkage with bank account and government backing as the main reasons behind their preference. Out of this small subset of borrowers, however, only 25% had undertaken digital transactions independently and the rest admitted taking help from family, friends and other group members.

The geographic distribution of this observed behaviour can be useful for organizing awareness and literacy interventions as the least number of borrowers to show deftness in digital repayments were found to be concentrated in Tamil Nadu, Telangana and Uttar Pradesh. Punjab, on the other hand, fared very well on this metric with nearly 54% of the borrowers reporting independent usage of digital apps. However, some borrowers of NBFC-MFIs, belonging to the lowest wealth quartile, having only primary education, and residing largely in Bihar and West Bengal had paid a small fee for making digital repayments. Such experiences can hinder adoption and REs need to ensure initial assistance through the field staff to such borrowers to build their trust and comfort in using digital means to make repayments.

Further analysis has been conducted in the report to study the association between repayment behaviour of borrowers and their level of indebtedness. Indebtedness of a borrower has been categorised based on her debt-to-income (DTI) ratio which is defined as the total loan amount outstanding for the borrower across all lenders (Parent RE and other sources) as a share of her total

household income. Using the Pearson Chi-square test, the null hypothesis stating no significant relationship between indebtedness of borrower and their repayment behaviour was checked. This test showed a statistically significant relationship between the two variables, with a Pearson Chi-square value of 26.79 at 99% confidence interval. The result specifically showed that a higher share of borrowers exhibited poor repayment behaviour when they had high levels of indebtedness ($DTI > 25\%$). The overall assessment of repayment behaviour in this study hence points out a direct link between increasing risk of payment default and increasing indebtedness of borrower.

Borrower's awareness and preferences

One of the underlying objectives of microfinance is to create borrower's awareness not only on the products and services offered but in general about financial matters like indebtedness, importance of using the loan for productive purposes, need for regular savings, insurance cover etc. Customer training is part of operational processes of the REs which include dedicated timeslots for orienting the customers at the time of their onboarding and reiteration of important aspects during the regular group meetings. About 86% of the borrowers acknowledged being provided training by their REs. The study tried to understand how effective the REs were in creating awareness among their customers. An assessment of client awareness showed that

- Awareness was high on loan amount applied (95%) while a lesser proportion of them could recall the amount that was approved (85.3%) and finally received (84.3%) by them.
- They also seemed well aware of the tenure (97%) of their loans and the frequency at which they have to pay loan instalments.



- However, the awareness on interest rate being charged on their loans was low – only about 47% of the borrowers could respond definitively with an interest rate percentage. Awareness of all-inclusive rate as disclosed in the KFS was very low at just 1.5%. But nearly all respondents (98.5%) were able to specify the instalment amount. Further, 63.3% were not aware about the difference between reducing and flat rate.
- With regards to costs other than interest associated with their loans, more than half of the borrowers were aware of a processing fee being charged to them by the lender but only a small proportion (20%) could recall the amount charged.
- Awareness around credit bureaus and their role was found in only 12% of the respondents while that around customer grievance mechanism was found in 59.6% of respondents.
- Borrowers holding multiple active loans are 4.5% pp more likely to exhibit higher product literacy than those with only one loan, due to enhanced familiarity and exposure.
- Training programmes provided by the REs prior to loan sanction have a significant positive effect on product literacy – borrowers who have undergone such trainings are 5.8 pp more likely to exhibit high levels of product literacy.
- Borrower's banking behaviour also impacts awareness – borrowers who primarily transact through ATMs or Business Correspondents (BCs) are less likely to be product-literate compared to those who prefer visiting branches.
- Savings behaviour also shows strong positive association with product literacy – those maintaining savings accounts are 5.6 pp more likely to have higher product literacy than those without.

To assess the product literacy and its determinants, a regression model was applied on an index called Product Literacy Index (PLI), constructed from five indicators – knowledge of loan interest, loan tenure, processing fee, insurance benefits linked to loan and credit bureau role. The regression results show that education, social group, income, access to training, saving behaviour, preferred banking channels, etc. are statistically significant predictors of product literacy and provide insights on type of borrowers who are likely to show better awareness and therefore repayment behaviour. Specifically,

- Borrowers with higher education are substantially more likely to exhibit higher product literacy compared to those who are uneducated.
- Product literacy is also shaped by their household income – With every unit increase in log income, the probability of a borrower being more product-literate rises by 7.7 percentage points (pp).

Most borrowers cited their preference for loans that can be paid off within 1 to 2 years, at a monthly repayment frequency. In fact, borrowers were aware of the importance of keeping the loan instalments within manageable limits and that it is a function of tenure – about 24% of borrowers having bigger loans (>Rs 1 lakh) cited their preference for 2-3 years tenure while 29% of borrowers having smaller loans (<Rs 25,000) cited preference for less than one year tenure.

In terms of cost, half of the respondents were either of the opinion that the interest rates charged on microfinance loans are competitive with market rate or that they do not matter in the face of “exorbitant” rates charged by their local shopkeepers and moneylenders. This has also been tested statistically in the study (as discussed above) to show that less than 38% of borrowers consider interest rate as an important factor while choosing a lender.

Good behaviour of RE staff was also reported by mostly all (97.9%) of the borrowers who were surveyed and 88% indicated that they would go back to their parent RE for the next loan. The top-most factors that were reported for choosing a loan provider were lack of collateral while borrowing from microfinance lenders, flexible instalments, and minimal paperwork.

For accessing additional funds in times of need, most borrowers cited preferring to use their savings, followed by taking credit. On the whole, microfinance borrowers seem aware of the sum of money they have borrowed, additional costs they incur on the borrowing and the periodic payments they need to make to the lender for the same. Even though their technical grasp on the financial terms and concepts might not be very strong, the borrowers possess a sense of evaluation of their financial needs and preferences.

Access and usage of other financial services – savings, insurance

The study delved into borrowers' preference for and access to other financial services besides credit. By virtue of being clients of microfinance-lending REs, all surveyed respondents have a bank savings account, with those having higher education levels or economic well-being reporting possession of multiple bank accounts. Borrowers of banks/SFBs (28% to 35%) had two accounts, which could be due to requirement of having an account when they commence a lending relationship with them.

For nearly 70% of the borrowers, RE branch was the most preferred touch point for conducting financial transactions while the usage of ATMs and BC/CSPs was seen to be higher in urban and rural areas respectively. A majority of respondents preferred branch-based transactions in states like Bihar, Karnataka, Punjab, and Uttar Pradesh (78-92%) while Telangana and Tamil Nadu have the

highest usage of ATMs (45-46%) and Assam (55%) had the highest preference for BC/CSP. Bank borrowers, understandably, show the highest use of BCs (being the extended arms of the bank). The most preferred touch point for depositing money is bank branch (93%) followed by BC (5.6%) and ATMs are rarely used.

The most common reasons for maintaining a savings account or balance stated by these borrowers was to financially meet situations of medical or other emergencies and to educate their children. Roughly, Rs 3,200 was being saved per month, with urban borrowers saving a higher average of Rs 3,758 compared to those in rural locations (Rs 2,931). Approximately, 12.4% of a typical borrower's monthly income was being used for savings, with state-level variations possibly arising out of differences in income and expenses. Savings behaviour seems to be positively correlated with education – borrowers with better education save more, while uneducated borrowers report the lowest average savings. This indicates that individuals with higher levels of education have better earning opportunities, increased financial awareness, and more consistent saving behaviour.

The respondents' understanding of insurance benefits also seemed adequate with 67% of them saying that insurance is a means to financially protect themselves and their families. However, more than 29% of borrowers reported that they did not know the benefits of insurance, indicating a considerable knowledge gap. Across population groups, Madhya Pradesh (97.3%) had the highest awareness and Maharashtra the lowest (6.4%) and borrowers from urban areas (75.4%) were more informed than rural (62.7%). Apart from credit life which is mandatory with the loan, life insurance (94.0%) was the most desired as well the most purchased insurance product for most of the respondents. Health insurance (38.5%) closely followed life insurance in terms of borrowers'



preference towards additional insurance cover, followed by property insurance (5.5%) and crop insurance (3.5%).

Digital readiness & adoption

Understanding the state of digital readiness or how tech-savvy an average microfinance borrower is, was also a part of the assessment undertaken by this study. Ownership of smart phones is the key to digital readiness and the survey showed that 61.1% of the respondents owned smartphones while another 26.3% operated feature phones, with the latter mostly inhabiting rural parts of the country. A small but substantial proportion of the borrowers (12.2%) did not own any type of phone, highlighting the need for further digital expansion in the bottom-of-the-pyramid segment of society. While there were variations across states, concentration of the borrowers with no phones was high in Madhya Pradesh and smartphone ownership was significantly higher in urban areas (70.5%) than rural (56.6%).

In terms of adoption, a substantial proportion (54%) of those who owned smartphones reported having installed digital applications on their phone. Adoption of digital payment apps shows wide variation across states. Karnataka (82%), Telangana (79%), and Tamil Nadu (66%) reported the highest installation of digital payment apps, while Bihar, Punjab, and Uttar Pradesh have the lowest at 29%. This indicates regional disparities in digital readiness, with southern states clearly leading in app adoption. Digital adoption also correlates to level of education and economic status of the borrowers.

Overall, around 28% of the entire survey population confirmed having used digital apps for payment of grocery or utilities bills in the previous month while 12% had used the apps for loan repayment as well. This is a promising indicator of digital adoption being on the rise across the country. More educated clients showed higher trust in the various digital payment channels, with over

88% of all respondents reporting that they never faced any losses from frauds on digital payment platforms. However, a significant 38% of the surveyed borrowers were not aware of any measures that they could take to protect themselves from digital fraud. This is a concerning low proportion when seen in conjunction with the share of total surveyed borrowers who used digital payment apps or owned smartphones.

Analysis of clients' digital readiness is supported by a logistic regression model that attempts to ascertain factors associated with borrowers' likelihood of digital adoption. Results of the model show that access to formal financial infrastructure such as ATMs and having higher income and savings are statistically significant factors that positively impact the usage of digital platforms. Specifically,

- Borrowers who prefer to withdraw money via ATMs are 30.4 pp more likely to adopt digital payment methods compared to those who prefer bank branches, holding other factors constant.
- Conversely, those who use BCs as their preferred withdrawal touchpoint are 4.6 pp less likely to adopt digital methods, suggesting that reliance on traditional or semi-formal financial agents may hinder digital uptake.
- Borrowers who use informal saving modes (like at-home savings or chit funds) are 13.5 pp less likely to use digital methods than those using formal savings channels such as bank, post office, etc., underscoring the role of financial inclusion in digital engagement.
- Additionally, increases in monthly savings and monthly income, both are positively associated with digital adoption. A one-unit increase in savings is associated with a 6 pp increase in the likelihood of using digital methods, while a one-unit increase in logged income corresponds to a 12.2 pp increase.

These insights suggest that efforts to expand digital financial inclusion should not only focus on infrastructure and technology but also on improving financial literacy and encouraging formal saving practices.

In conclusion,

The study fairly indicates that microfinance or small borrowings (and the regulated entities offering such services) have been effective in

- (i) **Enhancing access of formal credit to low income households and reducing their dependence on informal sources** and therefore contributing to furthering of financial inclusion in the country.

Over a span of 14 years, borrowings from informal sources of funds such as moneylenders and shopkeepers have seen a drastic reduction, from 46% of all reported loans being taken through informal channels in 2011 (NCAER report) to only 1% of individuals resorting to informal borrowing alongside formal loans in 2025. This, coupled with increase in outreach by REs such as NBFC-MFIs, is a positive shift away from the generally exploitative informal lending practices and towards increased coverage of formal credit. The average disbursement time for loans was found to be 6 days while 98.8% of borrowers acknowledged receiving loan from their respective RE at the time of an emergency.

- (ii) **Being cost effective in comparison to alternative sources.** One of the clear inferences drawn from the survey data and qualitative discussions with the borrowers was the cost effectiveness of microfinance loans. For a representative sample of the surveyed borrowers, the average rate of interest charged by microfinance lending REs was found to be 24.2%. The APR charged by REs and EIR finally charged to the customer was computed to be 27.3% and 33.0% respectively. This is a modest cost when compared to rates between 5%

and 10% charged every month on loans taken by survey respondents from local moneylenders, working out to an exorbitant APR range of 97% to 178%.

- (iii) **Building a positive image of REs offering microfinance** – About 54.3% of customers noted having taken more than 1 loan from their parent RE since the time of being associated with the respective lending institution, indicating vintage of one year or more. Despite the notion of coercive practices being followed by microfinance officials, 97.9% of surveyed borrowers reported good behaviour exhibited by staff of lender REs. Further, 88% of these borrowers responded affirmatively to the prospect of returning to the same parent RE for their next loan, whenever the need arises. Together, these findings point towards a good lender-borrower equation between majority of the individuals and the lender RE offering microcredit.
- (iv) **Managing household indebtedness,** which reflects from the fact that around 86.4% of the borrowers had two loans and the overall FOIR of the sample at 18.7% was well within the RBI prescribed threshold of 50%. However, the REs could do much better in avoiding over-indebtedness by including household expenses analysis in the process of estimating loan absorption capacity. Since households spend about 82.4% of the income on expenses and existing loan instalments, the residual income available for new loan instalments is just 8%-10% of the income.
- (v) **Ensuring that credit is mainly used for productive purposes,** thereby increasing the possibility of income augmentation of the borrower's household. Out of the 10,342 borrowers surveyed across varied geographies, 48.1% used the credit from REs to invest in their existing business while 14.4% used the same to invest in new businesses. Another 25.1% of borrowers mentioned farming activity and



construction of shops as other avenues where the credit funds were utilised. The study hence shows that despite RBI's removal of end-use restriction on microfinance loans, the credit extended by the sector continues to be targeted towards promoting income-generating activities and thereby, borrower earning capacity and job creation. A study conducted by NCAER⁶ estimated that 1.28 crore jobs were created by the microfinance industry in 2018-19. In addition to such economic gains, the social impact of microfinance lending is considerable with 78% of surveyed borrowers (99% of whom were women) saying that they contribute to their household income.

(vi) **Creating financial awareness** not only about the products and services offered but in general about financial matters like indebtedness, importance of using the loan for productive purposes, need for regular savings, insurance cover etc. Statistical test shows a significant correlation between level of awareness and training programmes conducted by the REs, among other indicators like education, household income and banking/savings behaviour.

(vii) **Inculcating savings behaviour** – having a bank account is now mandatory for obtaining a microfinance loan from an RE as the disbursements are directly made to the borrower's bank account. While Jan Dhan Yojana had a huge role to play in opening of accounts, microfinance has played its part in ensuring that these accounts are not dormant and used for transactions, thereby inculcating banking/savings behaviour. The study shows that all borrowers had a saving account and 97.2% indicated that they were saving (some amount) regularly.

(viii) **Promoting digital adoption/inclusion** to some extent by providing options to their borrowers to repay their instalment using digital channels. Though the proportion of borrowers repaying digitally is around 12%, with assistance from the RE staff and with more savings balances in their accounts, their familiarity and trust on digital channels is bound to improve and fuel adoption. When this happens, the usage of such channels will not just be for loan repayments but for other payments as well.

⁶NCAER, 2021. "Present and Potential Contribution of Microfinance to India's Economy"

01

INTRODUCTION

1.1 Background of the study

For a long time, microfinance has been viewed as a viable instrument for addressing poverty, advancing financial inclusion, and providing a voice to marginalised people, particularly women. Microfinance is based on the idea that small loans without collateral can help low-income households start or expand micro businesses, manage everyday expenses more easily, and save for life-cycle events such as children's education and in healthcare.

Empirical studies support the positive potential of microfinance. For instance, the Kalyani Raghunathan K. et al. (2022) study reported small but statistically significant increases in household expenditure and asset ownership (notably livestock) due to small borrowings. Pandhare A. et al. (2024) demonstrated a notably positive and moderately significant impact of microfinance and entrepreneurial engagement on the social, economic, and psychological dimensions of women's empowerment. Pitt and Khandker (1998) found that women's access to credit was associated with increased household expenditures and improved child health outcomes. Similarly, Swain and Wallentin (2009) highlight the game-changing role of self-help groups (SHGs) in advancing women's empowerment and overall well-being.

However, the aforementioned impact of microfinance is not uniform. Research suggests that outcomes are significantly shaped by prevailing social norms, intra-

household power dynamics, and the specific design of microfinance programs (Goetz & Gupta, 1996). Further, the outcome of microfinance is restricted because in some cases, loans to women borrowers are appropriated by the men in households, thereby diluting the intended empowerment effects and raising concerns about agency and control.

While the origin of organized finance in India can be traced back to 1904 with the [Cooperative Societies Act](#) for promoting thrift & help, it was the Integrated Rural Development Programme (IRDP) experiment and the pioneering efforts of Self-Employed Women's Association (SEWA) in the 1970s-80s which laid the foundation of microfinance. However, it was NABARD's SHG Bank Linkage Programme (SBLP) in the mid-1990s followed by the SIDBI Foundation for Micro Credit (SFMC) programme in 1999 on wholesale lending and capacity building support, that formed the backbone of the microfinance industry that we see today.

The industry grew rapidly in the first decade of 2000 with SIDBI/NABARD backing and strong interest shown by Private Equity (PE) investors. However, the quest of growth also led to its downfall with a major crisis in Andhra Pradesh, the hub of microfinance at that time, for reasons that are well documented. To navigate through the crisis, the Malegam Committee was constituted by RBI in 2010 to review the definition of MFI, examine client protection practices, role of SRO etc. which resulted in

creation of a separate category of NBFCs for microfinance designated as NBFC-MFI. This paved the way for microfinance operations under a controlled regulatory environment with caps on pricing, indebtedness, number of loans and classification of microfinance loans as qualifying assets.

Till the mid-2010s, NBFC-MFIs were the major providers of microcredit but everything changed with banking licence given to Bandhan in 2014 and SFB licence to 8 NBFC-MFIs in 2015. And with the merger of Bharat Financial Inclusion Limited (BFIL) with IndusInd in 2019, the sector had totally transformed. With diversification of the ecosystem, several new issues cropped up as only 30% of the sector abided by the rules (on indebtedness, pricing, loan size, SRO oversight) specifically made for microfinance intermediation, creating a regulatory arbitrage.

Taking cognisance of the churn which the industry was going through, in 2022 the RBI issued new regulations for microfinance which were activity based and applicable to all REs in the microfinance space, thereby creating a paradigm shift in the way microfinance industry functions. At present, microfinance is a vibrant and competitive industry with over 200 REs, including banks, NBFC-MFIs, NBFCs, and SFBs, offering their services to low-income households.

1.1.1 Building on 2011 NCAER study

In 2011, NCAER had conducted a study titled "Assessing the Effectiveness of Small Borrowing in India", which was based on extensive primary data from over 10,000 borrower households across five states. It aimed to empirically evaluate the socio-economic impact of small borrowing in the context of financial inclusion at the time.

The current study expands the initiative by NCAER to reassess the effectiveness of small borrowing in India. This study explicitly builds on the earlier 2011 study and serves as

its extension, with a broader geographical, institutional and thematic scope. This new study is designed to deepen and broaden the insights from the 2011 research by covering more states and institutions, using a more comprehensive framework.

In summary, the 2024 study builds upon the foundation of the 2011 NCAER study and seeks to update, expand, and enrich the evidence base on microfinance effectiveness in India.

1.1.2 Objectives of the study

The study aims to evaluate the effectiveness of small borrowings. Specifically, following are the main research objectives:

- 1) Profile and awareness of microfinance borrower
 - a) To capture the demographic and socio-economic profile of the borrower households.
 - b) To assess the extent of awareness of different sources of borrowing; loan particulars such as source of loan, principal, interest charged, repayment schedule, outstanding amount by size of loan, age of the loan (new and older clients). Further assessed by gender, level of education and occupation of the borrowers.
 - c) To assess the awareness of insurance services being offered and their benefit.
- 2) Cost and usage of microfinance - cross comparison of various channel costs
 - a) To get information from the borrowers regarding applicable interest rates across channels; their complete understanding; comparison of total cost to borrower of MF loans from different lenders, based on other factors like opportunity cost, commissions etc. to arrive at effective cost.

- b) To assess the use of microfinance loans and suitability of interest rates and how microfinance fits with the cash flow
 - c) To assess the borrowers' attitude towards MFIs as compared to other sources of borrowing based on access, convenience of loan processes, cost, flexibility, behaviour, grievance redressal etc. through FGDs.
- 3) To assess the following with respect to borrower's interaction with the lender
- a) Mode, frequency of interaction
 - b) Group lending/Centre Meetings – willingness and utility
 - c) Experience with repayments/collections process
 - d) Experience of third-party products
 - e) Service issues experienced
 - f) Grievance redressal mechanism – awareness and experience
 - g) Awareness and understanding of importance of credit bureaus
- 4) To assess borrowers' digital adoption:
- a) Access to digital technology; hardware used
 - b) Apps used & frequency of usage
 - c) Awareness and experience with digital payments/ EMI repayments
 - d) Awareness about digital risks/ frauds experienced
 - e) Level of digital literacy

1.1.3 Study limitations

While this study aims to provide comprehensive insights into the effectiveness

of small borrowing across major Indian states, a few limitations must be acknowledged.

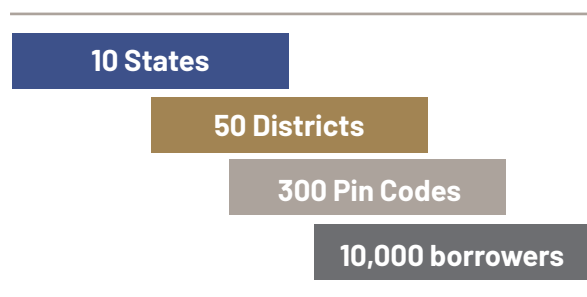
- Due to regulatory restrictions, the research team could not directly access borrower-level data. As a result, random sampling was not possible, and borrowers were reached with the assistance of REs and their staff, which may introduce some degree of selection bias.
- The study focuses on ten states, selected based on numbers of microfinance borrowers and portfolio quality. While this ensures statistical relevance, it may not fully capture the diversity and heterogeneity of borrower experiences across all Indian states.
- Information gathered from borrowers relies on self-reported data, which may be affected by recall bias or social desirability bias, especially regarding financial matters like loan use, income, or repayment behaviour.
- The study is based on a cross-sectional survey, which limits causal inference. Longitudinal or panel data would be more suitable for assessing changes over time in borrower outcomes.

1.2 Sampling methodology and statistical validity

The study employed a multi-stage stratified sampling design to ensure representative and statistically valid coverage of microfinance borrowers across India as depicted in (Figure 1.1). The sampling frame was constructed using borrower portfolios from 19 REs across 10 states. A balanced geographic sample was drawn from two groups of states, (a) those with large microfinance borrower bases/ portfolios, and (b) poorer-performing states in terms of portfolio quality.



Figure 1.1: Stratified Sampling Pyramid for the Study



At the first stage, 50 districts were selected using Probability Proportional to Size (PPS) sampling, where size was defined by the number of borrowers in each district. This ensured that districts with larger microfinance penetration had a proportionately higher chance of selection, improving representativeness.

At the second stage, 300 primary sample units (pin codes) and 194 replacement pin codes were randomly selected. These replacements were used where it was not possible to meet the target sample due to operational constraints. Within each selected pin code, a minimum of 30 and a maximum of 36 borrowers were randomly selected from 2–4 centres, using data provided by the REs. To ensure entity-level representation, each RE contributed a minimum of 300 sample borrowers across the surveyed areas.

The sample size of 10,000 borrowers was allocated such that each state had a minimum of 400 respondents, with the remaining allocated proportionally by borrower size. This approach enhances the statistical power of state and entity level comparisons, allowing for disaggregated analysis by region and lender type (NBFC, NBFC-MFI, Bank, SFB).

Therefore, the use of PPS sampling at the district level, combined with random selection within pin codes, ensured that the sample is statistically representative of the broader population of microfinance borrowers. The large sample size ($n = 10,342$) and its proportional allocation across states and REs contribute to low margins of error and

high confidence in the results. This design allows for reliable estimation of borrower-level indicators, as well as comparison across different institutions and geographies.

Further, to address potential non-response and substitution biases, a mix of centre-based interviews and home visits was conducted. The study also included qualitative methods, such as 30 FGDs, to enrich the quantitative insights.

1.3 Survey approach

The survey was designed using a structured questionnaire (**Annex 1**), carefully developed to align with the core objectives of the study. The design process involved several rounds of consultation with the team at MFIN to ensure that the questionnaire effectively captured relevant financial, social, and demographic information about the borrowers.

To test the robustness and contextual relevance of the instrument, a pilot survey was conducted in three geographically and culturally diverse locations:

- Faridabad (Haryana) in North India,
- Tumkur (Karnataka) in the South, and
- North 24 Parganas (West Bengal) in the East.

These pilot sites were selected to represent different types of microfinance markets and borrower profiles. Feedback from the pilot exercise was used to revise the questionnaire – clarifying wording, refining skip patterns, and adding or removing variables as needed. The final version of the questionnaire was then translated into six regional languages (Hindi, Bengali, Assamese, Telugu, Tamil, and Kannada) to ensure consistency and respondent comprehension across the survey states.

The finalised questionnaire was programmed into Kobo Toolbox, a mobile-based data collection platform. The programming process included setting up logic checks,

skip patterns, and validation rules to minimise errors during data collection.

To complement the quantitative component, qualitative tools were also developed, including:

- A FGD guide for conducting discussion with borrower groups (summary of the FGD findings are provided in **Annex 2**); and
- Instructional manuals and training materials for field investigators and supervisors.

These tools helped provide deeper insights into borrower experiences and supported the interpretation of quantitative findings.

A multi-tiered training strategy was implemented to prepare the field teams:

- a) A ToT programme was organised at NCAER, where regional survey coordinators were trained on the content, flow, and digital administration of the questionnaire.
- b) This was followed by regional training sessions across all survey states, where trained coordinators along with NCAER staff conducted hands-on sessions with field investigators and supervisors. The training emphasised understanding the study and its objectives, gaining in-depth familiarity with the questionnaire, ensuring accurate data recording, and effective use of the KOBO platform.
- c) The survey implementation strategy involved close coordination with REs:
 - Initial discussions were held with RE Single Points of Contact (SPOCs) to plan and facilitate rollout of the survey.
 - Local SPOCs helped identify suitable centres and borrowers for participation.

- An innovative approach was adopted wherein FGDs were conducted in each state prior to the launch of individual interviews, enabling field investigators to gain familiarity with both the questionnaire and the socio-economic context of the borrowers;

This structured and collaborative planning ensured that the survey was both methodologically rigorous and sensitive to the operational realities in the field. The field level data quality and supervision were undertaken by team supervisors, field coordinators and by NCAER supervisors. Additionally, telephonic back-checks were conducted throughout the survey by the NCAER core team, based on parallel checking of raw data.

In addition to the above, to check the data quality of a select few indicators, a validation check exercise was conducted along with MFIN team in 4 states: Madhya Pradesh (Gwalior), West Bengal (South 24 Pargana), Telangana (Warangal) and Bihar (Patna). The questions covered during the validation survey were regarding government ID cards possessed by borrower, loan particulars from parent RE⁷ as well as loans from other sources. Results from the four-state validation exercise broadly matched the original survey records across key items, supporting the robustness and internal consistency of the survey data.

Sample coverage

The distribution of the total sample of 10,342 microfinance borrowers across various demographic and socio-economic categories is shown in **(Table 1.1)**. It breaks down the number of respondents by state, type of lending institution, place of residence, social group, educational attainment, and wealth quartile, providing a comprehensive overview of the survey's coverage.

⁷Parent RE refers to the focal financial institution selected for each PIN code; the survey targeted its current borrowers, who were identified, sampled, and interviewed.



Table 1.1: Sample distribution

| Group | Sample | Share (%) |
|------------------------------|--------|-----------|
| State | | |
| Assam | 620 | 6.0 |
| Bihar | 1,530 | 14.8 |
| Karnataka | 1,267 | 12.3 |
| Madhya Pradesh | 841 | 8.1 |
| Maharashtra | 1,047 | 10.1 |
| Punjab | 553 | 5.3 |
| Tamil Nadu | 1,524 | 14.7 |
| Telangana | 715 | 6.9 |
| Uttar Pradesh | 1,230 | 11.9 |
| West Bengal | 1,015 | 9.8 |
| Entity* | | |
| Bank | 2,639 | 25.5 |
| NBFC | 1,013 | 9.8 |
| NBFC-MFI | 4,551 | 44.0 |
| SFB | 2,139 | 20.7 |
| Location | | |
| Rural | 6,978 | 67.5 |
| Urban | 3,364 | 32.5 |
| Social group | | |
| Scheduled Castes (SC) | 3,576 | 34.6 |
| Scheduled Tribes (ST) | 459 | 4.4 |
| Other Backward Classes (OBC) | 3,519 | 34.0 |
| General | 2,788 | 27.0 |
| Education | | |
| Uneducated | 2,987 | 28.9 |
| Primary | 1,781 | 17.2 |
| Secondary | 4,284 | 41.4 |
| HS & above | 1,290 | 12.5 |

| Group | Sample | Share (%) |
|------------------------|---------------|--------------|
| Wealth quartile | | |
| Q1 | 2,636 | 25.5 |
| Q2 | 2,540 | 24.6 |
| Q3 | 2,707 | 26.2 |
| Q4 | 2,459 | 23.8 |
| Overall | 10,342 | 100.0 |

Note: Wealth index is an asset/amenity-based measure built from 10 variables that show sufficient variation across households - agricultural land, separate kitchen, water supply, bicycle, scooter/motorcycle, sewing machine, cooler, refrigerator, TV, and livestock. Each of the 10 indicators was coded 1 = owned/present and 0 = not owned/absent. Households were then ranked (using survey weights) and grouped into wealth quartiles (Q1 = poorest to Q4 = richest); minor deviations from exact 25% shares reflect ties/missing values.

* The following 19 entities participated in the study

Bank: Axis, Bandhan, HDFC and IndusInd

NBFC: Bajaj, Dvara KGFS and L&T Finance

NBFC-MFI: Annapurna, Arohan, Belstar, CreditAccess Grameen (CAGL), Fusion, Muthoot, Satin, Satya and Spandana

SFB: Equitas, ESAF and Ujjivan

1.4 Structure of the report

This report analyses different dimensions related to the small borrowing in India. The study is divided into the following chapters.

Chapter 1: Introduction: The introduction chapter provides background for the study. The content of this chapter includes insights from literature, study objectives, link with the 2011 study, sampling design and methodology. The limitations of the study are also described.

Chapter 2: Profile of borrowers' households: The chapter provides a detailed account of borrowers spanning across 5 major sections. The first section presents a detailed profile of microfinance borrowers, covering key demographic indicators such as age, gender, level of education, and more. The second section examines the structure of borrowers' households, along with their social and religious affiliations. The third section presents an analysis of borrower household incomes, the fourth examines household expenditure patterns, and the fifth focuses on asset ownership.

Chapter 3: Access to microfinance loans, costs and usage: The aim of this chapter is to provide a detailed and nuanced understanding of how microfinance borrowers in India

access credit, the terms and conditions associated with different types of loans, the true cost of borrowing, and how borrowers utilise these funds. Four overarching themes, each with multiple sub-themes, serve as the framework for this chapter. It starts by looking at the lending channels and loan characteristics, including things like loan size, term, frequency of payback, and collateral or security requirements. Second, it examines loan costs, including commissions, processing fees, interest rates, and other expenses. The third component examines loan accessibility, including how borrowers find lenders, how quickly loans are disbursed, and the reasons why loans are denied. The chapter concludes by examining loan utilisation, emphasising how borrowers in various states make use of their credit.

Chapter 4: Borrowers' awareness and preferences: This chapter explores the knowledge, choices, and repayment practices of borrowers to provide insights into how informed and empowered they are in their financial decisions. The three main sections of the chapter are: Awareness of loan terms and conditions, customer preferences & feedback and repayment behaviour.



Chapter 5: Other financial services for microfinance borrowers & digital readiness: This chapter examines several aspects of savings behaviour, such as preferred means of saving, reasons for saving, and the typical amounts saved by borrowers. The digital adoption section examines variations in digital penetration among states, as well as the types of digital devices that borrowers use, their degree of trust in digital platforms, and the safeguards they take to protect themselves from digital fraud.

Chapter 6: Behavioural analysis of microfinance borrowers: Five strands of analysis (using statistical models) are presented here - borrower profiles and capabilities, financial literacy and its determinants, loan use and repayment behaviour, how interest rates shape (or do not shape) lender choice within the formal sector, and the drivers of digital adoption.

The data analysed and presented in tables/figures in the report is based on the data collected during the survey, unless specified.

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02

PROFILE OF BORROWERS' HOUSEHOLDS

2.1 Who is a typical microfinance borrower?

Microfinance loans in India are guided by the following definition which specifies that “Microfinance loan is a collateral-free loan given to a household having annual household income up to Rs 3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children [RBI Directions, 2025]⁸. Typically, such loans are granted to the women members of a low-income household who are in their productive age group (18 to 60 years) for income generating purposes which could be a new micro-enterprise or an existing business

of the household. The REs ascertain the identity of the borrowers and indebtedness level based on their credit bureau report before granting the loan. Identity is verified mainly through Voter ID and Aadhaar but more recently, PAN verification by the REs has also started. A brief sketch of a typical microfinance borrower, based on the simple average of sample population on various aspects, is presented in **Table 2.1**.

The distribution of these characteristics of a typical borrower across various population groups (age, gender, social group, religion etc.) are further analysed in the sub-sections below.

Table 2.1: Typical microfinance borrower

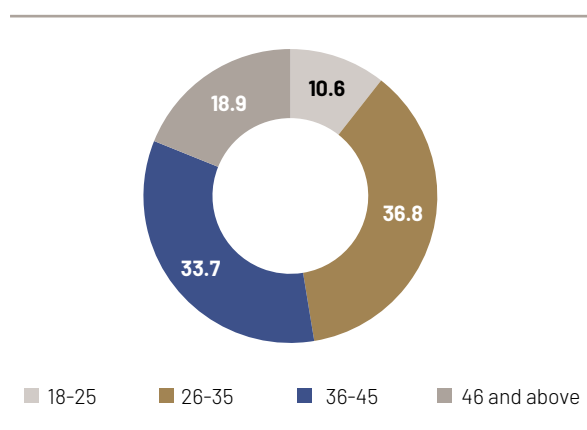
| | |
|------------------------------|-----------------------|
| Gender | Female |
| Age | 37 |
| Marital Status | Married |
| Education Level | Secondary |
| Household Size (Census) | 4.4 |
| Household Income | Rs 3.1 lakh per year |
| Income Role | Earning Member |
| Primary Household Occupation | Petty trade/ business |

2.1.1 Age distribution

The average age of a microfinance borrower is 37 years. In terms of age distribution, the largest share of borrowers (36.8%) was in the 26–35 age group, followed by those aged 36–45 (33.7%). Borrowers aged 46 and above constituted 18.9% of the total, while younger borrowers aged 18–25 made up 10.6% (**Figure 2.1**). This indicates that the majority of borrowers were between 26 and 45 years of age, which broadly corresponds to the prime working-age group and is also the segment more likely to seek loans for income-generating activities.

⁸RBI, November 28, 2025. RBI (Non-Banking Financial Companies – Credit Facilities) Directions, 2025

Figure 2.1: Age distribution (%)



Across states, age profiles were generally consistent with the average age of the borrower, with minor variations. **Table 2.2** shows that states having a high proportion of borrowers aged less than 35 years included

Assam (60.9%) and West Bengal (55.7%) while in Punjab (67.1%), Tamil Nadu (66.1%) and Karnataka (56.3%) majority of the borrowers were 46 years and above.

Further, borrowers from banks were found to be younger as compared with borrowers from SFBs and NBFC-MFIs. Rural borrowers were found to be younger as compared to urban borrowers. ST borrowers were younger or middle aged, while the other social groups have a higher proportion of middle to older age borrowers. Also, average age of uneducated borrowers and those who have attained primary level education is higher than the borrowers with higher educational qualifications. Borrowers from Q4 wealth quartile are mostly from older age groups. Borrowers of Q2 and Q3 quartiles are from younger age groups.

Table 2.2: Age distribution of borrowers (%)

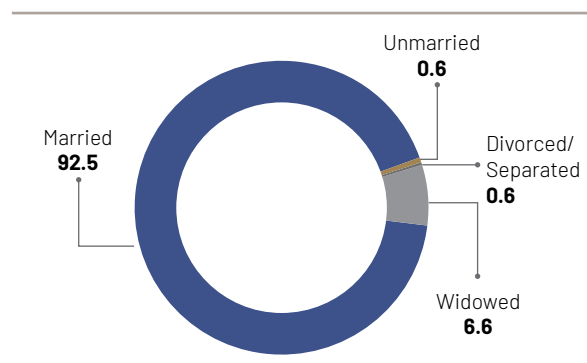
| Group | Age categories (years) | | | | Average age |
|----------------|------------------------|-------|-------|------|-------------|
| | 18-25 | 26-35 | 36-45 | >=46 | |
| State | | | | | |
| Assam | 16.5 | 44.4 | 27.9 | 11.3 | 34 |
| Bihar | 12.6 | 42.9 | 31.6 | 12.9 | 36 |
| Karnataka | 10.3 | 33.5 | 33.8 | 22.5 | 38 |
| Madhya Pradesh | 9.9 | 38.5 | 33.7 | 18.0 | 37 |
| Maharashtra | 4.9 | 40.3 | 37.3 | 17.6 | 38 |
| Punjab | 5.4 | 27.5 | 40.9 | 26.2 | 41 |
| Tamil Nadu | 6.4 | 27.4 | 35.3 | 30.8 | 40 |
| Telangana | 11.6 | 38.7 | 37.5 | 12.2 | 36 |
| Uttar Pradesh | 12.6 | 37.9 | 32.8 | 16.8 | 37 |
| West Bengal | 17.0 | 38.7 | 29.2 | 15.2 | 35 |
| Entity | | | | | |
| Bank | 11.3 | 41.4 | 32.2 | 15.2 | 36 |
| NBFC | 12.1 | 35.1 | 33.9 | 18.9 | 37 |
| NBFC-MFI | 10.8 | 36.2 | 32.9 | 20.2 | 38 |
| SFB | 8.7 | 33.4 | 37.3 | 20.6 | 38 |

| Group | Age categories (years) | | | | Average age |
|------------------------|------------------------|-------------|-------------|-------------|-------------|
| | 18-25 | 26-35 | 36-45 | >=46 | |
| Location | | | | | |
| Rural | 11.4 | 38.1 | 33.1 | 17.5 | 37 |
| Urban | 9.1 | 34.1 | 35.1 | 21.7 | 38 |
| Social group | | | | | |
| SC | 10.0 | 36.4 | 34.3 | 19.2 | 38 |
| ST | 11.6 | 37.0 | 36.4 | 15.0 | 37 |
| OBC | 10.3 | 37.1 | 34.2 | 18.4 | 37 |
| General | 11.6 | 36.9 | 32.0 | 19.5 | 37 |
| Education | | | | | |
| Uneducated | 4.9 | 25.6 | 40.1 | 29.3 | 41 |
| Primary | 6.0 | 30.4 | 36.2 | 27.5 | 40 |
| Secondary | 13.2 | 42.0 | 32.8 | 12.0 | 35 |
| HS & above | 21.6 | 54.3 | 18.7 | 5.4 | 32 |
| Wealth quartile | | | | | |
| Q1 | 6.0 | 30.4 | 36.2 | 27.5 | 36 |
| Q2 | 13.2 | 42.0 | 32.8 | 12.0 | 37 |
| Q3 | 21.6 | 54.3 | 18.7 | 5.4 | 38 |
| Q4 | 4.9 | 25.6 | 40.1 | 29.3 | 38 |
| Overall | 10.6 | 36.8 | 33.7 | 18.9 | 37 |

2.1.2 Marital status

Figure 2.2 summarises the distribution of borrowers as married, unmarried, divorced/separated or widowed. A high majority of the borrowers are married (92.5%), with smaller proportions being unmarried, divorced, or widowed.

Figure 2.2: Marital status(%)



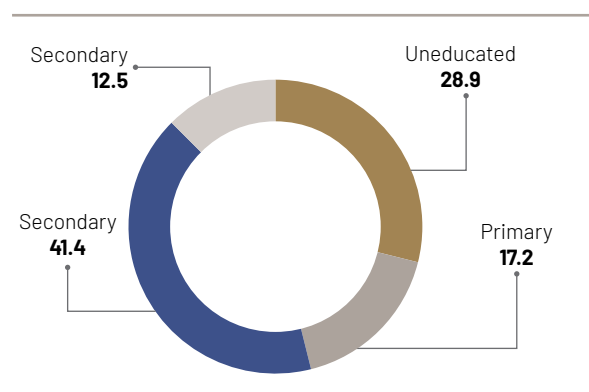
2.1.3 Education status

Borrowers are categorised as uneducated (cannot read or write), primary (classes 1–5), secondary (classes 6–10), or higher secondary and above (classes 11–12 or higher). Overall, 28.9% are uneducated, 17.2% have primary education, 41.4% have secondary education, and 12.5% have higher secondary or above (**Figure 2.3**). As such, borrowers having low (primary) or no educational attainment, account for 46% of the sample.

Table 2.3 shows that Bihar, Uttar Pradesh, and Telangana had the highest shares of uneducated borrowers (58.2%, 48.9% & 39.2% respectively). In contrast, Maharashtra (4%) followed by Tamil Nadu (14.3%) had the lowest shares of uneducated borrowers and higher proportions with secondary education

(52.3% & 48.4% respectively), reflective of the different stages of social and economic development of these states. By lending institution, the share of uneducated borrowers was highest among NBFCs (39.9%), followed by NBFC-MFIs which implies that these REs are reaching out to more remote areas, where the borrower's educational attainment may be lower.

Figure 2.3: Level of education (%)



In terms of location, rural borrowers had a higher proportion of uneducated borrowers

(32.8%) compared to urban borrowers (20.7%). Urban borrowers also had a higher representation in secondary and higher secondary education categories.

Across social groups, STs (36.8%) and SCs (32.4%) had a higher share of uneducated borrowers, while borrowers from the General category had the lowest share of illiteracy (20.7%) and the highest concentration in secondary (46.7%) and higher education (13.1%).

By wealth quartile, a clear pattern is observed between education and economic standing. Proportion of uneducated borrowers is highest in the lowest wealth quartile and decreases from the lowest to the highest quartile (18.4–47.3%). In the lowest quartile, 47.3% of borrowers were uneducated, and only 4.9% had completed education beyond the secondary level. In comparison, among borrowers in the highest quartile, the share of uneducated borrowers was lower at 18.4%, while 19.6% had attained higher secondary education or above.

Table 2.3: Education status of borrowers (%)

| Group | Uneducated | Primary | Secondary | HS or above |
|----------------|------------|---------|-----------|-------------|
| State | | | | |
| Assam | 16.8 | 12.4 | 58.9 | 11.9 |
| Bihar | 58.2 | 10.7 | 26.0 | 5.1 |
| Karnataka | 19.9 | 17.3 | 50.1 | 12.7 |
| Madhya Pradesh | 32.9 | 21.6 | 37.2 | 8.2 |
| Maharashtra | 4.0 | 22.4 | 52.3 | 21.3 |
| Punjab | 26.4 | 15.9 | 42.0 | 15.7 |
| Tamil Nadu | 14.3 | 18.4 | 48.4 | 18.9 |
| Telangana | 39.2 | 10.8 | 35.0 | 15.1 |
| Uttar Pradesh | 48.9 | 16.8 | 26.3 | 8.1 |
| West Bengal | 17.3 | 24.9 | 47.6 | 10.2 |
| Entity | | | | |
| Bank | 28.6 | 16.4 | 42.7 | 12.3 |
| NBFC | 39.9 | 14.7 | 33.3 | 12.1 |
| NBFC-MFI | 29.6 | 18.1 | 41.1 | 11.1 |
| SFB | 22.5 | 17.5 | 44.3 | 15.7 |

| Group | Uneducated | Primary | Secondary | HS or above |
|------------------------|-------------|-------------|-------------|-------------|
| Location | | | | |
| Rural | 32.8 | 17.4 | 38.7 | 11.2 |
| Urban | 20.7 | 16.9 | 47.2 | 15.2 |
| Social group | | | | |
| SC | 32.4 | 17.1 | 37.8 | 12.8 |
| ST | 36.8 | 17.0 | 37.5 | 8.7 |
| OBC | 30.8 | 15.7 | 41.4 | 12.2 |
| General | 20.7 | 19.4 | 46.7 | 13.1 |
| Wealth quartile | | | | |
| Q1 | 47.3 | 16.0 | 31.8 | 4.9 |
| Q2 | 29.0 | 19.3 | 39.9 | 11.8 |
| Q3 | 20.3 | 18.3 | 47.4 | 14.0 |
| Q4 | 18.4 | 15.3 | 46.7 | 19.6 |
| Overall | 28.9 | 17.2 | 41.4 | 12.5 |

2.1.4 Possession of identification documents

KYC is a mandatory process for any account-based relationship (banking, insurance, mutual fund, pension etc.) with a customer to verify their identity and address. It involves verification and submission of Officially Valid Documents (OVDs) like the Voter Card, Aadhaar card, Passport etc. to prevent fraud and money laundering. Similarly, PAN (or Form 60 for those who do not have PAN), though not an OVD, is mandatory for account opening for the purpose of tracking financial transactions and tax compliance.

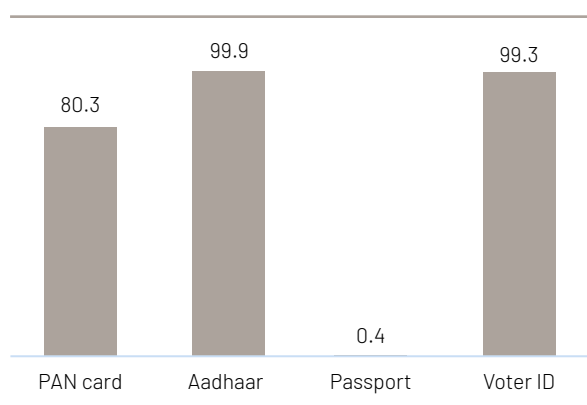
To understand the possession of these documents by the borrowers, data collected during the study showed that Aadhaar and Voter ID are nearly universally held and close to 100% borrowers reported the same across all states and borrower categories. About 80%

of borrowers reported owning a PAN card (**Figure 2.4**), signifying that it can serve as a unique identifier for a microfinance borrower in combination with Voter ID since Aadhaar number cannot be stored or reported to the credit bureaus for deduplication of customers. The practice of PAN data collection and seeding with credit bureaus has been recently started by the REs for microfinance loans.

PAN card coverage shows notable variation, reflecting underlying differences in access to formal financial identification. Ownership of PAN card is notably high in states such as Punjab, Telangana, and Karnataka (more than 90%), but substantially lower in others like Uttar Pradesh, West Bengal, Bihar, Maharashtra and Madhya Pradesh, ranging from 68% to 75%. These differences may relate to varying levels of financial inclusion across states and differing documentation norms required by REs (**Table 2.4**).



Figure 2.4: Ownership of identity documents



Borrowers associated with SFBs (84.7%) and banks (81.7%) show higher levels of PAN card ownership compared to those borrowing from NBFCs (71.9%) and NBFC-MFIs (78.8%). This pattern suggests that entities with stricter formalisation requirements either attract borrowers with PAN or facilitates its acquisition during the loan process. A similar gradient is observed between urban and rural borrowers. While 88.2% of urban borrowers report owning a PAN card, the figure drops to 75.9% in rural areas. Education also plays a role - PAN ownership increases with higher

levels of education, rising from 73.1% among uneducated borrowers to 84.5% among those with higher secondary education. Borrowers with primary and secondary education report 80.3% and 83.5% ownership, respectively. This steady increase suggests that higher educational attainment is associated with greater access to formal financial documentation such as PAN cards.

Wealth is another clear determinant of possession of identity documents. PAN card ownership rises steadily across wealth quartiles, from 75% in the poorest quartile (Q1) to 94.5% in the richest (Q4). This steep incline emphasizes how formal identification is closely linked to financial capacity and access.

In contrast, ownership of other documents, such as passports and MGNREGA cards, is more limited and uneven. Passports are held by only 0.4% of borrowers overall, with no population group exceeding 3%. MGNREGA card ownership, at 18.7%, is more concentrated among rural, less-educated, and poorer borrowers ranging from 4.4% in Q4 to 26.7% in Q1.

Table 2.4: Ownership of identity documents (%)

| Group | PAN card | Aadhaar | Passport | MGNREGA | Voter ID |
|----------------|----------|---------|----------|---------|----------|
| State | | | | | |
| Assam | 83.4 | 100.0 | 2.7 | 37.5 | 100.0 |
| Bihar | 73.8 | 99.8 | 0.3 | 22.4 | 98.8 |
| Karnataka | 90.9 | 100.0 | 0.1 | 0.2 | 100.0 |
| Madhya Pradesh | 74.5 | 100.0 | 0.1 | 5.7 | 99.0 |
| Maharashtra | 74.1 | 100.0 | 0.1 | 9.0 | 99.3 |
| Punjab | 93.4 | 100.0 | 0.7 | 36.1 | 100.0 |
| Tamil Nadu | 87.6 | 99.8 | 0.0 | 14.3 | 99.3 |
| Telangana | 92.5 | 100.0 | 1.2 | 30.6 | 99.5 |
| Uttar Pradesh | 67.5 | 100.0 | 0.0 | 19.4 | 99.0 |
| West Bengal | 72.6 | 99.9 | 0.1 | 37.9 | 98.5 |
| Entity | | | | | |
| Bank | 81.7 | 100.0 | 1.0 | 22.3 | 99.0 |
| NBFC | 71.9 | 100.0 | 0.1 | 25.0 | 99.2 |
| NBFC-MFI | 78.8 | 99.9 | 0.2 | 19.3 | 99.5 |
| SFB | 84.7 | 100.0 | 0.2 | 11.0 | 99.2 |

| Group | PAN card | Aadhaar | Passport | MGNREGA | Voter ID |
|------------------------|-------------|-------------|------------|-------------|-------------|
| Location | | | | | |
| Rural | 75.9 | 99.9 | 0.4 | 24.8 | 99.2 |
| Urban | 88.2 | 100.0 | 0.3 | 7.6 | 99.5 |
| Social group | | | | | |
| SC | 81.6 | 100.0 | 0.4 | 22.8 | 99.5 |
| ST | 75.1 | 100.0 | 0.3 | 19.3 | 99.2 |
| OBC | 79.7 | 99.9 | 0.3 | 15.8 | 99.2 |
| General | 80.3 | 99.9 | 0.4 | 17.5 | 99.2 |
| Education | | | | | |
| Uneducated | 73.1 | 99.9 | 0.2 | 24.5 | 99.5 |
| Primary | 80.3 | 99.9 | 0.4 | 18.3 | 99.3 |
| Secondary | 83.5 | 100.0 | 0.4 | 17.4 | 99.2 |
| HS & above | 84.5 | 100.0 | 0.7 | 11.5 | 99.2 |
| Wealth quartile | | | | | |
| Q1 | 75.0 | 98.3 | 0.0 | 26.7 | 96.7 |
| Q2 | 79.0 | 100.0 | 0.0 | 23.7 | 97.4 |
| Q3 | 88.4 | 100.0 | 2.3 | 20.9 | 97.7 |
| Q4 | 94.5 | 100.0 | 1.1 | 4.4 | 100.0 |
| Overall | 80.3 | 99.9 | 0.4 | 18.7 | 99.3 |

2.2 Socio-demographic characteristics

This sub-section presents the demographic profile of microfinance borrower households, offering insights into their household composition and social background. The analysis covers characteristics such as household type (nuclear or joint) and size, social group and religion. These indicators help contextualize the borrower segment and provide a clearer understanding of the population accessing microfinance services. Data is disaggregated by state, type of RE, and, where relevant, by rural and urban classification to reflect variations across geographies and lending institutions.

2.2.1 Household type (Nuclear vs. Joint) and size

In the survey, household size for microfinance borrowers was recorded using two different definitions. The first follows the RBI definition of microfinance loans as highlighted in Section 2.1. The second follows the Census of India definition, which considers a household to include all individuals living under one roof and sharing a common kitchen for at least six months during the past year. The Census-based definition is particularly important, as it more accurately reflects the household's economic unit – including all members contributing to or dependent on shared income and expenditure.



For the purpose of the survey, households were classified as nuclear when the household size was the same under both the RBI and Census definitions, and as joint when additional members were present, such that the Census definition yielded a larger household size than the RBI definition. The majority of microfinance borrower households in the sample live in nuclear family setups, with 76.1% identified as nuclear and the remaining 24% as joint families (Table 2.5). In southern states such as Karnataka (90.1%), Telangana (86.9%), and Tamil Nadu (82.9%), nuclear families are most common. In contrast, states like Madhya Pradesh (36.9%), Punjab (32.9%), and West Bengal (30.3%) have relatively higher proportions of joint families. The average household size among borrowers, as per the RBI definition, is 3.8 members, which is consistently lower than the respective state-level averages reported as per the Census definition. For example, in Bihar, the average borrower household size is 4.7, compared to the Census figure of 5.4, and in Uttar Pradesh, it is 4.5 compared to 5.2 – showing that these states have relatively higher proportion of joint families.

Table 2.5: State-wise household type and size

| State | Nuclear family (% HH) | Joint family (% HH) | HH size (RBI definition) | HH size (Census definition) | Total HH |
|----------------|-----------------------|---------------------|--------------------------|-----------------------------|---------------|
| Assam | 77.9 | 22.1 | 3.7 | 4.2 | 620 |
| Bihar | 72.6 | 27.4 | 4.7 | 5.4 | 1,530 |
| Karnataka | 90.1 | 9.9 | 3.5 | 3.7 | 1,267 |
| Madhya Pradesh | 63.1 | 36.9 | 3.8 | 4.8 | 841 |
| Maharashtra | 67.6 | 32.4 | 3.4 | 4.1 | 1,047 |
| Punjab | 67.1 | 32.9 | 3.8 | 4.6 | 553 |
| Tamil Nadu | 82.9 | 17.1 | 3.4 | 3.7 | 1,524 |
| Telangana | 86.9 | 13.2 | 3.4 | 3.7 | 715 |
| Uttar Pradesh | 75.5 | 24.6 | 4.5 | 5.2 | 1,230 |
| West Bengal | 69.6 | 30.3 | 3.4 | 4.1 | 1,015 |
| Overall | 76.0 | 24.0 | 3.8 | 4.4 | 10,342 |

Across all entity types, nuclear families are more common, with the proportion ranging from 75.1% among NBFC-MFI borrowers to 78.7% among NBFC borrowers (Table 2.6). When viewed by location, urban borrowers have a higher proportion of nuclear households (80.3%) compared to rural (73.9%). This suggests that family structures among microfinance borrowers reflect broader urban-rural patterns, with joint families more prevalent in rural areas.

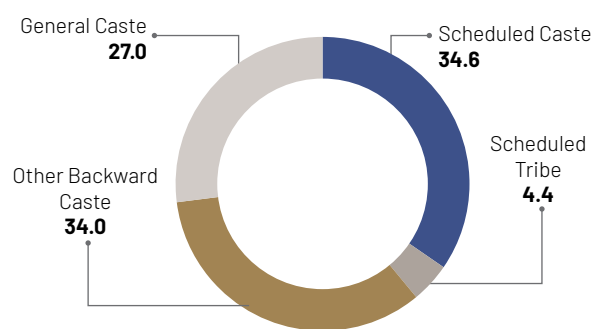
Table 2.6: Household type by population groups (%)

| Group | Nuclear family (% HH) | Joint family (% HH) |
|-----------------|-----------------------|---------------------|
| Entity | | |
| Bank | 75.8 | 24.3 |
| NBFC | 78.7 | 21.3 |
| NBFC-MFI | 75.1 | 24.9 |
| SFB | 77.2 | 22.8 |
| Location | | |
| Rural | 73.9 | 26.1 |
| Urban | 80.3 | 19.6 |
| Overall | 76.0 | 24.0 |

2.2.2 Social group

In the survey sample, about two-thirds of microfinance borrowers belong to historically

Figure 2.5: Social group (%)



disadvantaged communities, including SC (34.6%), OBC (34.0%) and ST (4.4%) while General category borrowers make up 27.0% of the total (**Figure 2.5**).

There is considerable variation across states (**Table 2.7**). In the sample, the share of SC borrowers is high in Punjab (65.1%), Uttar Pradesh (44.8%), Telangana (43.8%), and Tamil Nadu (40.7%). States having a higher proportion of ST households are Madhya Pradesh (17.5%), Telangana (11.1%), and Karnataka (5.9%), while their presence is very limited in states such as Punjab, Uttar Pradesh and Bihar (less than 1%). Borrowers from the General category are relatively more represented in West Bengal (51.9%) and Assam (46.5%).

Table 2.7: Social group (%)

| Group | SC | ST | OBC | General |
|------------------|------|------|------|---------|
| State | | | | |
| Assam | 20.5 | 4.8 | 28.2 | 46.5 |
| Bihar | 23.7 | 0.5 | 53.1 | 22.7 |
| Karnataka | 33.1 | 5.9 | 33.6 | 27.4 |
| Madhya Pradesh | 31.6 | 17.5 | 42.5 | 8.4 |
| Maharashtra | 17.9 | 5.8 | 43.8 | 32.5 |
| Punjab | 65.1 | 0.0 | 12.7 | 22.2 |
| Tamil Nadu | 40.7 | 2.6 | 24.4 | 32.4 |
| Telangana | 43.8 | 11.1 | 21.7 | 23.5 |
| Uttar Pradesh | 44.8 | 0.1 | 48.3 | 6.8 |
| West Bengal | 36.5 | 2.0 | 9.7 | 51.9 |
| Entity | | | | |
| Bank | 27.1 | 4.2 | 38.2 | 30.5 |
| NBFC | 40.1 | 7.1 | 31.9 | 20.9 |
| NBFC-MFI | 38.9 | 3.5 | 30.5 | 27.1 |
| SFB | 32.1 | 5.5 | 37.4 | 25.0 |
| Location | | | | |
| Rural | 37.9 | 5.0 | 30.9 | 26.1 |
| Urban | 27.7 | 3.2 | 40.5 | 28.7 |
| Education | | | | |
| Uneducated | 38.7 | 5.7 | 36.3 | 19.3 |
| Primary | 34.3 | 4.4 | 30.9 | 30.4 |
| Secondary | 31.6 | 4.0 | 34.0 | 30.4 |
| HS & above | 35.4 | 3.1 | 33.2 | 28.4 |

| Group | SC | ST | OBC | General |
|------------------------|-------------|------------|-------------|-------------|
| Wealth quartile | | | | |
| Q1 | 37.3 | 4.5 | 32.3 | 26.0 |
| Q2 | 37.3 | 5.6 | 31.4 | 25.8 |
| Q3 | 32.6 | 4.8 | 34.3 | 28.3 |
| Q4 | 31.1 | 2.9 | 38.4 | 27.7 |
| Overall | 34.6 | 4.4 | 34.0 | 27.0 |

In the sample, borrowers associated with NBFCs (40.1%) and NBFC-MFIs (38.9%) include a higher share of SC borrowers compared to those served by banks (27.1%) or SFBs (32.1%). This reflects the role of microfinance, especially NBFCs and NBFC-MFIs, in extending access to credit among less privileged social groups – and these are also population groups having a lower educational attainment. OBC representation is highest among bank clients (38.2%), while the General category share is more evenly distributed across institutions.

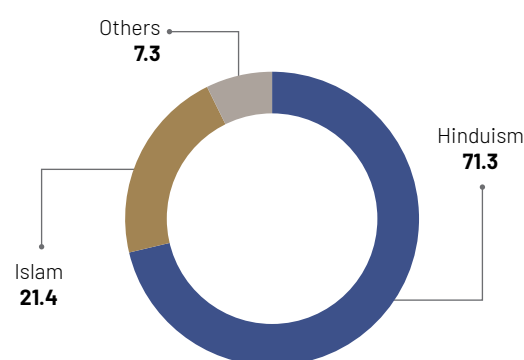
Urban and rural patterns are also visible. SC and ST borrowers account for a higher share of rural respondents (37.9% and 5.0%, respectively), while OBCs and General category borrowers make up relatively larger shares in urban areas. Educational attainment and wealth also show some relation - SC borrowers have the highest share among uneducated households (38.7%), and their share declines modestly with increasing levels of education and wealth. On the other hand, the share of General category borrowers is somewhat higher in the top education and wealth groups.

2.2.3 Religion

Overall, seven out of every ten borrowers in the survey sample reported following Hinduism.

About one in five mentioned Islam, while the remaining 7.3% followed Sikhism, Christianity, Buddhism, Jainism or other religions (**Figure 2.6**). This almost mirrors the distribution of the population by religion as per the last [Census 2011](#) – 79.8% Hindus, and 14.2% Muslims.

Figure 2.6: Religion (%)



The distribution across states varied (**Table 2.8**). The share of Muslim borrowers was higher in states like Assam, West Bengal, and Karnataka. In Punjab, over six in ten borrowers reported following religions other than Hinduism or Islam. On the other hand, the share of Hindu borrowers was particularly high in Madhya Pradesh, Tamil Nadu, and Bihar.

Table 2.8: Religion of borrowers (%)

| Group | Hinduism | Islam | Others |
|---------------------|-------------|-------------|------------|
| State | | | |
| Assam | 60.8 | 38.7 | 0.5 |
| Bihar | 74.1 | 25.8 | 0.2 |
| Karnataka | 65.8 | 33.5 | 0.8 |
| Madhya Pradesh | 93.2 | 6.8 | 0.0 |
| Maharashtra | 72.8 | 16.6 | 10.6 |
| Punjab | 37.3 | 1.6 | 61.1 |
| Tamil Nadu | 84.8 | 5.9 | 9.4 |
| Telangana | 50.8 | 29 | 20.3 |
| Uttar Pradesh | 78.5 | 21.4 | 0.1 |
| West Bengal | 64.6 | 35.4 | 0.0 |
| Entity | | | |
| Bank | 66.8 | 29.6 | 3.6 |
| NBFC | 78.6 | 9.9 | 11.5 |
| NBFC-MFI | 70.1 | 22.6 | 7.2 |
| SFB | 75.8 | 14.4 | 9.9 |
| Location | | | |
| Rural | 73.0 | 18.9 | 8.1 |
| Urban | 67.8 | 26.6 | 5.5 |
| Social group | | | |
| SC | 86.4 | 0.3 | 13.2 |
| ST | 98.3 | 0.4 | 1.3 |
| OBC | 74.7 | 23.9 | 1.5 |
| General | 43.2 | 48.9 | 7.9 |
| Education | | | |
| Uneducated | 71.8 | 22.5 | 5.6 |
| Primary | 68.7 | 24 | 7.3 |
| Secondary | 71.2 | 21.8 | 7.1 |
| HS & above | 74.0 | 14.1 | 11.9 |
| Overall | 71.3 | 21.4 | 7.3 |

The rural–urban difference was also notable. In rural areas, about 73% of borrowers reported following Hinduism, and 18.9% followed Islam. In urban areas, the share of Hindu borrowers was lower (67.8%), while Muslim borrowers accounted for 26.6%.

Across social groups, the share of Hindu borrowers was highest among those from ST (98.3%) and SC (86.4%) households. Among General category borrowers, nearly half (48.9%) reported following Islam and 43.2% Hinduism.

In terms of educational attainment, Hindu borrowers formed the largest group across all education levels in the sample. The proportion of Muslim borrowers was relatively higher among those who were uneducated or had primary or secondary education. Among borrowers with higher secondary education or above, the share of Muslim borrowers was lower, while the proportion of other religion borrowers was relatively higher, though Hindus continued to form the majority in this group.

2.3 Household income

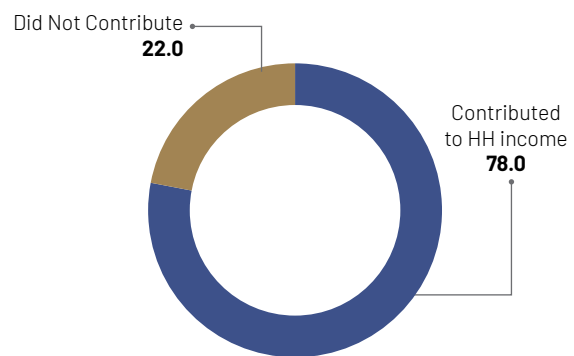
Microcredit is intended for low-income and financially vulnerable households, typically those without collateral, secure employment, or formal credit histories. In this context, understanding the structure and composition of borrower household incomes is essential. This section examines the income profile of borrower households, focusing on aspects that define their financial landscape such as borrowers’ contribution to household income, the number of earning members, sources of household income, and the overall income

levels. The analysis is segmented across states, entity types, and rural/urban locations to highlight significant variation. The analysis offers insight into how microfinance aligns with and supports the everyday income patterns of the households it serves.

2.3.1 Borrower’s contribution to household income

In the survey sample, almost four out of every five borrowers (78%) reported contributing to their household’s income, making them earning members of their respective households (**Figure 2.7**).

Figure 2.7: Contribution to HH income (%)



In states like Telangana, Maharashtra, Punjab, Madhya Pradesh, and Tamil Nadu, more than 80% of borrowers reported contributing to household income, indicating relatively high levels of economic participation among borrowers in these regions. In contrast, Bihar (41.6%), Assam (31.3%) and Karnataka (24.9%) had lowest proportion of borrowers not contributing to household income (**Table 2.9**).

Table 2.9: Borrowers' contribution to HH income

| Group | Contributed to HH income (%) | Did not contribute (%) | Sample |
|------------------------|------------------------------|------------------------|---------------|
| State | | | |
| Assam | 68.7 | 31.3 | 620 |
| Bihar | 58.4 | 41.6 | 1,530 |
| Karnataka | 75.1 | 24.9 | 1,267 |
| Madhya Pradesh | 85.3 | 14.7 | 841 |
| Maharashtra | 91.9 | 8.1 | 1,047 |
| Punjab | 88.1 | 11.9 | 553 |
| Tamil Nadu | 82.5 | 17.5 | 1,524 |
| Telangana | 92.9 | 7.1 | 715 |
| Uttar Pradesh | 77.3 | 22.7 | 1,230 |
| West Bengal | 78.0 | 22.0 | 1,015 |
| Entity | | | |
| Bank | 76.6 | 23.4 | 2,639 |
| NBFC | 80.6 | 19.5 | 1,013 |
| NBFC-MFI | 77.4 | 22.6 | 4,551 |
| SFB | 81.3 | 18.7 | 2,139 |
| Location | | | |
| Rural | 78.0 | 22.0 | 6,978 |
| Urban | 79.0 | 21.0 | 3,364 |
| Social group | | | |
| SC | 79.9 | 20.1 | 3,576 |
| ST | 88.0 | 12.0 | 459 |
| OBC | 76.6 | 23.4 | 3,519 |
| General | 75.6 | 24.4 | 2,788 |
| Education | | | |
| Uneducated | 73.8 | 26.3 | 2,987 |
| Primary | 82.3 | 17.7 | 1,781 |
| Secondary | 78.9 | 21.1 | 4,284 |
| HS & above | 79.1 | 20.9 | 1,290 |
| Wealth quartile | | | |
| Q1 | 71.6 | 28.4 | 2,636 |
| Q2 | 78.5 | 21.5 | 2,540 |
| Q3 | 80.6 | 19.4 | 2,707 |
| Q4 | 81.4 | 18.6 | 2,459 |
| Overall | 78.0 | 22.0 | 10,342 |

By type of lending institution and location, the share of borrowers contributing to household income was comparable to the overall average. For social groups, a relatively higher share of ST (88.0%) borrowers reported contributing, while other categories were close to overall average.

Borrower contribution also appears to increase with basic educational attainment. Among those with primary education, 82.3% reported contributing to income, compared to 73.8% among those who were uneducated. The share of borrowers with secondary or higher secondary education was around 79%. Finally, when viewed by wealth quartiles, the share of contributing borrowers rose steadily with household wealth, from 71.6% in the bottom quartile (Q1) to 81.4% in the top quartile (Q4). This suggests that a higher proportion of borrowers in relatively better-off households were income earners themselves.

2.3.2 Number of earning members and average annual HH income

Household income information in the survey was collected based on self-reported responses from borrowers. Borrowers were asked to state their household's average monthly income from all sources, which was then converted into annual income for analysis. No external estimation tools were used and the figures presented here reflect the respondents' own reporting.

At an overall level, the average household size was 3.8 members (as per RBI definition), with an average of 2 earning members per household. The average annual household income across all borrower households stood at Rs 3.1 lakh (**Table 2.10**). While RBI guidelines cap annual household income at Rs 3 lakh at the time of loan sanction, the income data in this survey reflects current earnings and may exceed this threshold for several reasons. These include overestimation of self-reported earnings during the survey, improved income over time, temporary or seasonal earnings, inaccurate estimation at the time

of loan application or changes in household composition (e.g., adult children starting to earn while still unmarried).

In 6 states, the average annual household income was Rs 3 lakh or more. Punjab reported the highest average annual household income at Rs 4.34 lakh, along with the highest number of earning members per household (2.4). Other states with relatively higher average annual household incomes include Tamil Nadu (Rs 3.79 lakh) and Telangana (Rs 3.37 lakh). Maharashtra (Rs 2.62 lakh) and Madhya Pradesh (Rs 2.78 lakh) reported the lowest average annual household incomes among the states covered, despite similar household sizes and number of earners.

Household income levels varied across different types of lending institutions. Borrowers linked to SFBs had the highest average annual household income at Rs 3.27 lakh, followed closely by those associated with NBFC-MFIs (Rs 3.13 lakh) and NBFCs (Rs 3.11 lakh). In comparison, households borrowing from banks reported slightly lower average annual household income of Rs 2.97 lakh. When comparing by location, urban borrower households had a slightly smaller average household size (3.7 members) than rural households (3.9) but reported higher average annual household income of Rs 3.21 lakh compared to Rs 3.05 lakh of rural households. In both settings, the average number of earning members per household was 2.

Looking at social groups, General category households reported the highest average income at Rs 3.26 lakh, followed by SC and OBC households, whose incomes were closer to the overall average. ST households, despite having a similar average number of earners, had the lowest average annual household income at Rs 2.68 lakh. Education appeared to be related with income. Borrowers with higher secondary & above education reported the highest average annual household income (Rs 3.46 lakh), while uneducated borrowers, even though they had slightly more earning members on average, had the lowest average annual household income (Rs 2.97 lakh).

Table 2.10: Average HH size, earners, and annual HH income

| Group | Av. HH size (RBI definition) | Av. No. of earning members per HH | Av. annual HH income (Rs) |
|---------------------|---------------------------------|--------------------------------------|------------------------------|
| State | | | |
| Assam | 3.7 | 1.8 | 2,98,074 |
| Bihar | 4.7 | 1.9 | 3,05,310 |
| Karnataka | 3.5 | 1.9 | 3,07,407 |
| Madhya Pradesh | 3.8 | 2.3 | 2,77,648 |
| Maharashtra | 3.4 | 2.1 | 2,62,189 |
| Punjab | 3.8 | 2.4 | 4,33,693 |
| Tamil Nadu | 3.4 | 2.0 | 3,79,080 |
| Telangana | 3.4 | 2.1 | 3,36,682 |
| Uttar Pradesh | 4.5 | 2.2 | 3,02,532 |
| West Bengal | 3.4 | 2.0 | 3,13,643 |
| Entity | | | |
| Bank | 3.9 | 2.0 | 2,96,508 |
| NBFC | 3.7 | 2.1 | 3,10,987 |
| NBFC-MFI | 3.9 | 2.1 | 3,12,868 |
| SFB | 3.7 | 2.1 | 3,26,676 |
| Location | | | |
| Rural | 3.9 | 2.0 | 304,699 |
| Urban | 3.7 | 2.0 | 3,21,375 |
| Social group | | | |
| SC | 3.8 | 2.1 | 3,09,816 |
| ST | 3.6 | 2.1 | 2,67,765 |
| OBC | 3.9 | 2.0 | 3,03,543 |
| General | 3.8 | 2.0 | 3,25,795 |
| Education | | | |
| Uneducated | 4.0 | 2.2 | 2,97,138 |
| Primary | 3.7 | 2.1 | 3,03,214 |
| Secondary | 3.8 | 2.0 | 3,15,637 |
| HS & above | 3.6 | 1.8 | 3,46,380 |



| Group | Av. HH size (RBI definition) | Av. No. of earning members per HH | Av. annual HH income (Rs) |
|------------------------|---------------------------------|--------------------------------------|------------------------------|
| Wealth quartile | | | |
| Q1 | 4.1 | 1.9 | 2,68,482 |
| Q2 | 3.8 | 2.1 | 2,89,999 |
| Q3 | 3.6 | 2.1 | 3,16,870 |
| Q4 | 3.7 | 2.1 | 3,68,120 |
| Overall | 3.8 | 2.0 | 3,10,123 |

A similar pattern was seen across wealth quartiles. Households in the top quartile (Q4) earned an average annual household income of Rs 3.68 lakh, whereas those in the bottom quartile (Q1) earned Rs 2.68 lakh. These patterns point to the layered nature of household income among borrowers, shaped by factors such as location, education, social group and type of earning opportunity. While most households have two earners, income levels remain tied to broader socio-economic conditions and occupations.

At an overall level, households had about 2 earning members supporting an average household size of 3.8 persons, though this balance varied. For instance, in Bihar 1.9 earners supported 4.7 members, whereas in Karnataka 1.9 earners supported only 3.5 members despite similar average annual household incomes. Larger family sizes with similar or fewer earners as in Bihar or families in the lowest wealth quartile suggest lower income available with households, compared to states or groups with smaller households relative to earners.

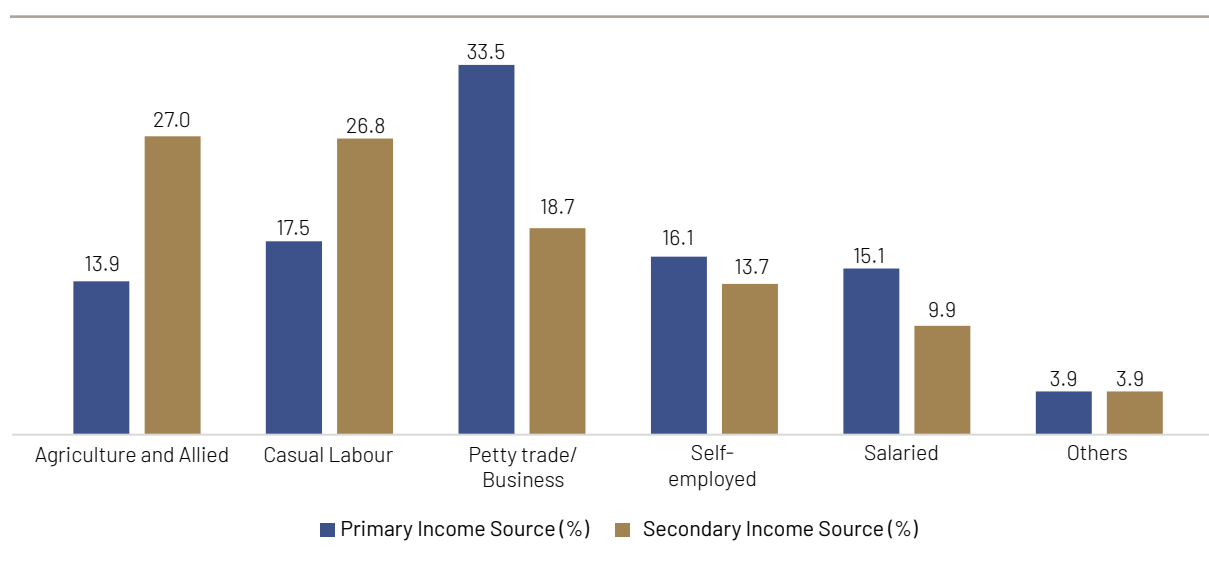
2.3.3 Major sources of household income

This section presents the primary and secondary income sources of borrower households, based on the reported occupations of household members. Borrowers were asked to indicate all occupations that household members are engaged in and then identify the main

and secondary sources of income. These occupations were then categorised into six main groups: Agriculture and Allied, Casual Labour, Petty Trade/Business, Self-employed, Salaried, and Others. The analysis is presented across various dimensions, including state, type of entity, location, social group, education level, and wealth quartile.

Petty trade or business, such as small retail shops, street vending, or home-based sales, was reported as the primary source of income by about one in every three households (33.5%). This highlights the presence of micro-entrepreneurship among borrower households. This is followed by casual labour, including daily wage work in agriculture, construction, or loading/unloading, which supported 17.5% of households. Self-employment, such as tailoring, carpentry, or running small service-based enterprises, accounted for 16.1%, while salaried jobs such as school teachers, government staff, or private employees were the main income for 15.1% households. Agriculture and allied activities, including cultivation and livestock rearing, formed the primary source for 13.9% of households. The "Others" category, which includes employment under schemes like MGNREGA, as well as occupations that could not be clearly grouped under the other five categories, such as temple workers, seasonal helpers, or miscellaneous manual jobs, was the primary source of income for 3.9% of households (**Figure 2.8**).

Figure 2.8: Primary vs secondary income sources of borrower HHs (%)



As secondary sources of income, agriculture and allied activities and casual labour were most commonly reported at about 27%, highlighting their role in supplementing household earnings. Other notable secondary sources included petty trade or business (18.7%), self-employment (13.7%), and salaried work (9.9%). The 'Others' category accounted for 3.9%, mirroring its share as a primary income source.

The primary income sources that were reported varied across states. Petty trade or business was the most commonly reported primary livelihood in West Bengal, Assam, Bihar, and Maharashtra (over 40%), indicating

a strong presence of micro-entrepreneurship. Casual labour was reported more in Tamil Nadu, Uttar Pradesh, and Karnataka, while agriculture and allied activities were more common in Madhya Pradesh, Telangana, and Uttar Pradesh. Salaried employment had a larger share in Punjab and Bihar (**Table 2.11**).

Across both rural and urban locations, petty trade/business emerges as the leading primary income source, though more pronounced in urban areas (44.1%). Rural households also report significant casual labour and agriculture, while urban households show relatively higher shares of salaried and self-employed income sources.

Table 2.11: Primary source of HH income (%)

| Group | Agri. & Allied | Casual labour | Petty trade/business | Self-employed | Salaried | Others |
|----------------|----------------|---------------|----------------------|---------------|----------|--------|
| State | | | | | | |
| Assam | 16.9 | 6.8 | 41.9 | 24.4 | 9.0 | 1.0 |
| Bihar | 9.0 | 13.7 | 40.2 | 12.2 | 21.4 | 3.5 |
| Karnataka | 6.2 | 22.7 | 31.1 | 25.3 | 4.0 | 10.8 |
| Madhya Pradesh | 23.3 | 7.3 | 19.3 | 19.6 | 19.9 | 10.7 |
| Maharashtra | 19.3 | 12.4 | 41.0 | 14.9 | 11.7 | 0.8 |
| Punjab | 15.9 | 11.4 | 16.6 | 18.3 | 36.0 | 1.8 |
| Tamil Nadu | 10.5 | 29.1 | 34.3 | 4.3 | 17.9 | 3.9 |

| Group | Agri. & Allied | Casual labour | Petty trade/ business | Self-employed | Salaried | Others |
|------------------------|----------------|---------------|-----------------------|---------------|-------------|------------|
| Telangana | 17.6 | 10.8 | 27.6 | 28.1 | 15.5 | 0.4 |
| Uttar Pradesh | 17.6 | 25.5 | 26.4 | 14.2 | 16.1 | 0.2 |
| West Bengal | 12.8 | 18.4 | 46.0 | 14.3 | 5.2 | 3.3 |
| Entity | | | | | | |
| Bank | 13.7 | 13.2 | 38.7 | 19.3 | 11.1 | 4.0 |
| NBFC | 21.5 | 29.3 | 23.4 | 13.3 | 11.9 | 0.5 |
| NBFC-MFI | 14.5 | 20.1 | 29.8 | 15.4 | 16.1 | 4.3 |
| SFB | 9.4 | 11.8 | 39.7 | 15.1 | 19.3 | 4.6 |
| Location | | | | | | |
| Rural | 18.3 | 21.7 | 28.4 | 14.1 | 14.9 | 2.6 |
| Urban | 4.9 | 8.8 | 44.1 | 20.3 | 15.3 | 6.6 |
| Social group | | | | | | |
| SC | 14.0 | 22.5 | 26.7 | 14.5 | 18.7 | 3.5 |
| ST | 31.2 | 17.4 | 24.6 | 15.7 | 8.7 | 2.4 |
| OBC | 13.8 | 12.9 | 37.1 | 17.8 | 14.1 | 4.3 |
| General | 11.1 | 16.9 | 39.2 | 16.2 | 12.6 | 4.1 |
| Education | | | | | | |
| Uneducated | 16.5 | 22.4 | 28.4 | 13.9 | 15.2 | 3.6 |
| Primary | 15.8 | 18.9 | 33.9 | 14.3 | 13.1 | 4.0 |
| Secondary | 12.4 | 15.1 | 36.2 | 18.0 | 14.0 | 4.4 |
| HS & above | 10.2 | 12.6 | 35.8 | 17.4 | 20.9 | 3.0 |
| Wealth quartile | | | | | | |
| Q1 | 19.0 | 25.4 | 26.5 | 13.4 | 12.9 | 2.8 |
| Q2 | 15.3 | 22.1 | 29.5 | 15.2 | 13.7 | 4.3 |
| Q3 | 12.7 | 14.3 | 40.7 | 15.8 | 12.1 | 4.4 |
| Q4 | 8.3 | 7.9 | 37.2 | 20.4 | 22.0 | 4.2 |
| Overall | 13.9 | 17.5 | 33.5 | 16.1 | 15.1 | 3.9 |

Similarly, petty trade or business was the common income source across all social groups, with higher shares among OBC (37.1%) and General category (39.2%) households. Casual labour was a more prominent source among SCs (22.5%) and STs (17.4%), while agriculture and allied work were higher among STs (31.2%).

A similar pattern was observed across education levels in which petty trade or

business was the leading source of income, including among uneducated borrowers (28.4%) and those with only primary education (33.9%). As education levels increased, the share of salaried income also rose, reaching around 21% among those with higher secondary education and above. Agriculture and allied work and casual labour were reported slightly more among the less educated. This suggests a gradual shift from

informal, labour-intensive work to more stable income sources with rising education.

Likewise, petty trade or business was the top income source across all wealth quartiles, with its share increasing in the upper quartiles. Casual labour and agriculture were common in lower wealth groups (Q1 and Q2), particularly in the poorest quartile, where one in four households cited involvement in casual work. Salaried jobs were found to be higher among households in the top wealth quartile (22%), reflecting a link between economic status and access to formal employment.

Secondary income sources varied across groups (**Table 2.12**). Overall, agriculture

and casual labour were the most common activities, especially in states like Assam, Bihar, Uttar Pradesh, and West Bengal. Petty trade or business appeared more in Karnataka, while salaried work had higher shares in Madhya Pradesh and Punjab. Among rural households, agriculture and casual labour were frequently reported, whereas urban households more often reported petty trade and self-employment as secondary sources. Secondary income sources also shifted with wealth and education: poorer and less educated borrowers leaned more on agriculture and casual labour, while salaried and self-employed roles increased with higher education and wealth.

Table 2.12: Secondary source of HH income (%)

| Group | Agri. & Allied | Casual labour | Petty trade/ business | Self-employed | Salaried | Others |
|-----------------|----------------|---------------|-----------------------|---------------|----------|--------|
| State | | | | | | |
| Assam | 49.9 | 13.3 | 15.8 | 14.7 | 4.5 | 1.8 |
| Bihar | 42.7 | 22.5 | 16.6 | 7.2 | 8.7 | 2.4 |
| Karnataka | 7.6 | 15.3 | 43.3 | 23.1 | 2.8 | 8.0 |
| Madhya Pradesh | 15.2 | 15.5 | 18.3 | 14.5 | 23.6 | 12.9 |
| Maharashtra | 20.2 | 31.5 | 20.2 | 12.0 | 15.2 | 0.8 |
| Punjab | 19.5 | 20.4 | 9.2 | 24.3 | 22.3 | 4.4 |
| Tamil Nadu | 13.6 | 35.7 | 17.9 | 11.6 | 11.4 | 9.8 |
| Telangana | 8.0 | 44.0 | 24.0 | 19.6 | 3.7 | 0.7 |
| Uttar Pradesh | 42.3 | 25.2 | 15.7 | 11.4 | 5.0 | 0.5 |
| West Bengal | 29.0 | 38.7 | 14.7 | 12.6 | 3.9 | 1.1 |
| Entity | | | | | | |
| Bank | 31.5 | 25.9 | 18.0 | 14.7 | 7.2 | 2.7 |
| NBFC | 28.7 | 38.1 | 13.7 | 11.9 | 5.4 | 2.2 |
| NBFC-MFI | 29.3 | 26.5 | 19.0 | 12.2 | 9.2 | 3.8 |
| SFB | 15.3 | 23.4 | 21.4 | 16.3 | 17.1 | 6.6 |
| Location | | | | | | |
| Rural | 34.8 | 29.9 | 14.0 | 10.2 | 7.8 | 3.4 |
| Urban | 4.5 | 18.0 | 32.3 | 23.8 | 16.0 | 5.5 |

| Group | Agri. & Allied | Casual labour | Petty trade/ business | Self-employed | Salaried | Others |
|------------------------|----------------|---------------|-----------------------|---------------|------------|------------|
| Social group | | | | | | |
| SC | 26.9 | 30.1 | 15.6 | 12.7 | 9.4 | 5.3 |
| ST | 31.1 | 39.2 | 10.5 | 7.0 | 9.9 | 2.3 |
| OBC | 27.6 | 22.6 | 21.3 | 13.7 | 10.8 | 4.1 |
| General | 25.5 | 25.3 | 21.6 | 16.5 | 9.3 | 1.8 |
| Education | | | | | | |
| Uneducated | 25.0 | 30.5 | 18.5 | 12.7 | 9.0 | 4.3 |
| Primary | 23.4 | 24.6 | 21.2 | 15.8 | 10.8 | 4.2 |
| Secondary | 21.9 | 19.9 | 24.3 | 18.5 | 12.0 | 3.4 |
| HS & above | 34.9 | 30.4 | 13.4 | 9.5 | 8.3 | 3.5 |
| Wealth quartile | | | | | | |
| Q1 | 48.4 | 26.0 | 11.4 | 6.4 | 5.0 | 2.8 |
| Q2 | 25.7 | 35.7 | 15.7 | 10.5 | 7.6 | 4.7 |
| Q3 | 19.4 | 24.9 | 24.7 | 16.9 | 9.9 | 4.3 |
| Q4 | 10.3 | 20.6 | 24.5 | 22.4 | 18.1 | 4.1 |
| Overall | 27.0 | 26.8 | 18.7 | 13.7 | 9.9 | 3.9 |

2.4 Household expenditure

Household expenditures include expenditure on food and non-food items consumed by all the members of household during the last one month or year preceding the date of survey. Each borrower household was surveyed on the food and non-food expenditure incurred in the last month (before survey) and on the non-routine expenditures (including other non-routine items) in the last year (before survey date). Since the survey did not include a detailed itemised expenditure, the components of expenses in a particular category were described to the borrower for an approximate estimate of expenditure and converted to monthly per capita expenditure (MPCE).

MPCE serves as a critical indicator of living standards, reflecting a household's ability to meet basic needs and discretionary spending. It is a commonly used indicator to understand household consumption levels. It is the average monthly expenditure per household member, calculated by dividing total household expenditure by the number

of household members. In this context, the MPCE was calculated by taking the total annual household expenditure, excluding investments, converting it into a monthly amount, and dividing it by the household size as per the Census of India definition.

- **Food expenditures** included cereals, pulses, sugar, oil, spices, fruits, vegetables, milk & milk products, meat, egg, fish, tea, coffee, pan, tobacco, snacks, food from restaurants & gas/ cooking fuel, etc.
 - Overall, the MPCE on food was Rs 1,507.
 - States that have a higher than average MPCE on food include Tamil Nadu (Rs 2,015), Karnataka (Rs 1,894) and Assam (Rs 1,823), while Madhya Pradesh (Rs 1,053), Uttar Pradesh (Rs 1,180) and Maharashtra (Rs 1,147) have a lower than average MPCE on food.
- **Non-food expenditures** on items such as school/college fees, tuition fees, uniforms, books, stationery, transport,

hostel fee, regular health expenses, electricity, water, house rent, toiletry and cosmetics, phone/internet charges, cable/dish TV, public transport, vehicle fuel, entertainment including cinema/theatre/ picnic, repair/maintenance were probed.

- Overall, the MPCE on non-food items was Rs 1,723.
- States that have a higher than average MPCE on non-food items include Tamil Nadu (Rs 2,559) and Karnataka (Rs 2,074), while Madhya Pradesh (Rs 1,123), Assam (Rs 1,147), Uttar Pradesh (Rs 1,395) and West Bengal (Rs 1,573) have a lower than average MPCE on non-food items.
- **Non-routine expenditures** such as clothing, footwear, furniture, electric appliances, mobile phone, cooking utensils, house repair/renovation, etc. were probed.
 - Overall, the MPCE on non-routine items was Rs 227.
 - States that have a higher than average MPCE on non-routine items include Tamil Nadu (Rs 322) and Punjab (Rs 287), while Bihar (Rs 120) and Madhya Pradesh (Rs 165) have lower than average MPCE on other nonroutine items.
- **Other non-routine expenditures** such as hospitalization, onetime expenses on education, travel (leisure, holidays, pilgrimage, religious), legal expenditure, purchase of two-wheeler/four-wheeler etc. were probed.
 - Overall, the MPCE on other non-routine items was Rs 285.
 - States that have a higher than average MPCE on other non-routine items include Tamil Nadu (Rs 478) and Punjab (Rs 447), while Bihar (Rs 150), Karnataka (Rs 186) and Assam (Rs 186)

have lower than MPCE on other non-routine items.

MPCE across all borrower households in the sample was calculated to be Rs 3,742. Disaggregated by sector, the average MPCE was Rs 3,504 in rural areas and Rs 4,237 in urban areas. As per the latest Household Consumption Expenditure Survey (HCES) 2023-24⁹ by the Ministry of Statistics and Programme Implementation (MoSPI), the average MPCE stood at Rs 4,122 in rural areas and Rs 6,996 in urban areas at the all-India level. The MPCE values observed in the sample are therefore lower than the corresponding national averages reported in the HCES, which is expected, as the study focuses on households receiving microfinance loans, with most borrowers belonging to low-income segments and relying on small-scale or informal sources of livelihood. **Table 2.13** provides details of monthly per capita expenditure.

There were clear variations in MPCE across states. Tamil Nadu reported the highest average MPCE at Rs 5,373, followed by Karnataka (Rs 4,360) and Punjab (Rs 4,302). States, where the MPCE for the borrower households were lower, included Madhya Pradesh (Rs 2,594), Bihar (Rs 2,908) and Uttar Pradesh (Rs 3,142).

When viewed by type of lending institution, households borrowing from SFBs had the highest MPCE (Rs 4,232), followed by those borrowing from NBFCs (Rs 3,769). Bank borrowers reported a relatively lower MPCE of Rs 3,434. Furthermore, urban households had a significantly higher MPCE (Rs 4,237) than rural ones (Rs 3,504), reflecting typical patterns of higher living costs and consumption in urban areas. MPCE was found to be the highest for General caste borrowers (Rs 3,912) and lowest for ST borrowers (Rs 3,192). It is also seen to increase from uneducated borrowers (Rs 3,407) to borrowers with higher secondary level education and higher educational attainment (Rs 4,053).

⁹ August 2023 – July 2024, MoSPI, GoI. "Household Consumption Expenditure Survey: 2023-24 Fact Sheet"



Among social groups, the General category borrowers have a higher MPCE (Rs 3,912), reflecting greater economic capacity, followed closely by the SC borrowers at Rs 3,826. OBC borrowers (Rs 3,594) and ST borrowers (Rs 3,192) have lower MPCE, with ST showing the least spending capacity. Borrowers with higher secondary education report the highest MPCE (Rs 4,053), indicating better financial literacy and income potential. Secondary-educated (Rs 3,851) and primary-educated (Rs 3,818) borrowers show moderate MPCE, while

uneducated borrowers have the lowest (Rs 3,407).

MPCE was found to increase from the lowest (Rs 3,142) to the third quartile (Rs 4,110) and fourth quartile (Rs 4,103) which are near about the same, reflecting greater economic capacity due to higher income (Table 2.10) than other quartiles. The first quartile (Q1) has the lowest MPCE at Rs 3,142, mainly driven by limited income, typical of rural, low-income households with constrained spending on essentials.

Table 2.13: Monthly per capita expenditure (Rs)

| Group | Food | Non-food | Non-routine | Other non-routine | MPCE |
|---------------------|-------|----------|-------------|-------------------|-------|
| State | | | | | |
| Assam | 1,823 | 1,147 | 216 | 183 | 3,369 |
| Bihar | 1,130 | 1,507 | 120 | 150 | 2,908 |
| Karnataka | 1,894 | 2,074 | 205 | 186 | 4,360 |
| Madhya Pradesh | 1,053 | 1,123 | 165 | 253 | 2,594 |
| Maharashtra | 1,180 | 1,725 | 252 | 263 | 3,420 |
| Punjab | 1,703 | 1,865 | 287 | 447 | 4,302 |
| Tamil Nadu | 2,015 | 2,559 | 322 | 478 | 5,373 |
| Telangana | 1,659 | 1,655 | 281 | 300 | 3,895 |
| Uttar Pradesh | 1,147 | 1,395 | 248 | 353 | 3,142 |
| West Bengal | 1,570 | 1,573 | 209 | 254 | 3,607 |
| Entity | | | | | |
| Bank | 1,474 | 1,520 | 200 | 240 | 3,434 |
| NBFC | 1,545 | 1,660 | 257 | 307 | 3,769 |
| NBFC-MFI | 1,452 | 1,727 | 221 | 285 | 3,685 |
| SFB | 1,646 | 1,996 | 260 | 330 | 4,232 |
| Location | | | | | |
| Rural | 1,400 | 1,600 | 222 | 282 | 3,504 |
| Urban | 1,729 | 1,979 | 238 | 291 | 4,237 |
| Social group | | | | | |
| SC | 1,533 | 1,759 | 238 | 296 | 3,826 |
| ST | 1,419 | 1,389 | 187 | 198 | 3,192 |
| OBC | 1,434 | 1,672 | 217 | 271 | 3,594 |
| General | 1,580 | 1,797 | 232 | 303 | 3,912 |

| Group | Food | Non-food | Non-routine | Other non-routine | MPCE |
|------------------------|--------------|--------------|-------------|-------------------|--------------|
| Education | | | | | |
| Uneducated | 1,366 | 1,584 | 203 | 254 | 3,407 |
| Primary | 1,540 | 1,756 | 233 | 290 | 3,818 |
| Secondary | 1,574 | 1,756 | 232 | 289 | 3,851 |
| HS & above | 1,566 | 1,891 | 259 | 338 | 4,053 |
| Wealth quartile | | | | | |
| Q1 | 1,309 | 1,442 | 176 | 215 | 3,142 |
| Q2 | 1,438 | 1,675 | 225 | 286 | 3,624 |
| Q3 | 1,679 | 1,904 | 239 | 287 | 4,110 |
| Q4 | 1,600 | 1,875 | 270 | 358 | 4,103 |
| Overall | 1,507 | 1,723 | 227 | 285 | 3,742 |

2.5 Household investments

The borrowers were asked how much they (where each borrower represented her household) invested in the last one year. It was explained that investments included items such as purchase/construction of house or land, gold/jewellery, tools/machinery

for business, investments in mutual funds/bonds etc. About 52.6% of the borrowers have reported investing in the last one year. The average monthly per capita investment (MPCI) (for those investing) is Rs 577 (**Table 2.14**) (~Rs 2,539 per household per month). For the entire sample, average investment per household per month is Rs 1,209.

Table 2.14: Monthly per capita investment (Rs)

| Group | For those investing | | Overall Av. investment per HH per month |
|----------------|---------------------|------------------|---|
| | MPCI | No. of borrowers | |
| State | | | |
| Assam | 1,931 | 191 | 2,092 |
| Bihar | 278 | 496 | 473 |
| Karnataka | 374 | 435 | 459 |
| Madhya Pradesh | 764 | 427 | 1,727 |
| Maharashtra | 311 | 1,015 | 1,140 |
| Punjab | 439 | 306 | 1,076 |
| Tamil Nadu | 643 | 323 | 486 |
| Telangana | 781 | 551 | 1,844 |
| Uttar Pradesh | 331 | 986 | 1,297 |
| West Bengal | 1,027 | 707 | 2,968 |
| Entity | | | |
| Bank | 637 | 1,465 | 1,375 |
| NBFC | 708 | 568 | 1,367 |
| NBFC-MFI | 578 | 2,336 | 1,259 |
| SFB | 424 | 1,068 | 825 |

| Group | For those investing | | Overall Av. investment per HH per month |
|------------------------|---------------------|------------------|---|
| | MPCI | No. of borrowers | |
| Location | | | |
| Rural | 656 | 3,827 | 1,437 |
| Urban | 389 | 1,610 | 738 |
| Social group | | | |
| SC | 641 | 1,846 | 1,311 |
| ST | 436 | 262 | 928 |
| OBC | 413 | 1,992 | 957 |
| General | 760 | 1,337 | 1,443 |
| Education | | | |
| Uneducated | 486 | 1,496 | 1,392 |
| Primary | 641 | 969 | 969 |
| Secondary | 567 | 2,266 | 1,418 |
| HS & above | 715 | 706 | 1,235 |
| Wealth quartile | | | |
| Q1 | 575 | 1,109 | |
| Q2 | 538 | 1,302 | |
| Q3 | 484 | 1,489 | |
| Q4 | 701 | 1,537 | |
| Overall | 577 | 5,437 | 1,209 |

States which have been found to have a comparatively high MPCI include Assam (Rs 1,931) and West Bengal (Rs 1,027), while those that have reported low monthly per capita investments include Bihar (Rs 278) and Karnataka (Rs 374).

Borrowers of NBFC (Rs 708) have reported the highest MPCI and the lowest was reported by the borrowers of SFB (Rs 424).

Borrowers from rural areas (Rs 656) reported higher MPCI as compared with their urban counterpart (Rs 389); General caste (Rs 760) borrowers reported highest MPCI, while ST (Rs 436) and OBC borrowers (Rs 413) were among the lowest. Borrowers who were educated up to higher secondary level or higher (Rs 715) reported highest MPCI and uneducated borrowers (Rs 486) reported the lowest. While

the highest per capita monthly investment was reported by Q4 borrowers (Rs 701), the lowest was reported by Q3 borrowers (Rs 484).

2.6 Household indebtedness and borrowing capacity

The ability of microfinance households to borrow is influenced by their cash flows which is a function of income, expenditure, savings and investments. Fixed Obligation to Income Ratio (FOIR) is a key metric used by lenders to assess indebtedness & repayment capacity of microfinance borrowers' households and defined as the percentage of monthly household income spent on loan instalments. The RBI guideline stipulates that monthly loan obligations cannot exceed 50% of

monthly income. Thus, it shows how much of their income is already committed, helping lenders determine if they can comfortably

handle additional loan repayments. **Table 2.15** analyses the household indebtedness across various groups.

Table 2.15: Household indebtedness (Rs)

| Group | Av. HH income p.m. | Av. HH expense p.m. | Av. HH investment p.m. | Av. HH savings p.m. | Av. total loan instl. p.m. | Surplus income p.m. |
|--------------------------|--------------------|---------------------|------------------------|---------------------|----------------------------|---------------------|
| | A | B | C | D | E | A – (B+E) |
| State | | | | | | |
| Assam | 24,840 | 14,150 | 2,092 | 1,963 | 3,737 | 6,953 |
| Bihar | 25,442 | 15,703 | 473 | 2,675 | 6,252 | 3,487 |
| Karnataka | 25,617 | 16,132 | 459 | 3,976 | 3,101 | 6,384 |
| Madhya Pradesh | 23,137 | 12,451 | 1,727 | 2,637 | 5,121 | 5,565 |
| Maharashtra | 21,849 | 14,022 | 1,140 | 3,502 | 2,701 | 5,126 |
| Punjab | 36,141 | 19,789 | 1,076 | 4,919 | 4,632 | 11,720 |
| Tamil Nadu | 31,590 | 19,880 | 486 | 3,776 | 6,332 | 5,378 |
| Telangana | 28,057 | 14,412 | 1,844 | 2,841 | 5,012 | 8,634 |
| Uttar Pradesh | 25,211 | 16,338 | 1,297 | 2,533 | 4,838 | 4,035 |
| West Bengal | 26,137 | 14,789 | 2,968 | 3,193 | 5,177 | 6,171 |
| Entity | | | | | | |
| Bank | 24,709 | 15,311 | 1,375 | 2,747 | 4,782 | 4,616 |
| NBFC | 25,916 | 15,694 | 1,367 | 3,050 | 5,149 | 5,073 |
| NBFC-MFI | 26,072 | 16,369 | 1,259 | 3,299 | 4,769 | 4,934 |
| SFB | 27,223 | 17,802 | 825 | 3,620 | 4,852 | 4,569 |
| Location | | | | | | |
| Rural | 25,392 | 15,691 | 1,437 | 2,931 | 4,935 | 4,766 |
| Urban | 26,781 | 17,571 | 738 | 3,758 | 4,601 | 4,609 |
| Education | | | | | | |
| Uneducated | 24,761 | 15,854 | 969 | 2,717 | 5,099 | 3,808 |
| Secondary | 26,303 | 16,498 | 1,418 | 3,173 | 4,693 | 5,112 |
| HS & above | 27,618 | 16,357 | 1,235 | 3,346 | 4,847 | 6,414 |
| Primary | 28,865 | 16,985 | 1,392 | 3,871 | 4,682 | 7,198 |
| Overall | 25,844 | 16,465 | 1,209 | 3,200 | 4,827 | 4,552 |
| As % of HH income | | 63.7% | 4.7% | 12.4% | 18.7% | 17.6% |

FOIR analysis

The survey data shows that, with an overall average monthly income of Rs 25,844 and total loan obligations of Rs 4,827, the FOIR is 18.7%, which is well within the RBI's 50% limit. State-wise, Bihar records the highest FOIR at 24.6% (total loan instalments of Rs 6,252 against income of Rs 25,442), followed by Tamil Nadu at 20.0% (total instalment of Rs 6,332, income of Rs 31,590). Punjab, with the highest income (Rs 36,141), reports one of the lowest FOIR at 12.8% (Rs 4,634 in instalments), suggesting greater repayment capacity.

Borrowers of banks show the highest FOIR at 19.4%, with average monthly income of Rs 24,709. Those borrowing from NBFCs (19.9%) and NBFC-MFIs (18.3%) reflect similar levels, while SFB borrowers, with slightly higher incomes (Rs 27,223), record a FOIR of 17.8%, also comfortably within regulatory norms.

Urban households, with higher incomes (Rs 26,781), have a lower FOIR (17.2%) compared to rural households (19.4% FOIR, Rs 25,392 monthly income), both compliant with RBI guidelines. Among social groups, SC record the highest FOIR (19.5%, Rs 5,025 instalments), while ST have the lowest (17.8%). OBC (18.4% FOIR) and General (18.2% FOIR) groups fall in between.

By education, uneducated borrowers face the highest FOIR (20.6%) and lower incomes (Rs 24,761), reflecting heavier loan reliance. In contrast, higher secondary-educated borrowers, with higher incomes (Rs 28,865), show the lowest FOIR (16.2%), suggesting greater repayment capacity. Primary (17.8%) and secondary (17.6%) educated borrowers lie in the middle.

Drilling further into the FOIR derived from survey data gives an idea of how the borrowers are distributed across the various FOIR ranges. Out of the 10,342 borrowers surveyed, 9,810 (~94.9%) have FOIR not exceeding 50%, as presented in **Table 2.16**. As can be seen, majority of the borrowers (close to 58% of

those surveyed) have a FOIR ranging between 5% and 20%. FOIR does not exceed 35% for 86% of all the borrowers which is well within the RBI-mandated limit of 50%. Importantly, only 5.1% of the survey respondents, a total of 532 borrowers, had a breach of FOIR (FOIR greater than 50%), with monthly indebtedness being more than half of a borrower's income. While the low proportion of these borrowers (with FOIR breach) is encouraging, it also demarcates high indebtedness as the problem area where more rigour from SROs needs to be focussed upon.

Table 2.16: Distribution of borrowers by FOIR

| FOIR range (%) | No. of borrowers | Share (%) of total borrowers |
|----------------|------------------|------------------------------|
| 0 - 5 | 440 | 4.3% |
| >5 - 10 | 2,051 | 19.8% |
| >10 - 15 | 2,440 | 23.6% |
| >15 - 20 | 1,490 | 14.4% |
| >20 - 25 | 1,000 | 9.7% |
| >25 - 30 | 847 | 8.2% |
| >30 - 35 | 613 | 5.9% |
| >35 - 40 | 422 | 4.1% |
| >40 - 45 | 291 | 2.8% |
| >45 - 50 | 216 | 2.1% |
| Total | 9,810 | 94.9% |

But is FOIR alone sufficient to assess household indebtedness

Using only FOIR analysis gives a false sense of level of indebtedness as household expenses are not considered in the FOIR calculations. Analysis of income utilisation shows that households spend approximately Rs 16,465 per month on expenses, Rs 4,827 on loan instalments, Rs 1,209 on investments, and Rs 3,200 on savings. In total, about 82.4% of household income is absorbed by expenses (63.7%) and existing loan repayments (18.7%), leaving limited surplus.

Although the RBI threshold allows FOIR to extend up to 50%, once household expenses and saving and investment needs are considered, the effective surplus available for additional loan servicing is far lower. The analysis suggests that only about 10–12% of income can realistically be allocated towards additional loan repayments, implying that a prudent cut-off FOIR, including existing debt, would lie in the range of 28% to 30%. Reliance solely on the RBI FOIR cap to estimate additional credit capacity risks over-indebting borrowers, particularly in the face of income shocks or unforeseen expenses. This underscores the need for more comprehensive household-level assessments of indebtedness, that include assessment of HH expenses as well.

FOIR increases with number of loans

Analysis of FOIR based on number of loans revealed that the indebtedness increases with number of loans and FOIR got breached for borrowers with six loans (**Table 2.17**) – details on active loans are provided in Section 3.1.2. Thus, the analysis (**Table 2.15**) which indicates that the indebtedness is well within the RBI limits across various population groups, is almost true. It is also evident from the below analysis that the average household income of the borrowers rises with the number of loans, which shows that the REs have been careful in their underwriting practices.

2.7 Asset ownership

This section examines the asset ownership

profile of microfinance borrower households, focusing on their housing status and access to physical assets and infrastructure. It provides insights into home ownership, house structure, and the availability of basic amenities such as electricity, water supply, and sanitation facilities. Additionally, it explores ownership of agricultural and non-agricultural land, as well as consumer durables like bicycles, scooters, and household appliances. The analysis, disaggregated by state, entity type, sector, social group, education level, and wealth quartile, highlights variations in asset ownership and living conditions.

2.7.1 Housing ownership & structure

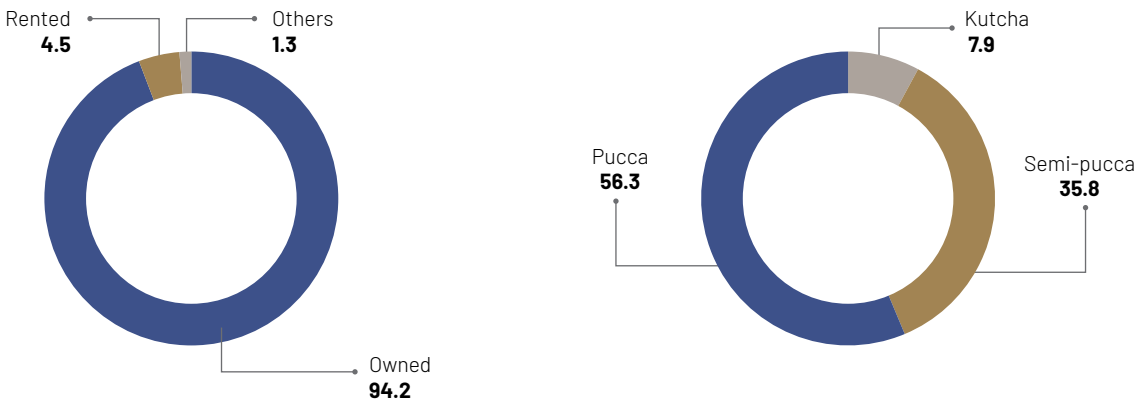
A large majority of borrower households in the survey reported owning their homes, with 94.1% living in owned dwellings. Only 4.5% lived in rented accommodations, and a small share (1.3%) reported other living arrangements (**Figure 2.9**). While home ownership was consistently high across most states, Tamil Nadu stood out with the lowest share of owner-occupied homes (79.3%) and the highest proportion of households living in rented (13%) or other types of arrangements (7.7%). In contrast, the highest ownership was observed in Uttar Pradesh (99.8%) followed by West Bengal (99.3%) and Punjab (98.7%). Ownership was also relatively lower in urban areas (87.1%) compared to rural areas (97.5%), reflecting more mobility and rental dependence in urban settings.

Table 2.17: Household indebtedness by number of loans (Rs)

| No. of loans | No. of borrowers | Av. HH income p.m. | Av. loan instalment p.m. (all loans) | FOIR |
|----------------|------------------|--------------------|--------------------------------------|-------|
| Only parent RE | 5,721 | 24,822 | 2,974 | 12.0% |
| Two | 2,382 | 26,609 | 6,484 | 24.4% |
| Three | 894 | 28,103 | 9,264 | 33.0% |
| Four | 292 | 31,094 | 12,197 | 39.2% |
| Five | 73 | 32,219 | 14,261 | 44.3% |
| Six | 11 | 35,545 | 17,795 | 50.1% |



Figure 2.9: House ownership and structure of borrower HHs (%)



However, the structure of the house varied considerably. Across the sample, 56.3% of households lived in pucca houses, 35.8% in semi-pucca, and 7.9% in kutcha houses. State-level patterns reveal significant differences - Punjab (91.3%), Karnataka (76.3%), and Uttar

Pradesh (72.3%) had the highest shares of pucca homes, while kutcha structures were more prevalent in Assam, Bihar, and West Bengal. Semi-pucca housing was particularly common in states like Tamil Nadu, Telangana, and Maharashtra (Table 2.18).

Table 2.18: House ownership and structure of HHs (%)

| Group | Ownership of house | | | Structure of house | | |
|----------------|--------------------|--------|--------|--------------------|------------|-------|
| | Owned | Rented | Others | Kutcha | Semi pucca | Pucca |
| State | | | | | | |
| Assam | 96.1 | 3.4 | 0.5 | 43.2 | 45.8 | 11.0 |
| Bihar | 97.6 | 2.3 | 0.1 | 12.8 | 47.3 | 39.9 |
| Karnataka | 90.6 | 8.7 | 0.7 | 0.9 | 22.8 | 76.3 |
| Madhya Pradesh | 97.4 | 2.6 | 0.0 | 9.2 | 23.3 | 67.5 |
| Maharashtra | 94.8 | 5.2 | 0.1 | 5.5 | 49.8 | 44.7 |
| Punjab | 98.7 | 1.1 | 0.2 | 0.2 | 8.5 | 91.3 |
| Tamil Nadu | 79.3 | 13.0 | 7.7 | 2.5 | 46.8 | 50.7 |
| Telangana | 97.8 | 2.2 | 0.0 | 3.4 | 30.8 | 65.9 |
| Uttar Pradesh | 99.8 | 0.2 | 0.0 | 1.5 | 26.2 | 72.3 |
| West Bengal | 99.3 | 0.5 | 0.2 | 12.1 | 38.1 | 49.8 |

| Group | Ownership of house | | | Structure of house | | |
|------------------------|--------------------|------------|------------|--------------------|-------------|-------------|
| | Owned | Rented | Others | Kutcha | Semi pucca | Pucca |
| Entity | | | | | | |
| Bank | 95.8 | 3.9 | 0.3 | 13.6 | 36.8 | 49.5 |
| NBFC | 98.6 | 1.4 | 0.0 | 4.7 | 35.5 | 59.7 |
| NBFC-MFI | 96.3 | 2.6 | 1.2 | 6.8 | 37.5 | 55.7 |
| SFB | 85.5 | 11.0 | 3.5 | 4.4 | 31.1 | 64.5 |
| Location | | | | | | |
| Rural | 97.5 | 1.9 | 0.6 | 10.3 | 40.2 | 49.6 |
| Urban | 87.1 | 10.1 | 2.8 | 2.9 | 26.8 | 70.3 |
| Social group | | | | | | |
| SC | 94.6 | 4.4 | 1.0 | 5.7 | 37.6 | 56.6 |
| ST | 94.3 | 2.4 | 3.3 | 18.3 | 32.0 | 49.7 |
| OBC | 93.6 | 4.3 | 2.1 | 7.2 | 33.9 | 59.0 |
| General | 94.3 | 5.4 | 0.3 | 9.8 | 36.5 | 53.7 |
| Education | | | | | | |
| Uneducated | 96.2 | 3.1 | 0.7 | 10.4 | 40.8 | 48.7 |
| Primary | 94.4 | 4.0 | 1.5 | 7.6 | 35.5 | 56.9 |
| Secondary | 93.1 | 5.3 | 1.6 | 7.4 | 33.4 | 59.2 |
| HS & above | 92.3 | 6.2 | 1.6 | 3.9 | 32.7 | 63.4 |
| Wealth quartile | | | | | | |
| Q1 | 98.5 | 1.3 | 0.3 | 23.9 | 59.0 | 17.1 |
| Q2 | 95.6 | 4.2 | 0.2 | 5.0 | 53.9 | 41.1 |
| Q3 | 89.3 | 6.9 | 3.8 | 1.9 | 21.8 | 76.3 |
| Q4 | 93.4 | 5.8 | 0.8 | 0.2 | 7.7 | 92.2 |
| Overall | 94.1 | 4.5 | 1.3 | 7.9 | 35.8 | 56.3 |

House ownership was also closely linked to household socio-economic characteristics. Borrowers in the poorest wealth quartile (Q1) had the highest home ownership rate (98.5%) but were more likely to live in less durable houses – 59% in semi-pucca and nearly a quarter (23.9%) in kutcha structures. In contrast, households in the top wealth quartile (Q4) had slightly lower ownership (93.4%) but mostly lived in pucca houses (92.2%).

Education levels showed a similar trend. Uneducated borrowers had a higher rate of home ownership (96.2%) but lived more often in kutcha or semi-pucca houses (51.3%

combined). On the other hand, borrowers with higher secondary education or above had slightly lower ownership (92.3%) but better housing quality, with 63.4% living in pucca structures. Similar patterns emerged across social groups. While ownership was uniformly high, around 94% across all groups, housing quality varied. STs had the highest proportion of kutcha houses (18.3%) and the lowest share of pucca homes (49.7%). General category households, though with slightly lower ownership (94.3%), had better housing structure, with over half living in pucca homes (53.7%).

In summary, home ownership is widespread among borrower households across states and groups. However, the type of housing structure varies notably, reflecting differences in living conditions within this largely owner-occupied population.

2.7.2 Household assets and amenities

This section presents information on the physical assets and basic amenities available to borrower households. It includes data on access to infrastructure such as electricity, water supply, toilet facilities, and separate kitchens, as well as ownership of agricultural and non-agricultural land. In addition, the section captures household ownership of common consumer durables like fans, refrigerators, washing machines, televisions, and internet connections (**Tables 2.19 a & b**).

The data shows that most borrower households (>90%) have access to basic infrastructure, like electricity, LPG cooking gas, and household toilets. A large share also reported having a separate kitchen

(79.1%) and water supply connection (82.1%), although the latter showed greater variation across states. Tamil Nadu and West Bengal had relatively lower access to HH-level water supply. Agriculture land ownership was reported by about 28% of households, with higher prevalence in states like Assam, Bihar, Uttar Pradesh and West Bengal, whereas non-agriculture land ownership reported by 13.2% households was more common in Karnataka, Uttar Pradesh and Telangana.

About one in four borrower households reported owning a sewing machine, with notably high ownership in Punjab (74%) which may be due to the hosiery industry. Bicycle ownership was high in West Bengal, Bihar, Assam, and Uttar Pradesh while scooters and motorcycles were less common in Assam, Bihar and West Bengal. Auto-rickshaw ownership was low overall, with only about 6% of borrower households reporting ownership. High-value assets such as cars and tractors were reported by less than 4% of the households, with only Punjab showing relatively higher ownership of these items.

Table 2.19.a: State-wise asset ownership (%)

| State | Agri. land | Non-Agri. land | Separate kitchen | Toilet | Electricity | Water supply |
|----------------|-------------|----------------|------------------|-------------|-------------|--------------|
| Assam | 54.8 | 2.6 | 97.4 | 98.4 | 99.5 | 92.9 |
| Bihar | 44.6 | 6.0 | 70.6 | 77.0 | 99.4 | 77.6 |
| Karnataka | 9.2 | 33.1 | 69.9 | 97.0 | 99.8 | 98.7 |
| Madhya Pradesh | 27.1 | 8.9 | 79.2 | 93.9 | 94.5 | 86.7 |
| Maharashtra | 32.0 | 4.5 | 91.6 | 98.9 | 99.3 | 98.9 |
| Punjab | 13.0 | 6.0 | 94.6 | 99.6 | 99.8 | 100.0 |
| Tamil Nadu | 6.0 | 8.1 | 94.2 | 97.0 | 97.1 | 66.1 |
| Telangana | 13.6 | 20.0 | 84.2 | 97.5 | 78.7 | 72.0 |
| Uttar Pradesh | 43.0 | 21.5 | 60.6 | 75.7 | 98.0 | 89.2 |
| West Bengal | 42.1 | 14.8 | 67.5 | 99.1 | 99.5 | 53.3 |
| Overall | 28.2 | 13.2 | 79.1 | 91.9 | 97.2 | 82.1 |

Table 2.19.b: State-wise asset ownership (%)

| State | Bicycle | Scooter/ Motorcycle | Auto rickshaw | Tractor | Car/ Four Wheeler | Sewing machine | Cooking gas | Music system |
|----------------|-------------|------------------------|------------------|------------|----------------------|-------------------|----------------|-----------------|
| Assam | 75.8 | 42.9 | 6.5 | 1.1 | 6.6 | 20.2 | 94.7 | 1.9 |
| Bihar | 76.3 | 44.2 | 9.5 | 0.8 | 1.5 | 19.3 | 92.2 | 1.6 |
| Karnataka | 25.8 | 89.7 | 2.8 | 1.3 | 3.4 | 41.0 | 96.6 | 5.0 |
| Madhya Pradesh | 33.5 | 87.8 | 7.4 | 1.3 | 3.8 | 40.3 | 91.2 | 17.8 |
| Maharashtra | 26.7 | 80.8 | 3.9 | 0.5 | 2.5 | 21.7 | 95.9 | 10.0 |
| Punjab | 38.2 | 92.0 | 3.3 | 6.3 | 11.2 | 74.0 | 97.8 | 25.0 |
| Tamil Nadu | 16.0 | 89.4 | 2.8 | 0.3 | 1.8 | 17.1 | 95.1 | 0.7 |
| Telangana | 18.9 | 88.4 | 15.2 | 1.1 | 3.8 | 23.2 | 98.3 | 12.6 |
| Uttar Pradesh | 72.8 | 67.5 | 4.2 | 1.7 | 2.4 | 39.1 | 95.2 | 0.4 |
| West Bengal | 86.2 | 54.9 | 6.4 | 0.3 | 2.6 | 9.4 | 94.8 | 7.1 |
| Overall | 47.2 | 73.0 | 5.9 | 1.2 | 3.3 | 28.2 | 94.9 | 6.5 |

Among all states, only Punjab consistently reported higher access to infrastructure and higher ownership of various household assets, including vehicles and appliances.

Conclusion

Overall, the findings reaffirm that microfinance continues to primarily serve low-income, economically active households, with women at the centre of borrowing and financial decision-making. The typical borrower is a married woman in her late thirties, with secondary education, belonging largely to nuclear households and engaged in petty trade or small business activities. These characteristics align closely with the policy intent of microfinance as defined by the RBI, which aims to support productive, income-generating activities among financially vulnerable households.

The age, education, and social composition of borrowers underline the inclusive reach of microfinance, particularly among working-age adults from historically disadvantaged social groups. A majority of borrowers belong to SC, OBC, and ST communities, and many have low or moderate levels of education. Despite these constraints, most borrowers are active contributors to household income, demonstrating the economic agency of women borrowers.

Average household sizes are modest, with around two earning members supporting around four household members. Income analysis indicates that while average HH incomes hover around the RBI eligibility threshold, there is considerable variation across states and population groups.

The livelihood profile of borrower households highlights the dominance of petty trade and micro-businesses as primary income sources, reflecting the entrepreneurial orientation encouraged by microfinance. Casual labour and agriculture continue to play a crucial role, particularly as secondary income sources, underscoring the diversified and often precarious nature of household livelihoods. The average MPCE of microfinance households is significantly lower than national averages, which is expected given the target population of microfinance.

In sum, this chapter establishes that microfinance borrowers represent economically active but financially constrained households, balancing multiple income sources, modest consumption levels, and limited investment capacity. The analysis underscores the importance of microfinance not only as a source of credit but also as a mechanism that supports women's economic participation, livelihood diversification, and gradual financial resilience.



03

ACCESS TO MICROFINANCE LOANS, COSTS AND USAGE

This chapter presents a comprehensive analysis of access to microfinance loans and repayment, the associated costs, and the end use of loan funds. First, it examines the lending channels through which borrowers access credit and provides an overview of key loan characteristics. Second, it delves into the borrowers' awareness of the various costs incurred by them - including interest, fees, and insurance - and estimates the overall cost of borrowing based on survey responses. Third, the chapter evaluates the ease of accessing loans and, finally, sheds light on how loans are utilised and repaid.

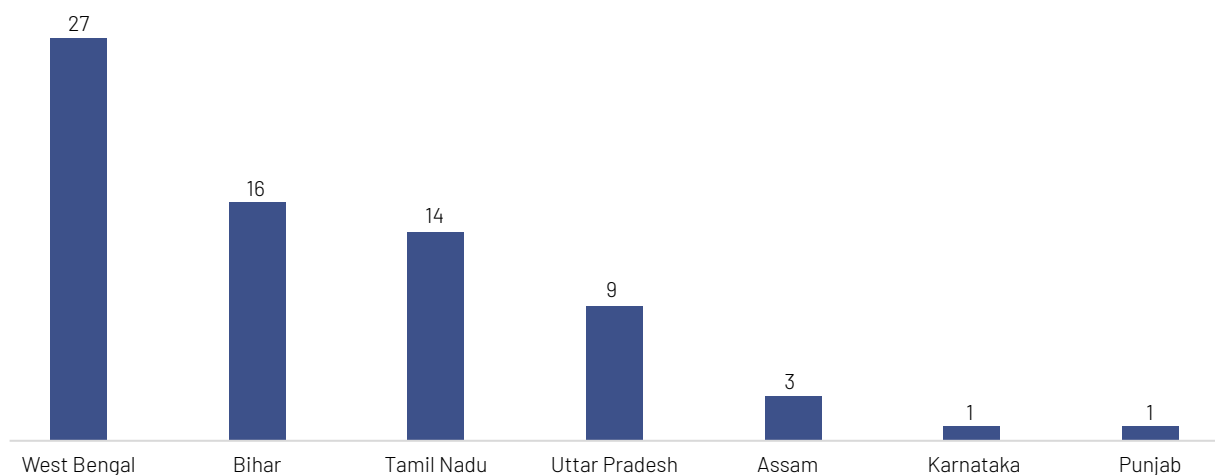
3.1 Lending channels & loan features

3.1.1 Microfinance succeeds in displacing moneylenders

One of the core objectives of microfinance is to disrupt the cycle of dependence on

informal borrowing, which is often exploitative in nature. The survey findings show that microfinance institutions in India have made significant progress in this regard. Out of 10,342 borrowers surveyed, only 1% (71 individuals) reported taking loans from informal sources alongside formal ones. Although negligible in number, borrowers who reported obtaining additional loans from informal sources such as moneylenders, relatives or friends, or local shopkeepers were found to be concentrated in a few states (**Figure 3.1**). The remaining 99% relied exclusively on formal channels for all their credit needs, reflecting the growing trust in and reach of formal financial services. This inference is also validated by comparing the current study with the 2011 report published by NCAER¹⁰. The study from 2011 showed a much higher share of informal borrowing - 46% of all reported loans and 47% of the total amount borrowed by households in 2011 was coming from informal sources of funds.

Figure 3.1: State-wise distribution of informal loans



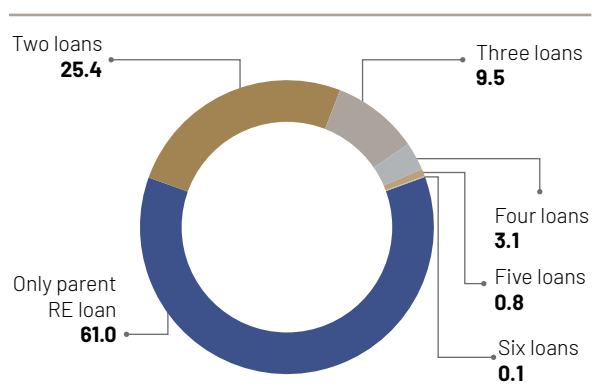
¹⁰ 2011, NCAER. "Assessing The Effectiveness of Small Borrowing in India"

Findings from FGDs (summarised in **Annex 2**) across states corroborate this trend. Participants consistently acknowledged that moneylenders are still present in their areas, but most borrowers emphasised that they no longer need to depend on them. The predominance of MFIs and other REs ensures that borrowers can access timely financial support through formal mechanisms. However, some participants also noted that during urgent financial needs such as marriages, social obligations, or unexpected household expenses, they may occasionally turn to informal financial support.

3.1.2 Active loans

This section presents an overview of active (outstanding) loans reported by borrowers, taken from their Parent RE and other lenders, most of the latter being formal sources of credit. At the aggregate level, 90.9% (9,402) of borrowers reported having only one active or running loan while only 9.1% held multiple active loans from their respective parent REs. Further, disaggregation of these 9,402 borrowers showed that 61% of them had only one loan from the parent RE and no loans from other sources. About 25.4% of these borrowers had one loan from the parent RE and one from the other source – distribution depicted in **(Figure 3.2)**. The proportion of borrowers having up to two loans of 86.4% matches the industry numbers corroborating the authenticity of the survey data. As per data from the Equifax credit bureau report (as of Sep'25), 72% of the borrowers had one loan, 18.7% had two loans, 7% had three loans and

Figure 3.2: Multiple loans with borrowers



only 2.3% had four or more loans. The CRIF Microlend report (Sep'25) shows that 75.2% had loans from <=2 lenders, 16% had loans from 3 lenders, 5.7% from 4 lenders and 3.1% from >=5 lenders.

Out of the ten states covered by the survey, Karnataka (23.8%) and Bihar (22.3%) stand out, with nearly one in four borrowers reporting more than one active loan, whereas Telangana (1.0%), Uttar Pradesh (0.9%) and Punjab (0.2%) have 1% or lesser proportion of borrowers with multiple loans running with the Parent RE **(Table 3.1)**.

Table 3.1: Distribution (%) of borrowers by active loans taken from parent RE

| Group | One | More than 1 Loan |
|------------------------|-------------|------------------|
| State | | |
| Assam | 96.9 | 3.1 |
| Bihar | 77.7 | 22.3 |
| Karnataka | 76.2 | 23.8 |
| Madhya Pradesh | 91.0 | 9.0 |
| Maharashtra | 90.6 | 9.4 |
| Punjab | 99.8 | 0.2 |
| Tamil Nadu | 96.9 | 3.1 |
| Telangana | 99.0 | 1.0 |
| Uttar Pradesh | 99.1 | 0.9 |
| West Bengal | 96.3 | 3.7 |
| Entity | | |
| Bank | 80.8 | 19.2 |
| NBFC | 97.2 | 2.8 |
| NBFC-MFI | 93.0 | 7.0 |
| SFB | 96.0 | 4.0 |
| Location | | |
| Rural | 93.6 | 6.4 |
| Urban | 85.4 | 14.6 |
| Wealth quartile | | |
| Q1 | 90.8 | 9.2 |
| Q2 | 92.1 | 7.9 |
| Q3 | 89.3 | 10.7 |
| Q4 | 91.7 | 8.3 |
| Overall | 90.9 | 9.1 |

By type of lending entity, banks have 19.2% of their borrowers holding more than one active loans with them, a higher proportion compared to NBFC-MFIs (7%), SFBs (4%), and NBFCs (2.8%). Due to competition from other REs and also the strict underwriting norms prescribed by the RBI and MFIN guardrails, REs do their best to retain good customers. The REs hence try to satisfy these customers' credit demand by providing them with a fresh loan before the existing loan is completely repaid. This is where incidences of multiple active loans of a customer with the Parent RE can arise. This proportion was also seen to be higher in urban locations (14.6% compared to 6.4% in rural areas) possibly indicating higher credit need in urban India.

Looking at economic status, middle-income borrowers (Q3, at 11%) are the most likely to juggle more than one active loan, reflecting higher aspirations and financial needs. However, a closer look at state-level patterns reveals contrasting dynamics. In Bihar, West Bengal, and Assam, multiple loans from the same RE are concentrated among households in the lower wealth quartiles, while Karnataka and Maharashtra show multi-loan activity concentrated in the higher quartiles. Additionally, a rural-urban divide also emerges as rural borrowers with multiple loans are largely concentrated in the lower quartiles, while in urban areas, such borrowing is more common among households in the upper quartiles.

3.1.3 Loan amount & tenure

The overall average loan amount received by borrowers is Rs 51,222 and the average loan term is 23 months, showing that on an average, microfinance loans are given out for a period of approximately 2 years. (**Table 3.2**). Tamil Nadu is the state with the longest average tenure (25 months) and the highest average loan amount (Rs 63,473) while Assam reports the shortest tenure (19 months) with the lowest average loan amount (Rs 42,140).

Analysis of lending relationship of borrowers with their parent REs shows that 54.3% of borrowers had a vintage of more than 1 year with the parent RE, including 13.2% having vintage of three years and 13.5% with vintage of more than 3 years. This indicates a healthy and long-standing borrower-lender relationship. Distribution of the data also suggests that banks' customers were older and repeat borrowers who have taken multiple loans from the same bank over time, while NBFC-MFIs and SFBs appear to be expanding outreach, with new relationships with clients, some of whom may be entering the credit system for the first time.

NBFCs offer the lowest average loan amounts (Rs 46,483), while SFBs offer the highest (Rs 55,445) when compared by type of RE.

Consistent with the broader credit pattern that is a function of credit demand as well as loan absorption capacity, urban borrowers receive higher average loan amounts (Rs 54,209) compared to rural borrowers (Rs 49,784). A finding worth highlighting here is that the poorest group of borrowers - the ones belonging to the lowest wealth quartile (Q1) - obtains the highest average loan amount (Rs 52,885) while the relatively richer group (Q4) receives the lowest (Rs 48,497). This could be an indicator of how focused microfinance programs have been in reaching households with lower incomes that have higher credit demand. Across the FGDs, most participants said the sanctioned loan met their needs while some felt that it was insufficient and urged the RE to raise ticket sizes to avoid borrowing elsewhere. Several argued that larger loans would help them scale their businesses, increase earnings, and repay more smoothly. Others noted that when the full amount is not approved upfront, the gap is sometimes bridged later through a top-up loan for a deserving borrower.

Table 3.2: Average loan amount and tenure

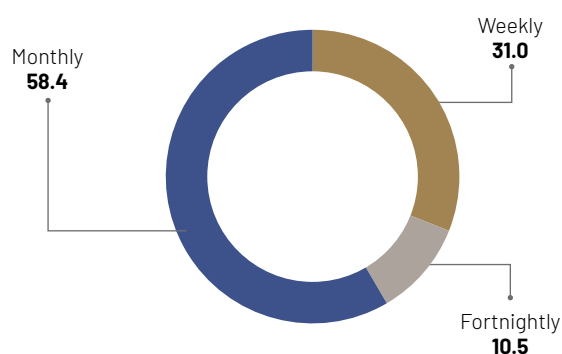
| Group | Avg. loan amount (Rs) | Avg. loan tenure (months) |
|------------------------|-----------------------|---------------------------|
| State | | |
| Assam | 42,140 | 19 |
| Bihar | 46,696 | 21 |
| Karnataka | 52,941 | 23 |
| Madhya Pradesh | 52,685 | 23 |
| Maharashtra | 46,701 | 24 |
| Punjab | 48,404 | 24 |
| Tamil Nadu | 63,473 | 25 |
| Telangana | 45,394 | 20 |
| Uttar Pradesh | 51,072 | 23 |
| West Bengal | 52,419 | 23 |
| Entity | | |
| Bank | 51,072 | 19 |
| NBFC | 46,483 | 24 |
| NBFC-MFI | 50,230 | 24 |
| SFB | 55,445 | 24 |
| Location | | |
| Rural | 49,784 | 23 |
| Urban | 54,209 | 22 |
| Wealth quartile | | |
| Q1 | 52,885 | 23 |
| Q2 | 50,598 | 23 |
| Q3 | 50,377 | 23 |
| Q4 | 48,497 | 22 |
| Overall | 51,222 | 23 |

3.1.4 Loan instalment and repayment frequency

Traditionally, most MFIs followed a repayment schedule of weekly instalments to help borrowers stay on track and reduce the chances of default. However, recently,

many MFIs have started to offer more flexible options - like fortnightly or monthly repayments - so that borrowers can choose what works best for their income and cash flow. **Figure 3.3** highlights that monthly repayment is now the predominant frequency, though variations exist across states, lending entities, and locations.

Figure 3.3: Distribution of borrowers by repayment frequency



For most states (**Table 3.3**), majority of the survey participants reported having a monthly repayment frequency with Punjab having the largest share (73.1%) of borrowers with a monthly repayment schedule and Madhya Pradesh having a relatively low proportion (51.3%). The second most reported repayment frequency was weekly, and two states reported majority of borrowers repaying their loans on a weekly basis - Telangana (54%) and Assam (48.6%).

Monthly repayment of loans was the predominant frequency observed for the borrowers of NBFCs, SFBs, and NBFC-MFIs. Banks were the only type of REs that were seen to mostly have a weekly pattern vis-à-vis collection from clients. Additionally, out of the four types of REs studied, it was borrowers of NBFC-MFIs that showed a more mixed distribution of repayment frequencies, with 24.6% having weekly and 16.7% having fortnightly repayments alongside the majority clients that had monthly repayments. This indicates more varied terms of loan repayment by NBFC-MFIs and hence, more flexibility for clients.

Table 3.3: Distribution (%) of borrowers by repayment frequency

| Group | Monthly | Fortnightly | Weekly | Don't know |
|------------------------|---------|-------------|--------|------------|
| State | | | | |
| Assam | 46.6 | 4.7 | 48.6 | 0.2 |
| Bihar | 68.0 | 3.1 | 29.0 | 0.0 |
| Karnataka | 53.3 | 1.0 | 45.7 | 0.1 |
| Madhya Pradesh | 51.3 | 22.0 | 26.8 | 0.0 |
| Maharashtra | 60.5 | 5.8 | 33.6 | 0.1 |
| Punjab | 73.1 | 15.9 | 11.0 | 0.0 |
| Tamil Nadu | 62.3 | 15.3 | 22.4 | 0.0 |
| Telangana | 42.7 | 3.4 | 54.0 | 0.0 |
| Uttar Pradesh | 56.4 | 27.1 | 16.4 | 0.1 |
| West Bengal | 61.0 | 8.8 | 30.3 | 0.0 |
| Entity | | | | |
| Bank | 25.2 | 3.3 | 71.5 | 0.0 |
| NBFC | 98.3 | 0.4 | 1.3 | 0.0 |
| NBFC-MFI | 58.6 | 16.7 | 24.6 | 0.0 |
| SFB | 80.1 | 11.6 | 8.2 | 0.1 |
| Location | | | | |
| Rural | 63.1 | 10.1 | 26.8 | 0.0 |
| Urban | 48.6 | 11.9 | 39.5 | 0.0 |
| Education | | | | |
| Uneducated | 59.6 | 12.2 | 28.2 | 0.1 |
| Primary | 56.2 | 12.2 | 31.7 | 0.0 |
| Secondary | 57.9 | 9.6 | 32.4 | 0.1 |
| HS & above | 60.3 | 8.5 | 31.2 | 0.0 |
| Wealth quartile | | | | |
| Q1 | 64.1 | 8.5 | 27.4 | 0.0 |
| Q2 | 60.0 | 12.0 | 28.0 | 0.0 |
| Q3 | 58.5 | 9.7 | 31.8 | 0.0 |
| Q4 | 50.6 | 12.6 | 36.7 | 0.1 |

A greater percentage of borrowers in rural areas (63.1%) make monthly repayments, whereas in urban areas, the repayment schedules are more diverse. The average

monthly loan repayment was calculated to be Rs 2,993 (**Table 3.4**). Instalment amounts that the borrowers were paying weekly or fortnightly were converted to monthly

Table 3.4: Average monthly instalments (Rs) paid by borrowers for active loan with Parent RE

| Group | Average monthly loan repayment amount (Rs) |
|------------------------|--|
| State | |
| Assam | 3,048 |
| Bihar | 2,943 |
| Karnataka | 3,015 |
| Madhya Pradesh | 2,968 |
| Maharashtra | 2,482 |
| Punjab | 2,732 |
| Tamil Nadu | 3,323 |
| Telangana | 3,137 |
| Uttar Pradesh | 2,925 |
| West Bengal | 3,182 |
| Entity | |
| Bank | 3,533 |
| NBFC | 2,629 |
| NBFC-MFI | 2,776 |
| SFB | 2,962 |
| Location | |
| Rural | 2,894 |
| Urban | 3,197 |
| Education | |
| Uneducated | 3,009 |
| Primary | 3,000 |
| Secondary | 2,975 |
| HS & above | 3,008 |
| Wealth quartile | |
| Q1 | 2,884 |
| Q2 | 2,984 |
| Q3 | 3,053 |
| Q4 | 3,052 |
| Overall | 2,993 |

amounts for calculating the average monthly repayment. Among the surveyed states, Tamil

Nadu, West Bengal and Telangana each have monthly repayment average higher than the country average while the average monthly repayment amounts in both Maharashtra and Punjab are lower than the national mean.

The average monthly loan repayment was highest for borrowers from banks and lowest for NBFCs. This pattern can be attributed to banks providing larger average loan amounts coupled with shorter loan tenures, resulting in higher monthly repayment obligations. In contrast, NBFCs typically extend smaller loan amounts but over longer tenures, which allows repayments to be distributed over a longer period. This results in lower average monthly repayments for NBFC borrowers compared to those borrowing from banks. The average monthly repayment amount is lower for rural borrowers as well as for borrowers from the lowest wealth quartile.

3.2 Cost of borrowing

Cost of borrowing goes beyond interest rates charged on the loan. It includes processing fees, charges for financial and non-financial products, insurance charges and in some cases, even commissions paid to access the loan. This section takes a closer look at the various expenses that are borne by microfinance borrowers.

3.2.1 Rate of interest

The average interest rate across all surveyed groups was found to be 23.9% (**Table 3.5**). Most states reported average interest rates between 23.5% and 24.5%, indicating a relatively uniform lending environment in terms of interest rates charged in India's microfinance sector. It is pertinent to note here that despite being fundamentally different from Banks and SFBs, insofar as they are non-deposit taking, NBFC-MFIs charge an interest rate not very different from other REs that take customer deposits and have lower cost of funds. However, it is important to note that these figures are based on borrowers'



recall of the interest rates charged by their lenders. This reliance on recall may introduce some degree of variation, as borrowers might not always remember the exact rate at which they borrowed money. However, the survey findings align closely with the industry self-reported figures (discussed in Section 3.2.4) such that both sets of interest rates fall within a close range having very little deviation across entity types.

3.2.2 Processing fee

MFIN's revised guardrails on processing fees, that were announced in Nov'24 and came into force from 1st Jan'25, cap the processing fee at a maximum of 1.5% of the loan amount, excluding GST. The survey findings (based on responses from 2,074 borrowers) show that borrowers in the states covered by the study reported paying an average processing fee of about Rs 914, or roughly 1.6% of the average loan amount received by a customer. This slight difference between the study's finding and guardrails on processing fee is because the survey preceded the applicability of guardrails. But it also shows that at an industry level the processing fee charged by the lenders was in the range as suggested in the guardrails, though there were some variations across groups.

Table 3.6 shows that in most states borrowers are paying between Rs 900 and Rs 1,000 as processing fees, with certain outliers such as Telangana which has an average processing fee (Rs 628) much lower than the national average and Maharashtra with a much higher average fee of Rs 1,163. As per survey responses, the highest processing fee is charged by SFBs at Rs 1,187 (1.7%), among the various types of REs. The average processing fee also seems to be lower for the rural borrower compared to the urban clients of these REs.

Table 3.5: Average interest rate (%) on loans charged by REs

| Group | Simple av. interest rate on declining basis (%) |
|------------------------|---|
| State | |
| Assam | 23.5 |
| Bihar | 24.0 |
| Karnataka | 24.0 |
| Madhya Pradesh | 23.7 |
| Maharashtra | 23.6 |
| Punjab | 24.4 |
| Tamil Nadu | 24.1 |
| Telangana | 24.0 |
| Uttar Pradesh | 24.0 |
| West Bengal | 24.0 |
| Entity | |
| Bank | 23.5 |
| NBFC | 25.0 |
| NBFC-MFI | 23.8 |
| SFB | 24.6 |
| Location | |
| Rural | 23.9 |
| Urban | 24.0 |
| Education | |
| Uneducated | 24.1 |
| Primary | 24.0 |
| Secondary | 23.9 |
| HS & above | 23.8 |
| Wealth quartile | |
| Q1 | 24.0 |
| Q2 | 23.9 |
| Q3 | 24.0 |
| Q4 | 23.9 |
| Overall | 23.9* |

*Note: A declining rate of interest is calculated on the shrinking loan balance, not the original loan amount, so less interest is charged over time as the principal gets repaid with each instalment. This is more borrower-friendly than a flat rate, leading to lower overall costs and a larger chunk of the payment going towards principal as the loan progresses. Thus 23.9% p.a. rate of interest at reducing balance means that for a Rs 100 loan for a year with monthly repayment the interest paid is Rs 23.9. If it was 23.9% p.a. flat rate then the interest paid for a Rs 100 loan would be Rs 286.8 and for each instalment the interest would be calculated on the original loan amount.

Table 3.6: Average processing fee paid by borrowers

| Group | Processing fee (Rs) | Processing fee as % of average loan amount |
|------------------------|---------------------|--|
| State | | |
| Assam | 840 | 1.3 |
| Bihar | 1,125 | 2.2 |
| Karnataka | 1,120 | 1.6 |
| Madhya Pradesh | 939 | 1.9 |
| Maharashtra | 1,163 | 2.4 |
| Punjab | 825 | 1.6 |
| Tamil Nadu | 1,041 | 1.6 |
| Telangana | 628 | 1.4 |
| Uttar Pradesh | 935 | 1.8 |
| West Bengal | 1,120 | 2.0 |
| Entity | | |
| Bank | 980 | 1.6 |
| NBFC | 659 | 1.4 |
| NBFC-MFI | 868 | 1.6 |
| SFB | 1,187 | 1.8 |
| Location | | |
| Rural | 845 | 1.5 |
| Urban | 1,108 | 1.8 |
| Wealth quartile | | |
| Q1 | 932 | 1.6 |
| Q2 | 913 | 1.6 |
| Q3 | 851 | 1.6 |
| Q4 | 923 | 1.5 |
| Overall | 914 | 1.6 |



3.2.3 Cost of financial and non-financial products

In microfinance lending, borrowers are often offered more than just credit and these products generally fall into two categories: financial and non-financial. Each type serves a distinct function. Financial products, such as credit life insurance and other forms of coverage, are designed to offer a safety net in cases of illness, death, or loan default, helping to reduce risk for both the borrower as well as the lender. On the other hand, non-financial products like solar devices, mobile phones, and household appliances, aim to improve the clients' access to basic services and help them save time in their daily routines while often enhancing their quality of life and productivity. Of these products, apart from credit life insurance product (CLIP), all other products are consent based.

Figure 3.4 shows that the uptake of credit-linked life insurance among borrowers is high at 84.4%. Health insurance also shows high penetration while the uptake of other types of

insurance remains quite low (2.6%). Only 6.6% of respondents reported paying for any non-financial product. Among these, a majority (56.5%) purchased household appliances, while 29.9% opted for solar products. On a positive note, concerns around commission payments, often seen as an unwelcome burden in loan processes, appear to be non-existent. The survey found that nearly 100% of borrowers received their loans without paying any commission to agents, reflecting a high level of transparency and accountability within microfinance-lending institutions.

Overall, the average premium paid across all states stands at Rs 1,547 (3% of the average loan amount) for credit life insurance and Rs 479 (0.9% of the loan amount) for health insurance. Based on the survey sample, the premium payments seem highest for the state of Punjab (**Figure 3.5**) for credit life insurance (Rs 2,193) and for health insurance (Rs 1,330). On the other end, Telangana and Karnataka have the lowest average premiums among the surveyed states.

Figure 3.4: Breakdown of borrowers (%) by insurance cover

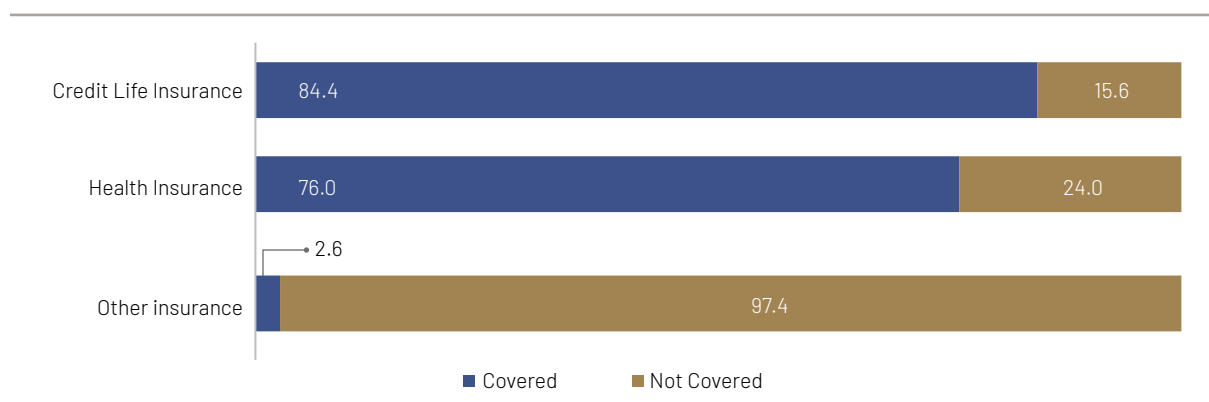
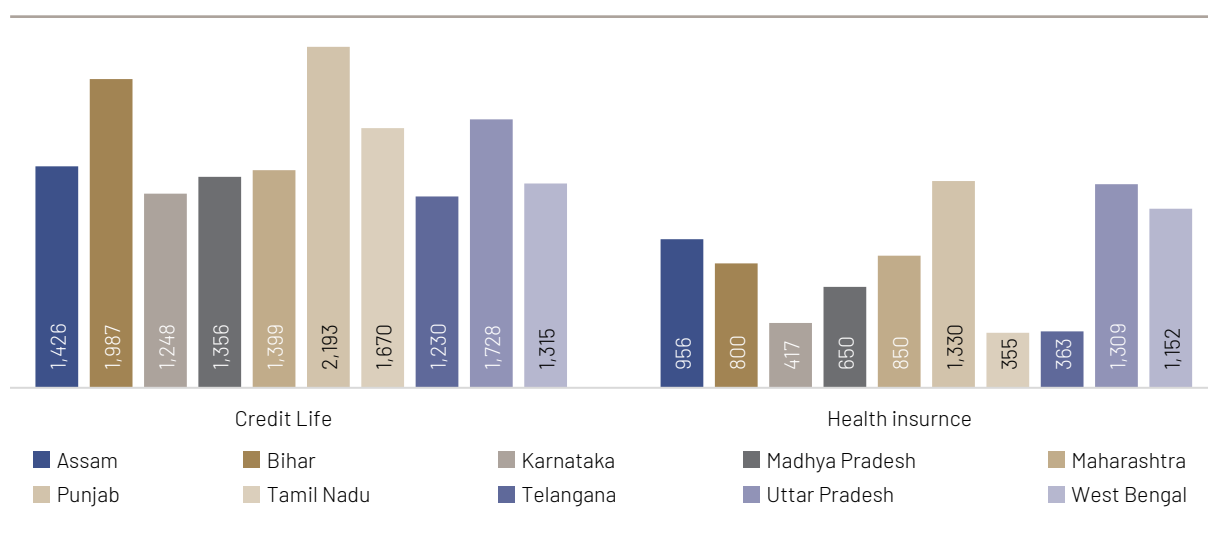


Figure 3.5: State-wise premium paid by borrowers on financial products



3.2.4 Overall cost of borrowing

This section attempts to compute the overall cost of borrowings for a microfinance borrower from different REs based on data collected during the survey. The various cost components considered for computation of overall cost of borrowing are:

- Interest rate - is the cost incurred by borrower in terms of the interest (on a reducing balance) she has to pay on the principal amount borrowed
- Processing fee - is a one-time upfront fee charged to the borrower to cover the lender's administrative costs to complete the process of loan application
- Credit life insurance - is the amount borrower has to pay upfront for purchasing life insurance while availing micro-credit

Other costs captured through the survey responses are listed below. These are costs associated with additional products or services that the customer can opt to purchase or forgo while taking a loan from the REs and hence are not mandatory costs incurred for a typical microfinance loan.

- Health insurance - includes health cover purchased by the borrower

- Other insurance - includes any additional type of insurance purchased by the borrower like crop insurance or house/asset insurance
- Third party product (TPP) - is any non-financial product (such as solar cooker and mobile phone) that the customer had to pay the RE for.

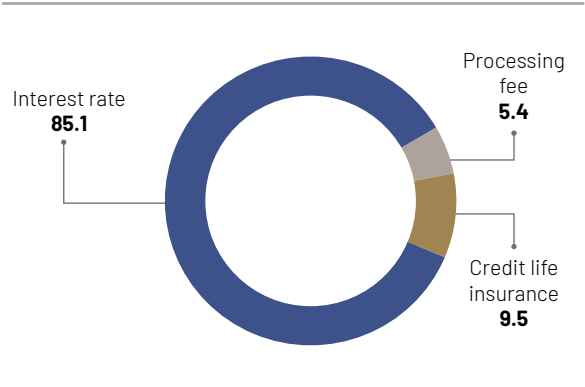
In order to estimate the overall cost, a base of borrowers was considered that had an active loan from the Parent RE and had been able to recall and report details of the loan that are crucial for computing their cost of borrowing. These details exhaustively include amount of loan received by the borrower, loan tenure, interest rate that was charged by the lender institution, processing fee and cost of credit-linked life insurance that were deducted from the loan amount disbursed to these clients. The reason behind using this criterion for arriving at the subset of participants is straightforward - it covers basic loan details and the costs that borrowers have to necessarily incur for availing micro-credit out of the possible costs listed above.

Out of the 10,342 surveys completed, 1,472 customers could give definitive answers to the survey questions recording the above-mentioned cost components for

their respective loans. This subset of customers, constituting 14% of the entire survey participant base, was considered for computation of the cost of borrowing. Out of the six cost categories described above, only interest rate, processing fee and credit life insurance were considered for the computation of effective interest rates for the borrower since the first two are indispensable parts of lending and the third (life insurance) is generally bundled with credit across the industry.

The average loan amount to these 1,472 borrowers was Rs 57,469 for an average tenure of 22.9 months and at an average rate of interest of 24.2%. The average cost of borrowing amounted to Rs 16,382 - **Figure 3.6** depicts the share of each crucial component in the average cost incurred by a typical microfinance borrower. Expectedly, interest rate makes up the largest part of the overall borrowing cost.

Figure 3.6: Cost components of a loan



With this information, the recorded answers were used to compute the weighted average, minimum/maximum interest rates, Annual Percentage Rate (APR)¹¹ for the RE and Effective Interest Rate (EIR)¹² for the customer.

The weighted average interest rate (WAIR) p.a. of the loans from various REs was calculated using the data on loan amount, interest rate and tenure provided by the borrowers. Similarly, using the data on other cost components of processing fee and life insurance, the APR for each lender type and the EIR for their respective borrower was computed based on the Internal Rate of Return (IRR) method. The same process was repeated to compute the minimum and maximum APR for each FI type and EIR for the respective customers. However, instead of using the WAIR in these cases, the minimum and maximum interest rates reported in the survey for each type of lender was used for the calculations.

Figure 3.7 compares the WAIR charged by various types of REs as computed by the survey data with WAIR from data reported to MFIN by REs during the period preceding the survey (Q1 FY 2024-25) as well as with the latest available industry data (Q2 FY 2025-26). The graph shows that the survey data interest rate is comparable with the industry interest rates that prevailed at the time the study was conducted, validating the survey findings. Further, it shows that for the industry as a whole, over a year, the interest rates have reduced.

¹¹ APR is the interest rate charged by the RE including payments received by it - the principal amount, interest and processing fee. This does not take into account any payments made by customer for purchasing an insurance product as any payout for it goes to the insuring company and is not an income for the lender.

¹² EIR is the interest rate that represents the entire cost of borrowing by the customer. Along with payments made to the RE, it considers the cost associated with credit life insurance that is bundled with the loan as a general practice.

Figure 3.7: Comparison of survey interest rates with industry data

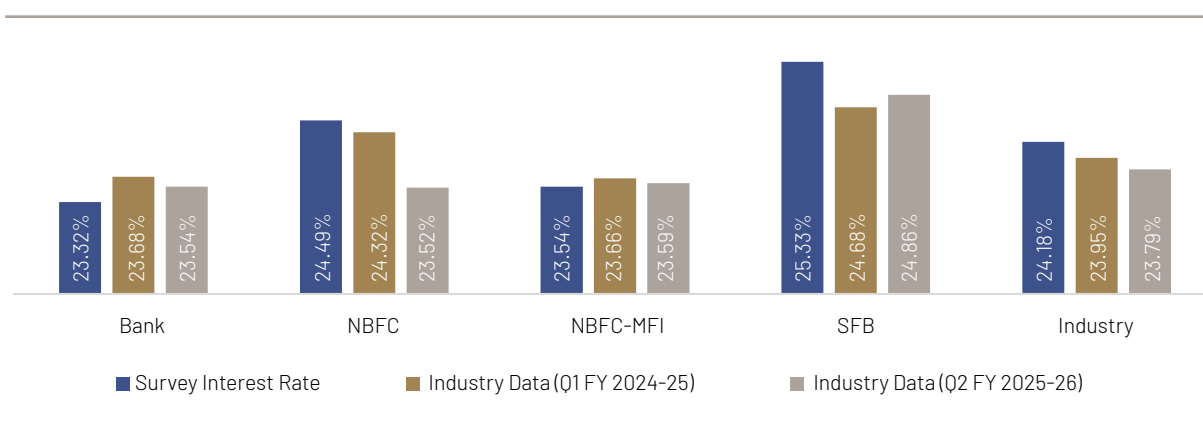


Table 3.7 shows the APR and EIR computed for each entity type from the survey data. The APR charged by FIs stands at 26.4% for banks, 26.5% for NBFC-MFIs, 27.1% for NBFCs and 29.1% for SFBs, with an overall industry average of 27.3%. NBFC-MFIs have been offering interest rates to customers that are comparable to banks despite banks having much lower cost of funds due to access to savings. For the microfinance customers, the average EIR was found to be 33.0% with the lowest EIR for banks at 29.8%, followed by NBFC-MFIs at 32.1%.

The table also shows that the difference between the rate earned by the lending institution and the ultimate cost incurred by the customer, which is due to insurance cover given to the borrowers, is the highest if the

loan is taken from NBFCs (7.0%) and the lowest for banks (3.4%). However, it is also important to note that the minimum or maximum interest rates charged for a loan constituted 4% of the overall lending to the sample borrowers and majority of the borrowers were charged interest rate close to the WAIR of respective RE.

Qualitative discussions with borrowers have indicated that local money lenders charge between 5% to 10% flat interest per month. These loans require collateral, and often the collateral is in terms of gold. Surveyed borrowers reported that moneylenders charge a monthly interest of about 5% if collateral is provided for the loan and about 10% if collateral is not provided. Considering such interests being charged on a flat rate by

Table 3.7: APR for REs and EIR for borrowers

| APR for RE | Bank | NBFC | NBFC-MFI | SFB | Overall |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| WAIR | 26.4% | 27.1% | 26.5% | 29.1% | 27.3% |
| Minimum | 24.5% | 23.0% | 23.7% | 24.5% | 24.1% |
| Maximum | 33.2% | 30.1% | 29.1% | 33.4% | 30.3% |
| EIR for client | | | | | |
| WAIR | 29.8% | 34.1% | 32.1% | 34.7% | 33.0% |
| Minimum | 27.7% | 25.9% | 25.8% | 30.1% | 28.0% |
| Maximum | 38.1% | 35.6% | 36.0% | 38.2% | 35.8% |
| Difference in WAIR | 3.4% | 7.0% | 5.6% | 5.6% | 5.6% |

informal sources such as moneylenders on loans extended to the typical microfinance borrower, the APR on the borrowed sum works out to fall anywhere between 97% and an exorbitant 178%. In reality the APR could be much higher as the moneylenders also levy interest on interest if the customer is unable to repay the principal and/or the interest component of the loan as per agreed schedule. The wide gap between interest rates charged by REs and those by moneylenders further cements the need for improving financial inclusion in the country and is reflected in the fact that microfinance borrowers have significantly reduced their reliance on informal sources as they now have a reliable and formal finance option.

Table 3.8 has been constructed for a hypothetical scenario where a typical microfinance customer wants to borrow a sum of Rs 50,000. The table illustrates, using the survey responses, the possible costs a borrower is likely to incur from various channels. The tenure considered here for all sources is 2 years. The interest rate considered for REs is their computed WAIR while that of the informal lenders is based on the FGDs, as noted earlier. The total cost for each of the four REs shows how the RBI's directions have created a regulated and level-playing field for all microfinance lenders, with the cost varying in a narrow range of Rs 13,243

(lowest for banks) and Rs 14,897 (SFBs). At the same time, it shows how borrowing the same amount through informal channels can lead to the borrower paying more than 4 times the charges that she would pay on taking the loan from an RE.

3.3 Ease of access to loans

One of the key strengths of the microfinance model lies in its ability to offer relatively easy access to credit, particularly for low-income households and underserved populations. To truly assess the effectiveness of small-ticket borrowing, it's essential to understand the broader landscape of loan accessibility. This section explores multiple dimensions critical to credit access, starting from how borrowers first learn about lenders, whether those lenders are able to meet their specific needs, the timeliness of loan disbursement, and the reasons behind loan application rejections, among other factors. It was seen that the major source of information among the borrowers about the lender has been through existing clients (38.0%) followed by friends or relatives (31.4%) and representatives of the lenders (28.5%).

Among the states covered by the study, Karnataka (67.0%), Madhya Pradesh (60.9%), and Uttar Pradesh (52.3%) have high rates of information sharing among current clients,

Table 3.8: Illustration of breakup of costs incurred on a loan across lender entities

| Cost components | Bank | NBFC | NBFC-MFI | SFB | Informal (with collateral) | Informal (without collateral) |
|------------------------|---------------|---------------|---------------|---------------|----------------------------|-------------------------------|
| WAIR | 23.3% p.a. | 24.5% p.a. | 23.5% p.a. | 25.3% p.a. | 5% p.m. | 10% p.m. |
| Interest type | Reducing | Reducing | Reducing | Reducing | Flat | Flat |
| Interest (Rs) | 11,658 | 12,244 | 11,770 | 12,665 | 60,000 | 120,000 |
| Processing fee (Rs) | 754 | 639 | 737 | 923 | - | - |
| CLIP (Rs) | 831 | 1,668 | 1,343 | 1,310 | - | - |
| Total cost (Rs) | 13,243 | 14,552 | 13,849 | 14,897 | 60,000 | 120,000 |

Note: The survey & FGDs showed that apart from the costs mentioned in the table, any other costs were almost non-existent. Microfinance being a door-step delivery service, borrowers do not have to incur costs on travel, communication or wage loss for obtaining a loan. Also, almost 100% of the sample borrowers have indicated that they never have had to pay a commission to obtain a loan.

indicating a significant peer-to-peer influence within borrower networks. On the other hand, nearly all borrowers in Maharashtra reported hearing about the Parent RE from the lender company's representative indicating more pro-active outreach in the state by lender institutions. While urban borrowers rely on the existing borrowers, rural borrowers are more likely to turn to friends and family (34.1%) for information.

3.3.1 Loan demand vs supply and timeliness

At an overall level (**Table 3.9**), the average loan amount applied is Rs 57,006, the average loan amount approved is Rs 54,144 and the average

loan amount received is Rs 51,222. This translates into 95% of the average loan amount applied being approved and similarly, 95% of the loan amount approved being received by the customer. This is rightly suggestive of the fact that some borrowers are approved an amount less than the loan amount they had applied for. The amount approved is based on a borrower assessment done by lending REs that includes household income and indebtedness assessment of the client backed by the client's credit information report (CIR). The gap between the approved and received loan amounts comes from deduction of processing fees, credit life insurance premium and other costs associated with the loan at the time of disbursement.

Table 3.9: Average amount of loan applied for, approved, and received by customer (Rs)

| Group | Loan amount applied | Loan amount approved | Loan amount received | Loan amount approved as % of applied | Loan amount received as % of approved | Av. disbursement time (days) |
|----------------|---------------------|----------------------|----------------------|--------------------------------------|---------------------------------------|------------------------------|
| State | | | | | | |
| Assam | 47,098 | 43,974 | 42,140 | 93.4 | 95.8 | 8.0 |
| Bihar | 54,215 | 49,479 | 46,696 | 91.3 | 94.4 | 7.0 |
| Karnataka | 55,964 | 55,437 | 52,941 | 99.1 | 95.5 | 4.0 |
| Madhya Pradesh | 61,167 | 54,287 | 52,685 | 88.8 | 97.0 | 8.0 |
| Maharashtra | 52,585 | 48,717 | 46,701 | 92.6 | 95.9 | 4.0 |
| Punjab | 54,769 | 53,876 | 48,404 | 98.4 | 89.8 | 5.0 |
| Tamil Nadu | 68,341 | 67,898 | 63,473 | 99.4 | 93.5 | 7.0 |
| Telangana | 49,420 | 47,389 | 45,394 | 95.9 | 95.8 | 8.0 |
| Uttar Pradesh | 55,904 | 53,825 | 51,072 | 96.3 | 94.9 | 6.0 |
| West Bengal | 61,202 | 56,273 | 52,419 | 91.9 | 93.2 | 6.0 |
| Entity | | | | | | |
| Bank | 57,257 | 53,001 | 51,072 | 92.6 | 96.4 | 6.0 |
| NBFC | 51,108 | 49,384 | 46,483 | 96.6 | 94.1 | 7.0 |
| NBFC-MFI | 56,052 | 53,531 | 50,230 | 95.5 | 93.8 | 6.0 |
| SFB | 61,641 | 58,827 | 55,445 | 95.4 | 94.3 | 7.0 |

| Group | Loan amount applied | Loan amount approved | Loan amount received | Loan amount approved as % of applied | Loan amount received as % of approved | Av. disbursement time (days) |
|------------------------|---------------------|----------------------|----------------------|--------------------------------------|---------------------------------------|------------------------------|
| Location | | | | | | |
| Rural | 55,835 | 52,446 | 49,784 | 93.9 | 94.9 | 7.0 |
| Urban | 59,498 | 57,482 | 54,209 | 96.6 | 94.3 | 6.0 |
| Wealth quartile | | | | | | |
| Q1 | 53,615 | 49,955 | 47,130 | 93.2 | 94.3 | 6.0 |
| Q2 | 57,481 | 54,547 | 51,662 | 94.9 | 94.7 | 7.0 |
| Q3 | 59,327 | 56,387 | 53,510 | 95.0 | 94.9 | 6.0 |
| Q4 | 57,572 | 55,442 | 52,424 | 96.3 | 94.6 | 7.0 |
| Overall | 57,006 | 54,144 | 51,222 | 95.0 | 94.6 | 6.0 |

In terms of geography, Tamil Nadu, West Bengal and Madhya Pradesh have higher than average amounts of loan applied which could be due to higher customer vintage who have gone through multiple cycles of lending and have been creditworthy for the lenders to have the confidence to lend them bigger amounts. At the same time, the difference between loan amount approved and received was seen to be lowest for banks at a difference of 3.8%, nearly half of the difference seen for NBFC-MFIs (6.6%). Costs associated with micro-credit that are incurred by borrowers and are deducted from the loan amount to be disbursed to them seem to be the highest for NBFC-MFIs among the four types of REs.

Small borrowings often assist low-income households in managing crises that arise from numerous shocks such as illness, death, crop failure, or natural disasters. Hence, the true impact of microfinance lies not just in the availability of credit, but in how quickly and efficiently it reaches borrowers when they need it the most. Encouragingly, findings from the survey show that 98.8% of borrowers reported receiving their loan from their respective lending institution at the time of need or emergency. Among those cases where loan applications were rejected, the primary reasons cited were poor credit bureau history

and existing loan liabilities. The average disbursement time in this study is the time taken to process and disburse loans, measured in days from the date of application to the final disbursement, across various states, financial institutions, socio-economic groups, and rural-urban regions. Across all surveyed borrowers, the average disbursement time was found to be 6 days.

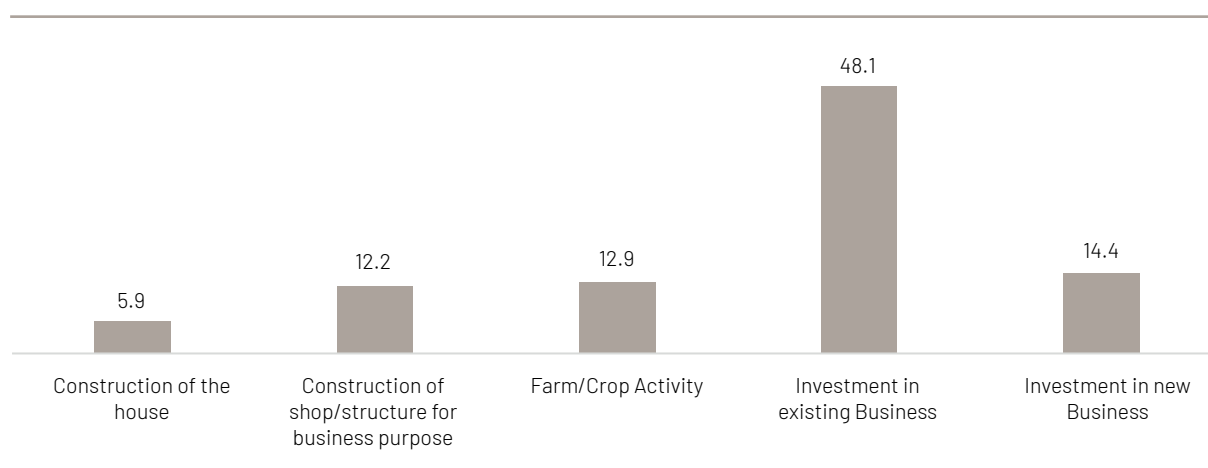
3.4 Loan utilisation and repayment

Understanding the purpose of borrowing and the repayment mechanisms offers valuable insight into the financial behaviour and priorities of low-income households. This section explores how microfinance loans are utilised by borrowers and the sources they rely on for repayment.

3.4.1 Loan purpose-wise breakup

Data in **Figure 3.8** suggests that the major purpose for which borrowers are using the microfinance loans is investing in business activities (75.4%), including 48.1% of borrowers who are investing in existing businesses. The other main uses included investment in new business, undertaking construction for business and crop activity.

Figure 3.8: Distribution (%) of borrowers by top 5 loan uses



According to a state-by-state analysis (**Table 3.10**), a significant portion of borrowers in Assam (69.0%), Bihar (57.7%), and Maharashtra (58.6%) use loans to expand their current businesses. On the other hand, Maharashtra (39.7%), Madhya Pradesh (26.8%) and Telangana (24.5%) used the loans to build shops or other structures for business

purposes. Other than using the loan amount to invest in existing business, urban borrowers used loans to invest in new business while rural borrowers invested the amount in farm and crop related activities. This coincided with the lowest wealth quartile having the largest share of loan being invested in crop and farming activity.

Table 3.10: Distribution (%) of borrowers by top 5 loan uses

| Group | Construction of the house | Construction of shop/structure for business | Farm/crop activity | Investment in existing business | Investment in new business |
|----------------|---------------------------|---|--------------------|---------------------------------|----------------------------|
| State | | | | | |
| Assam | 1.8 | 1.6 | 12.9 | 69.0 | 7.9 |
| Bihar | 2.4 | 7.8 | 24.7 | 57.7 | 6.2 |
| Karnataka | 3.8 | 2.0 | 14.2 | 40.3 | 17.7 |
| Madhya Pradesh | 11.7 | 26.8 | 11.7 | 41.1 | 26.0 |
| Maharashtra | 4.2 | 39.7 | 14.4 | 58.6 | 5.0 |
| Punjab | 10.8 | 0.0 | 0.5 | 54.2 | 20.1 |
| Tamil Nadu | 7.7 | 1.3 | 7.8 | 43.1 | 12.3 |
| Telangana | 7.1 | 24.5 | 16.4 | 30.1 | 17.6 |
| Uttar Pradesh | 3.3 | 11.9 | 2.2 | 55.9 | 15.0 |
| West Bengal | 10.3 | 12.2 | 17.7 | 33.1 | 23.7 |
| Entity | | | | | |
| Bank | 4.3 | 14.6 | 12.4 | 52.5 | 14.5 |
| NBFC | 5.5 | 11.3 | 22.5 | 34.1 | 9.8 |
| NBFC-MFI | 7.7 | 11.5 | 13.2 | 46.6 | 15.7 |
| SFB | 4.3 | 11.1 | 8.3 | 52.5 | 13.7 |



| Group | Construction of the house | Construction of shop/ structure for business | Farm/crop activity | Investment in existing business | Investment in new business |
|------------------------|---------------------------|--|--------------------|---------------------------------|----------------------------|
| Location | | | | | |
| Rural | 6.7 | 11.8 | 17.9 | 46.2 | 13.0 |
| Urban | 4.3 | 12.9 | 2.6 | 52.1 | 17.3 |
| Wealth quartile | | | | | |
| Q1 | 4.9 | 6.9 | 21.8 | 49.1 | 10.5 |
| Q2 | 7.4 | 10.3 | 14.4 | 46.5 | 12.4 |
| Q3 | 5.7 | 12.4 | 10.5 | 48.9 | 18.9 |
| Q4 | 5.7 | 19.6 | 4.4 | 48.0 | 15.7 |

Note: This was a multiple-response question; respondents could select more than one option. Therefore, total may exceed 100%.

3.4.2 Repayment sources

An effective loan repayment system is crucial for financial sustainability, reducing default risk, and sustaining a steady credit cycle. FGD narratives repeatedly stress this point, with groups reiterating it in weekly/monthly meetings as well as during new-borrower onboarding. Groups actively ensure on-time payments; if a member falls short due to an emergency, others pool funds to cover her instalment. Moreover, if a member repeatedly misses deadlines, she is unlikely to get the next loan unless the entire loan outstanding is repaid.

Borrowers rely on multiple sources to repay loans, including income from the loan-financed activity, the borrower's own other income, income of other household members, remittances, etc. Overall, 71.8% of borrowers repay using income of other members and 51.8% using income directly generated from the activity financed by the loan (**Figure 3.9**).

In Madhya Pradesh (82.4%), Maharashtra (81.7%), and Assam (81.8%), borrowers are repaying the loans using the income generated from their business while in Telangana it was only 7% (**Table 3.11**). The poorest (Q1) borrowers are more reliant on income from the financed activity (59.3%) while as the wealth quartile increases, income of other HH members is relied upon more.

Figure 3.9: Distribution (%) of borrowers by top sources of repayment

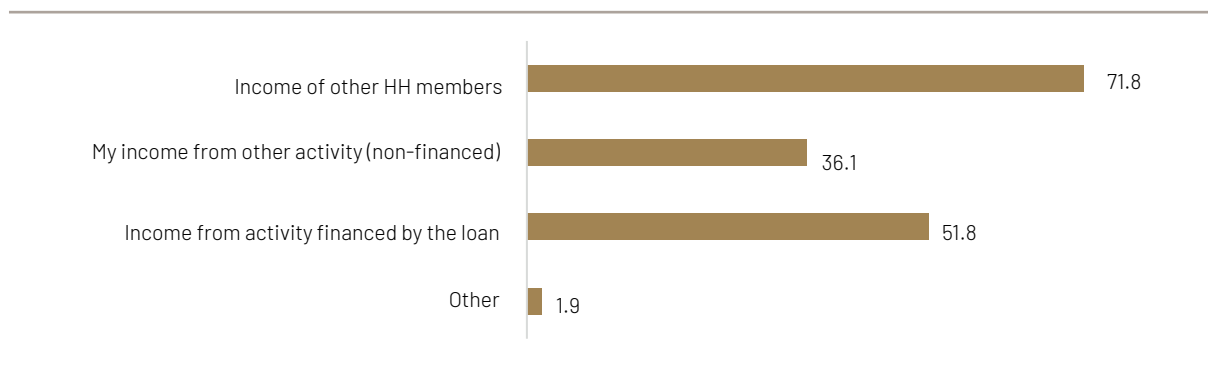


Table 3.11: Distribution (%) of borrowers by top sources of repayment

| Group | Income from activity financed by the loan | Income from other activity (non-financed) | Income of other HH members | Other |
|------------------------|---|---|----------------------------|-------|
| State | | | | |
| Assam | 81.8 | 24.4 | 29.2 | 0.0 |
| Bihar | 62.0 | 22.1 | 67.1 | 2.3 |
| Karnataka | 18.4 | 53.7 | 77.2 | 1.5 |
| Madhya Pradesh | 82.4 | 54.0 | 63.3 | 4.9 |
| Maharashtra | 81.7 | 23.9 | 89.5 | 1.5 |
| Punjab | 67.5 | 15.7 | 95.1 | 0.5 |
| Tamil Nadu | 15.9 | 60.2 | 85.4 | 0.5 |
| Telangana | 7.0 | 36.1 | 86.3 | 2.8 |
| Uttar Pradesh | 54.6 | 20.7 | 85.8 | 4.0 |
| West Bengal | 77.2 | 34.4 | 26.7 | 5.4 |
| Entity | | | | |
| Bank | 61.5 | 29.9 | 65.2 | 1.3 |
| NBFC | 32.2 | 35.4 | 80.0 | 5.6 |
| NBFC-MFI | 50.2 | 37.9 | 70.3 | 3.2 |
| SFB | 52.6 | 40.4 | 79.3 | 0.6 |
| Location | | | | |
| Rural | 54.4 | 32.7 | 70.8 | 2.9 |
| Urban | 46.5 | 43.3 | 73.9 | 1.3 |
| Education | | | | |
| Uneducated | 49.6 | 32.2 | 73.7 | 2.8 |
| Primary | 54.5 | 39.9 | 69.3 | 3.5 |
| Secondary | 53.0 | 37.7 | 70.1 | 1.8 |
| HS & above | 49.2 | 35.1 | 76.6 | 1.8 |
| Wealth quartile | | | | |
| Q1 | 59.3 | 31.2 | 58.8 | 2.9 |
| Q2 | 49.9 | 37.3 | 73.9 | 3.0 |
| Q3 | 44.8 | 43.1 | 74.2 | 2.0 |
| Q4 | 53.3 | 32.5 | 80.8 | 1.6 |

Note: This was a multiple-response question; respondents could select more than one option. Therefore, total may exceed 100%.

Conclusion

This chapter provided a comprehensive overview of the microfinance loan ecosystem, examining access, cost, usage patterns, and associated financial products. The findings indicate that REs have played a significant role in displacing coercive lending by informal sources like local moneylenders.

A key measure of success of the MFI model is its ability to promote credit discipline among borrowers. The data shows that most clients have only one or two active loans, indicating limited multiple lending. Loan amounts and tenures are broadly consistent across socio-economic groups, reflecting standardised lending practices.

In addition to loans, borrowers often purchase financial and non-financial products, though only credit life insurance is mandatory. While many borrowers understand the concept of financial protection through insurance, actual claim experience is limited, pointing to a gap between awareness and effective use. Word-of-mouth referrals play a major role in expanding outreach. Many existing clients serve as endorsers of the lender, introducing new borrowers to lending REs. Overall, the microfinance sector appears to be evolving toward more formal, disciplined, and client-aware lending practices, though challenges remain in product utilisation, claims experience, and outreach strategies tailored to regional contexts.

04

BORROWERS' AWARENESS AND PREFERENCES

This chapter presents the awareness level of borrowers on various aspects related to the credit services offered to them. There are three sections in this chapter. The first section presents the borrower's awareness of loan terms and conditions. The discussion in this section includes awareness around specifics of the loan such as the actual loan amount that was applied for, approved and received, awareness on loan tenure, repayment frequency and instalment amount as well as the awareness of interest rate, processing fees and other costs associated with the loan; understanding of reducing and flat rate of interest, All-Inclusive Interest Rate (AIR), Credit Bureaus (CB), customer grievance redressal systems and if training was provided to the borrower on product terms and conditions.

The second section deals with customer preferences and feedback. Included here is a discussion on the borrower's opinion on interest rates, preferences for loan tenure and repayment frequency, feedback on staff behaviour, on preferred loan source and reasons for the same, difficulties in loan approval, factors that are considered by a borrower while choosing a provider and the borrower's preference when they are in need of extra money.

The last section of the chapter is based on the repayment behaviour shown by microfinance

borrowers. This section includes a discussion on how the customers are repaying loans, the difficulties they face in loan repayment, the use of digital methods for repayments, and understanding of the determinants of better repayment behaviour in borrowers such as their earning capacity.

4.1 Awareness of loan terms and conditions

Borrowers were asked for specifics of the latest loan they had taken from the parent RE that is active, including loan amount, tenure, repayment details and interest rate they were charged along with more qualitative questions to understand their knowledge of CBs and customer grievance redressal systems.

4.1.1 Awareness of loan amount: applied, approved, and received

The borrowers were asked whether they were aware of the loan amounts that they had applied for, the amounts that were approved against their loan application and the sum of money they finally received as loan. Most of the borrowers (94.8%) were able to specify the amount of the loan that they have applied for but a lower share was aware of the amount of loan that was approved (85.3%) and finally received by them (84.3%). Maharashtra and

Telangana (**Table 4.1**) showed high levels of awareness about all of these loan amounts relative to other states. These were also the same states where the proportion of borrowers who reported having been trained

on the product terms and conditions was high. In terms of education level and wealth quartile, the awareness about loan amount applied for, approved and received were seen to increase at higher levels of both metrics.

Table 4.1: Awareness on average loan amount applied for, approved and received

| Group | Loan amount applied (Rs) | Borrowers (%) aware of loan applied | Loan amount approved (Rs) | Borrowers (%) aware of loan approved | Loan amount received (Rs) | Borrowers (%) aware of loan received |
|------------------------|--------------------------|-------------------------------------|---------------------------|--------------------------------------|---------------------------|--------------------------------------|
| State | | | | | | |
| Assam | 47,098 | 100.0 | 43,974 | 93.1 | 42,140 | 92.4 |
| Bihar | 54,215 | 91.3 | 49,479 | 81.6 | 46,696 | 77.8 |
| Karnataka | 55,964 | 95.5 | 55,437 | 71.4 | 52,941 | 64.5 |
| Madhya Pradesh | 61,167 | 78.6 | 54,287 | 92.5 | 52,685 | 89.8 |
| Maharashtra | 52,585 | 100.0 | 48,717 | 97.8 | 46,701 | 99.4 |
| Punjab | 54,769 | 95.5 | 53,876 | 67.3 | 48,404 | 62.6 |
| Tamil Nadu | 68,341 | 97.2 | 67,898 | 93.4 | 63,473 | 91.5 |
| Telangana | 49,420 | 99.2 | 47,389 | 98.2 | 45,394 | 98.9 |
| Uttar Pradesh | 55,904 | 93.3 | 53,825 | 85.4 | 51,072 | 88.8 |
| West Bengal | 61,202 | 98.7 | 56,273 | 73.1 | 52,419 | 79.3 |
| Entity | | | | | | |
| Bank | 57,257 | 92.2 | 53,001 | 87.1 | 51,072 | 87.1 |
| NBFC | 51,108 | 95.6 | 49,384 | 84.9 | 46,483 | 80.6 |
| NBFC-MFI | 56,052 | 96.6 | 53,531 | 82.1 | 50,230 | 82.0 |
| SFB | 61,641 | 93.7 | 58,827 | 90.0 | 55,445 | 87.7 |
| Location | | | | | | |
| Rural | 55,835 | 95.6 | 52,446 | 83.8 | 49,784 | 84.4 |
| Urban | 59,498 | 93.2 | 57,482 | 88.4 | 54,209 | 84.3 |
| Education | | | | | | |
| Uneducated | 56,342 | 91.5 | 53,256 | 80.7 | 50,575 | 78.6 |
| Primary | 59,254 | 95.7 | 56,020 | 85.9 | 52,593 | 84.9 |
| Secondary | 56,440 | 96.2 | 53,904 | 87.1 | 50,878 | 86.5 |
| HS & above | 57,261 | 96.5 | 54,291 | 89.2 | 51,845 | 89.8 |
| Wealth quartile | | | | | | |
| Q1 | 53,615 | 94.5 | 49,955 | 81.4 | 47,130 | 81.5 |
| Q2 | 57,481 | 95.2 | 54,547 | 84.9 | 51,662 | 84.4 |
| Q3 | 59,327 | 95.2 | 56,387 | 88.2 | 53,510 | 85.9 |
| Q4 | 57,572 | 94.4 | 55,442 | 86.7 | 52,424 | 85.6 |
| Overall | 57,006 | 94.8 | 54,144 | 85.3 | 51,222 | 84.3 |

4.1.2 Awareness of loan duration and repayment terms

The survey found that most borrowers were aware of the loan tenure, repayment frequency and the instalment amount. Even in FGDs with the borrowers, it was highlighted how RE officials discuss loan repayment frequently during scheduled meetings that are held weekly or monthly. In these discussions, duration of borrower group members and number of payments remaining for each member are reiterated. This is in addition to the key fact sheet (KFS) provided to the

borrowers at the time of giving them credit, in which a loan instalment schedule is present and regularly updated. Close to 97% of the borrowers were aware of the tenure of the index loan i.e., the latest loan from parent RE that the borrowers were questioned on in detail (**Table 4.2**). Survey data also shows that neither the borrower's education nor their economic status had any impact on their awareness levels about loan tenure, and so this seems to be more a factor of interaction and discussions with the parent RE's loan officers.

Table 4.2: Awareness of tenure of latest loan from Parent RE

| Group | Average loan tenure (months) | Borrowers (%) aware of loan tenure |
|------------------|------------------------------|------------------------------------|
| State | | |
| Assam | 18.5 | 100.0 |
| Bihar | 21.4 | 96.3 |
| Karnataka | 23.2 | 95.2 |
| Madhya Pradesh | 23.1 | 99.8 |
| Maharashtra | 23.8 | 98.3 |
| Punjab | 24.1 | 95.8 |
| Tamil Nadu | 25.0 | 96.1 |
| Telangana | 19.7 | 99.7 |
| Uttar Pradesh | 23.2 | 97.5 |
| West Bengal | 22.6 | 97.5 |
| Entity | | |
| Bank | 19.3 | 96.8 |
| NBFC | 23.8 | 98.9 |
| NBFC-MFI | 23.6 | 96.8 |
| SFB | 24.5 | 98.2 |
| Location | | |
| Rural | 22.8 | 97.6 |
| Urban | 22.5 | 96.7 |
| Education | | |
| Uneducated | 22.5 | 96.9 |
| Primary | 23.2 | 97.6 |
| Secondary | 22.6 | 97.4 |
| HS & above | 22.6 | 97.6 |



| Group | Average loan tenure (months) | Borrowers (%) aware of loan tenure |
|------------------------|------------------------------|------------------------------------|
| Wealth quartile | | |
| Q1 | 21.9 | 97.4 |
| Q2 | 22.9 | 96.9 |
| Q3 | 23.2 | 97.2 |
| Q4 | 22.7 | 97.8 |
| Overall | 22.7 | 97.3 |

Similarly, almost all the borrowers (98.5%) were aware of the instalment amount they pay for the loan being asked about. This finding makes intuitive sense. In addition to group and centre discussions with the RE loan officer, for payment of microfinance loan instalments in a JLG model, the borrowers also have to be physically present at group meetings at a pre-decided frequency where the instalments are discussed and paid directly to the loan officer, often in cash.

4.1.3 Knowledge of interest rate and associated loan costs

The data on interest rate charged by MFIN members shows that the minimum and maximum interest rate charged by them vary from 16% to 27.8% on a reducing balance basis. As per the survey, only 47.1% of borrowers were aware of the interest rate for the index loan with the parent RE (**Table 4.3**) and the average interest rate across all borrowers for the latest loan from parent RE was estimated to be 23.9%. As discussed in the previous chapter, this is in line with the reported interest rate limits charged by MFIN members overall. In case of most of the REs, the loan officers educate the borrowers about the loan tenure, weekly/monthly

instalments they are required to pay and the total repayment amount before disbursing the loans. Some of the topics, like interest rate, the AIR etc., are discussed with the borrowers at the beginning of their interaction with the parent RE, before the loan disbursement has taken place. Borrowers' mental retention of this information could thus be low. While the borrowers are aware that the rate of interest is mentioned on their loan cards, they could not recall the exact rates themselves. Even those who said that they could recall this could only provide a broad value.

The borrowers' awareness of the interest rate of the current outstanding loan taken from the parent RE showed some variation across states with Telangana (75.8%) and Tamil Nadu (71.7%) showing higher than average awareness and states like Karnataka (23.1%) and Punjab (28.6%) performing poorly at this. In Punjab, only two thirds of the borrowers had also reported being provided training on the products terms and conditions. Incidentally, it was borrowers in rural locations that reported higher awareness of interest rates they were being charged on loans versus urban borrowers.

As with interest rate, borrowers' awareness of the amount of processing fees charged on

Table 4.3: Awareness of interest rate of the latest outstanding loan with parent RE

| Group | Borrowers (%) aware of the interest rate |
|------------------------|--|
| State | |
| Assam | 52.9 |
| Bihar | 38.2 |
| Karnataka | 23.1 |
| Madhya Pradesh | 61.5 |
| Maharashtra | 33.8 |
| Punjab | 28.6 |
| Tamil Nadu | 71.7 |
| Telangana | 75.8 |
| Uttar Pradesh | 33.7 |
| West Bengal | 57.7 |
| Entity | |
| Bank | 53.8 |
| NBFC | 48.3 |
| NBFC-MFI | 48.5 |
| SFB | 35.3 |
| Location | |
| Rural | 51.0 |
| Urban | 39.1 |
| Education | |
| Uneducated | 42.4 |
| Primary | 44.2 |
| Secondary | 48.7 |
| HS & above | 56.7 |
| Wealth quartile | |
| Q1 | 47.5 |
| Q2 | 52.0 |
| Q3 | 43.0 |
| Q4 | 46.1 |
| Overall | 47.1 |

their index loans was also seen to be relatively low. A majority of them (59.2%) were aware of a processing fee being charged for the loan disbursed to them but could not specify the amount of this fee. Only 20.1% of borrowers were aware of and could recall the sum of money paid as processing fees for their loans. About 16% of borrowers were not aware of any such fee being deducted from their loan at all. The processing fee is deducted upfront from the loan, and the balance is disbursed to the borrower's account. Further, at the time of disbursement, borrowers are informed about the deductions, but since this is a one-time process, borrowers may tend to forget the value or proportion of their loan that was deducted as processing fee. The recall of this aspect of the loan was therefore found low compared to the amount of instalment for repayment of the loan or the loan tenure.

Telangana (77.3%) and Tamil Nadu (59.5%), reporting high level of borrower awareness, were also states where over 95% of the borrowers reported being trained by the parent RE on the loan's procedure and terms (**Table 4.4**). In Bihar (50.1%) and Uttar Pradesh (25.6%) the shares of borrowers who are not aware of processing fee are higher than the other 8 states. It is pertinent to note here that in both these states, the demography majorly comprises borrowers who are uneducated or have only primary level of education which might impact their ability to absorb technical specifics of the loans. A majority of borrowers across all entity types reported that they were aware of paying processing fees, without being aware of the actual amount paid.



Table 4.4: Awareness (%) of the amount of processing fees paid on the loan

| Group | Aware | Paid, but do not know the amount | Not applicable | Not aware |
|------------------------|-------|----------------------------------|----------------|-----------|
| State | | | | |
| Assam | 3.7 | 48.4 | 35.0 | 12.9 |
| Bihar | 0.9 | 41.3 | 7.7 | 50.1 |
| Karnataka | 1.0 | 96.2 | 0.6 | 2.3 |
| Madhya Pradesh | 28.3 | 65.6 | 0.5 | 5.6 |
| Maharashtra | 2.3 | 88.1 | 6.7 | 3.0 |
| Punjab | 1.1 | 97.3 | 0.0 | 1.6 |
| Tamil Nadu | 59.5 | 27.6 | 0.2 | 12.7 |
| Telangana | 77.3 | 12.9 | 0.0 | 9.8 |
| Uttar Pradesh | 14.2 | 60.2 | 0.1 | 25.6 |
| West Bengal | 12.3 | 69.6 | 3.5 | 14.7 |
| Entity | | | | |
| Bank | 9.1 | 58.4 | 12.2 | 20.3 |
| NBFC | 38.7 | 48.4 | 2.0 | 11.0 |
| NBFC-MFI | 21.3 | 60.9 | 2.0 | 15.9 |
| SFB | 22.1 | 61.8 | 1.1 | 15.0 |
| Location | | | | |
| Rural | 21.9 | 54.5 | 5.7 | 18.0 |
| Urban | 16.3 | 68.9 | 1.7 | 13.0 |
| Education | | | | |
| Uneducated | 16.4 | 54.1 | 3.5 | 26.0 |
| Primary | 18.7 | 64.1 | 2.5 | 14.7 |
| Secondary | 20.8 | 61.5 | 5.4 | 12.3 |
| HS & above | 28.0 | 56.6 | 5.6 | 9.8 |
| Wealth quartile | | | | |
| Q1 | 13.3 | 49.1 | 8.5 | 29.1 |
| Q2 | 23.9 | 57.7 | 4.1 | 14.3 |
| Q3 | 18.2 | 68.6 | 2.5 | 10.8 |
| Q4 | 25.4 | 61.2 | 2.4 | 11.0 |

4.1.4 Understanding of reducing vs. flat interest rate

Interest on loans are charged by REs on a reducing balance and disclosed in the KFS. However, loans from informal sources are generally on a flat rate, wherein the interest is calculated on the original principal amount throughout the loan term, regardless of how much of the principal has been repaid. This means the interest payment remains constant throughout the loan. With a reducing balance interest rate, the interest is calculated on the outstanding principal amount or the balance loan amount after each repayment. As the principal amount decreases with each payment, the interest amount also decreases. Hence, a higher interest component is charged in the initial part of the loan tenure which gradually decreases towards the end. Since borrowers should know the difference

between reducing and flat interest rates, the survey tried to measure this understanding.

Nearly 63% of the surveyed borrowers did not know whether the parent RE loan was being charged interest at a reducing rate or a flat rate. Only 28% of the borrowers could report that their loans attracted interest on a reducing balance basis. Again, Karnataka, Bihar and Uttar Pradesh (**Table 4.5**) saw a larger share of borrowers unaware of the method by which they were being charged interest. On this front also, borrowers in Maharashtra, Madhya Pradesh and Tamil Nadu had better awareness. Among RE types, NBFC borrowers incorrectly noted interest being charged to them at a flat rate, compared to borrowers of other types of entities. This awareness seemed to improve with attainment of higher levels of education as well as wealth.

Table 4.5: Awareness (%) of flat or reducing rate of interest on loan from parent RE

| Group | Reducing rate | Flat rate | Do not know |
|-----------------|---------------|-----------|-------------|
| State | | | |
| Assam | 18.4 | 9.5 | 72.1 |
| Bihar | 8.8 | 9.2 | 82.0 |
| Karnataka | 8.5 | 0.7 | 90.8 |
| Madhya Pradesh | 53.6 | 1.1 | 45.3 |
| Maharashtra | 73.8 | 0.0 | 26.2 |
| Punjab | 5.6 | 1.1 | 93.3 |
| Tamil Nadu | 51.1 | 18.0 | 30.9 |
| Telangana | 42.1 | 21.0 | 36.9 |
| Uttar Pradesh | 12.5 | 4.3 | 83.2 |
| West Bengal | 3.8 | 21.2 | 75.0 |
| Entity | | | |
| Bank | 23.8 | 9.7 | 66.5 |
| NBFC | 19.3 | 17.1 | 63.7 |
| NBFC-MFI | 30.0 | 7.3 | 62.8 |
| SFB | 32.6 | 7.3 | 60.1 |
| Location | | | |
| Rural | 26.7 | 10.7 | 62.6 |
| Urban | 30.3 | 5.1 | 64.6 |

| Group | Reducing rate | Flat rate | Do not know |
|------------------------|---------------|------------|-------------|
| Education | | | |
| Uneducated | 20.0 | 8.1 | 72.0 |
| Primary | 26.3 | 8.5 | 65.1 |
| Secondary | 31.0 | 9.2 | 59.8 |
| HS & above | 38.0 | 9.8 | 52.3 |
| Wealth quartile | | | |
| Q1 | 18.2 | 10.2 | 71.6 |
| Q2 | 34.0 | 8.7 | 57.4 |
| Q3 | 26.9 | 7.9 | 65.2 |
| Q4 | 33.0 | 8.6 | 58.4 |
| Overall | 27.9 | 8.9 | 63.3 |

4.1.5 Awareness of All-Inclusive Interest Rate

All-inclusive interest rate (AIR) represents the overall cost of borrowing and includes the interest rate plus all other fees associated with the loan and disclosed in the KFS to the borrower at the time of disbursement. Depending on the products offered with these loans such as credit life insurance, health insurance or other products, the AIR differs from entity to entity.

Almost none of the borrowers in the survey were aware of the AIR of their latest loan with

the parent RE except a negligible share of 1.5% (**Table 4.6**). As per this small proportion of borrowers, the average AIR was 23.9%. Since this is the same as the average interest rate of loan found from the survey, there is a possibility that those who confirmed their knowledge of AIR and reported the percentage for it did not really know or understand AIR as a concept different from the rate of interest charged on the loan. Urban borrowers and those with higher levels of education reported having more awareness of this term than others.

Table 4.6: Awareness of AIR for parent RE loan

| Group | Average AIR | Borrowers (%) aware of AIR |
|----------------|-------------|----------------------------|
| State | | |
| Assam | 24.3 | 1.0 |
| Bihar | 21.4 | 0.1 |
| Karnataka | 24.0 | 0.1 |
| Madhya Pradesh | 24.0 | 6.9 |
| Maharashtra | 24.9 | 1.3 |
| Punjab | 0.0 | 0.0 |
| Tamil Nadu | 22.7 | 0.1 |
| Telangana | 23.6 | 7.6 |
| Uttar Pradesh | 22.4 | 0.7 |
| West Bengal | 24.2 | 1.3 |

| Group | Average AIR | Borrowers (%) aware of AIR |
|------------------------|-------------|----------------------------|
| Entity | | |
| Bank | 22.9 | 2.4 |
| NBFC | 23.5 | 0.7 |
| NBFC-MFI | 24.2 | 1.3 |
| SFB | 26.6 | 1.4 |
| Location | | |
| Rural | 23.6 | 0.7 |
| Urban | 24.0 | 3.2 |
| Education | | |
| Uneducated | 23.7 | 0.9 |
| Primary | 24.1 | 0.9 |
| Secondary | 24.1 | 1.6 |
| HS & above | 23.5 | 3.7 |
| Wealth quartile | | |
| Q1 | 23.4 | 1.4 |
| Q2 | 23.9 | 1.7 |
| Q3 | 23.9 | 2.4 |
| Q4 | 24.1 | 2.8 |
| Overall | 23.9 | 1.5 |

4.1.6 Awareness of credit bureau and its role

The function of a credit bureau or credit information company (CIC) is to collect, maintain, and report on the credit information of individuals and businesses. Such information on the loans/borrowers is provided to the CICs by the lenders at a pre-defined interval – for microfinance loans it is now on a weekly basis but many NBFC-MFIs are reporting information on a daily basis as well. The information from CBs is used by the REs to ascertain eligibility of an individual for receiving a loan. Hence, CBs play an important

role in the assessment that an RE makes before lending to a prospective borrower who has some demand for credit. For checking their understanding of the process of loan approval vis-à-vis CBs, borrowers were asked whether they were aware of the CBs in India and their functions (**Table 4.7**). If the borrower mentioned that they know about CBs and could explain their functions, the response was coded as ‘fully aware’ in the survey. If the borrower mentioned that they had heard about CB, but could not explain what their function was, their response was coded as ‘partially aware’.



Table 4.7: Awareness (%) of the function of credit bureau

| Group | Fully aware | Partially aware | Not aware |
|------------------------|-------------|-----------------|-------------|
| State | | | |
| Assam | 30.0 | 38.1 | 31.9 |
| Bihar | 21.6 | 2.2 | 76.2 |
| Karnataka | 1.0 | 63.7 | 35.4 |
| Madhya Pradesh | 23.9 | 39.5 | 36.6 |
| Maharashtra | 0.9 | 4.5 | 94.7 |
| Punjab | 0.0 | 0.9 | 99.1 |
| Tamil Nadu | 6.3 | 87.9 | 5.8 |
| Telangana | 17.3 | 75.5 | 7.1 |
| Uttar Pradesh | 6.8 | 31.1 | 62.1 |
| West Bengal | 22.7 | 26.1 | 51.2 |
| Entity | | | |
| Bank | 14.9 | 32.5 | 52.6 |
| NBFC | 8.1 | 52.5 | 39.4 |
| NBFC-MFI | 12.7 | 37.0 | 50.3 |
| SFB | 10.2 | 42.8 | 47.0 |
| Location | | | |
| Rural | 14.0 | 32.4 | 53.6 |
| Urban | 8.7 | 51.3 | 40.0 |
| Education | | | |
| Uneducated | 13.3 | 28.2 | 58.5 |
| Primary | 10.4 | 36.9 | 52.7 |
| Secondary | 12.5 | 43.9 | 43.6 |
| HS & above | 12.1 | 47.1 | 40.9 |
| Wealth quartile | | | |
| Q1 | 19.0 | 22.9 | 58.1 |
| Q2 | 11.5 | 40.0 | 48.5 |
| Q3 | 9.2 | 51.8 | 39.1 |
| Q4 | 9.4 | 39.4 | 51.2 |
| Overall | 12.3 | 38.6 | 49.1 |

Half the borrowers (49.1%) were not aware of CBs or their functions. Only 12% of surveyed borrowers were fully aware of what a CB is and what it does while a larger 39% were only partially aware and could faintly relate to the term, having possibly heard about it sometime during their loan application process. Information regarding the role of a CB is provided by REs to borrowers during the application process. Thus, due to possible recall lapse, the borrowers were not very clear about the function of a CB. Punjab had a high (99%) proportion of borrowers who had no recollection of the concept of a CB. However, many of the borrowers, as was noted during FGDs, are aware of the term “CIBIL” (meaning CIBIL score) and hold the understanding that maintaining a good CIBIL score is crucial to be seen as a good or safe party to lend money to by REs. As a positive, proportion of borrowers in rural locations who identified the concept of CBs were more than those in urban locations. At the same time, education did not seem to align with awareness of CBs. Among the small proportion of borrowers who were fully aware of CBs and their functions, it is the borrowers of Banks (14.9%) that were the highest in number. Fully aware borrowers were seen to relate with the term with increasing levels of education, with a higher proportion of unaware borrowers among those who are uneducated and those having studied up to the primary level.

4.1.7 Awareness of customer grievance redressal mechanism

Customer Grievance Redressal Mechanism (CGRM) is recognized by both the RBI as well as microfinance lenders as a tool to understand customer satisfaction, by addressing their queries and complaints. It also helps to get insights about the customers’ requirements and expectations. Each RE is required to set up an internal CGRM system guided by a board-approved policy as specified by the RBI through its Fair Practice Code (FPC). The channels available to customers for

registering their complaints are at branch level (through complaint boxes and register) and at the company level (toll-free phone numbers mentioned on the loan cards, e-mails, and postal address). The turnaround time (TAT) for an RE in case of a complaint is usually 15 days but can vary depending on the nature of the complaint. An escalation matrix exists for complaints and must be made known to the customer by the RE. If the complaint is not resolved by the RE or if the customer remains dissatisfied with resolution provided by the RE, then she can escalate the same to MFIN. To aid such a situation, MFIN’s toll free number is also printed on the loan cards along with that of the RE. MFIN CGRM TAT is 2 calendar days for critical complaints, 10 for non-critical complaints, and 15 for complaints involving third party products, insurance or CBs. If the customer is not satisfied with the resolution provided by MFIN or if the complaint remains unresolved for more than 30 days, then the customer can choose to approach RBI Ombudsman for further assistance regarding the grievance.

FGD findings reveal that borrowers have been informed by lenders, that in case of any grievances, they can directly register complaints using the helpline number or visit the RE’s customer care cell in the branch office and submit a complaint in the complaint box, or escalate it to regional officers, principal nodal officers and the Ombudsman. The survey shows that six out of every ten borrowers were aware of the grievance redressal process (**Table 4.8**). States where a very high proportion of borrowers were aware of the CGRM process included Maharashtra (96.9%) and Telangana (93.3%). States of Bihar (62.8%), Karnataka (60.1%), Assam (53.1%) and West Bengal (52.6%) lagged in this aspect. Awareness was marginally higher for borrowers from SFBs and in rural areas. Increasing levels of awareness were found with increasing levels of education, and this trend was also seen with increasing levels of wealth.



Table 4.8: Share of borrowers (%) aware of the grievance redressal process

| Group | Aware | Not aware |
|------------------------|-------------|-------------|
| State | | |
| Assam | 46.9 | 53.1 |
| Bihar | 37.2 | 62.8 |
| Karnataka | 39.9 | 60.1 |
| Madhya Pradesh | 70.4 | 29.6 |
| Maharashtra | 96.9 | 3.2 |
| Punjab | 57.0 | 43.0 |
| Tamil Nadu | 56.4 | 43.6 |
| Telangana | 93.3 | 6.7 |
| Uttar Pradesh | 70.8 | 29.2 |
| West Bengal | 47.4 | 52.6 |
| Entity | | |
| Bank | 54.9 | 45.1 |
| NBFC | 56.6 | 43.4 |
| NBFC-MFI | 59.8 | 40.3 |
| SFB | 66.6 | 33.4 |
| Location | | |
| Rural | 60.8 | 39.3 |
| Urban | 57.2 | 42.8 |
| Education | | |
| Uneducated | 52.7 | 47.3 |
| Primary | 53.3 | 46.7 |
| Secondary | 63.2 | 36.8 |
| HS & above | 72.3 | 27.7 |
| Wealth quartile | | |
| Q1 | 47.3 | 52.7 |
| Q2 | 62.2 | 37.8 |
| Q3 | 61.5 | 38.5 |
| Q4 | 68.0 | 32.0 |
| Overall | 59.6 | 40.4 |

4.1.8 Training provided on loan product terms and conditions

The borrowers were asked if the parent RE had provided training on terms of the loan product and the loan-taking process. About 86% of borrowers reported being provided

this training (**Table 4.9**). In one of the FGDs conducted in Hanamkonda of Warangal, Telangana, the borrower group members said that the parent RE provides training during group meetings lasting 2 to 3 hours. Topics covered include group formation, loan application processes, loan tenure, repayment

schedules, and strategies for increasing savings. Additionally, training sessions emphasise credit life insurance, health insurance, and an explanation of interest rates (flat versus reducing). There was not a lot of difference observed in the percentage

of trained borrowers in rural and urban areas or across RE types, though lesser number of borrowers in Punjab (66.9%) and West Bengal (72.2%) recalled receiving the training.

Table 4.9: Borrowers (%) who reported receiving training on their process & product terms

| Group | Provided training | Not provided | Do not remember |
|------------------------|-------------------|--------------|-----------------|
| State | | | |
| Assam | 97.7 | 0.2 | 2.1 |
| Bihar | 87.5 | 9.2 | 3.3 |
| Karnataka | 92.1 | 5.1 | 2.8 |
| Madhya Pradesh | 79.1 | 10.5 | 10.5 |
| Maharashtra | 85.9 | 13.3 | 0.9 |
| Punjab | 66.9 | 4.2 | 28.9 |
| Tamil Nadu | 95.0 | 3.2 | 1.8 |
| Telangana | 96.2 | 3.4 | 0.4 |
| Uttar Pradesh | 79.1 | 9.6 | 11.3 |
| West Bengal | 72.2 | 14.4 | 13.4 |
| Entity | | | |
| Bank | 83.9 | 9.4 | 6.7 |
| NBFC | 90.9 | 4.5 | 4.5 |
| NBFC-MFI | 84.8 | 7.7 | 7.5 |
| SFB | 88.4 | 6.9 | 4.7 |
| Location | | | |
| Rural | 86.0 | 7.5 | 6.5 |
| Urban | 85.7 | 8.1 | 6.2 |
| Education | | | |
| Uneducated | 84.0 | 8.0 | 8.0 |
| Primary | 81.8 | 10.2 | 8.0 |
| Secondary | 87.9 | 6.8 | 5.3 |
| HS & above | 89.7 | 6.2 | 4.1 |
| Wealth quartile | | | |
| Q1 | 85.1 | 7.6 | 7.3 |
| Q2 | 85.5 | 9.2 | 5.3 |
| Q3 | 87.3 | 7.8 | 4.9 |
| Q4 | 85.7 | 6.0 | 8.3 |
| Overall | 85.9 | 7.7 | 6.4 |

4.2 Customer preferences and feedback

This section of the report presents the borrower’s preferences on loan terms and conditions.

4.2.1 Borrowers’ opinion on interest rates

The borrowers were seen to be divided in their opinion of whether the parent RE has provided the loan at competitive rates as compared to the market. Their opinion seemed to be based more on perception of various factors other than knowledge or memory of actual interest rates prevailing in the market. Here, it is important to note that many of the borrowers have multiple loans from different REs running at the same point in time. About 30% of the borrowers feel that the interest rate charged by the parent RE is inconsequential because the alternate to it would be borrowing from money lenders and local shopkeepers who charge them ‘exorbitant rates’. From **Figure 4.1** it can be said that a little over half of the borrowers (50.4%) are comfortable with parent RE rates and feel that these rates are competitive with the market.

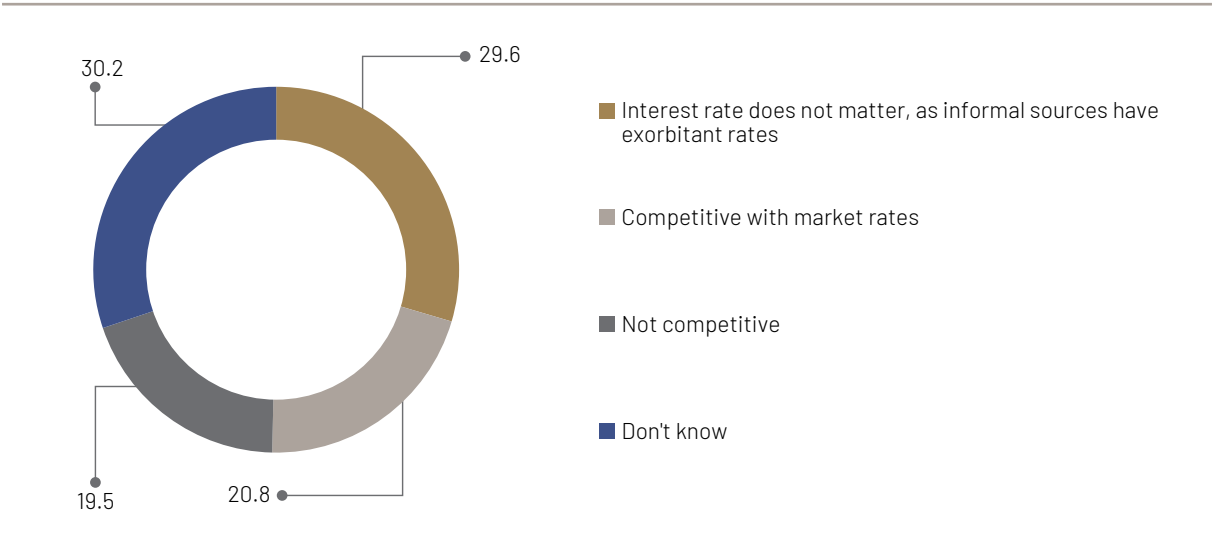
As has been stated in earlier chapters, about 52% (**Table 4.3**) of the borrowers did not know and could not respond to the question

on interest rate being charged on their current outstanding loan from the parent RE. Such borrowers have also expressed their perception of whether the parent RE interest rates are competitive with the market. Based on their perception, 29.6% of such borrowers felt that the RE interest rate did not matter as the interest rate from alternate informal loan sources was much higher, and about 20.8% felt that the interest rate was competitive with the market. About 19.5% said that the interest rates were not competitive and about 30.2% said that they did not know.

States in which 40% to 66% of the borrowers stated that they did not know whether the parent RE interest rate was competitive with the market included Maharashtra, West Bengal, Uttar Pradesh and Bihar. States in which a greater number of borrowers felt that the parent RE interest rate was competitive included Uttar Pradesh (43%) and Telangana (39.2%). Further, particularly in Assam, the share of borrowers who did not think that the parent RE interest rate was competitive, was high (**Table 4.10**).

In terms of borrowers of different types of REs, a far higher proportion of the borrowers of SFB mentioned that the parent RE interest rates is not important, considering the alternative rates of money lenders. Borrowers

Figure 4.1: Borrowers opinion on interest rates (%)



of NBFC-MFIs have reported in highest proportion (23.8%) that the parent RE interest rates were competitive. Borrowers of Banks have reported in highest proportion (29%) about not finding parent RE rates competitive. Over twice the number of urban borrowers (over rural) mentioned that the parent RE

interest rate is not important. Also, the highest proportion of borrowers (35.4%) who reported that they did not know about interest rates were uneducated. Of those reporting that parent RE rates are not competitive, the highest proportion were borrowers from the lowest wealth quartile.

Table 4.10: Share of borrowers (%) by their opinion on interest rate charged by parent RE in comparison to the market

| Group | Interest rate does not matter, as informal sources have exorbitant rates | Competitive with market rates | Not competitive | Don't know |
|------------------|--|-------------------------------|-----------------|------------|
| State | | | | |
| Assam | 9.8 | 6.0 | 67.3 | 16.9 |
| Bihar | 9.5 | 11.1 | 38.6 | 40.9 |
| Karnataka | 49.0 | 15.5 | 5.5 | 30.1 |
| Madhya Pradesh | 65.5 | 23.9 | 5.4 | 5.2 |
| Maharashtra | 2.4 | 2.0 | 29.2 | 66.4 |
| Punjab | 58.4 | 1.8 | 24.2 | 15.6 |
| Tamil Nadu | 65.4 | 26.5 | 2.5 | 5.6 |
| Telangana | 22.8 | 39.2 | 26.9 | 11.2 |
| Uttar Pradesh | 8.5 | 43.0 | 8.6 | 39.8 |
| West Bengal | 6.5 | 29.6 | 12.1 | 51.8 |
| Entity | | | | |
| Bank | 22.3 | 19.3 | 29.0 | 29.5 |
| NBFC | 25.0 | 20.9 | 20.3 | 33.8 |
| NBFC-MFI | 29.1 | 23.8 | 15.1 | 32.0 |
| SFB | 41.7 | 16.0 | 16.9 | 25.4 |
| Location | | | | |
| Rural | 21.2 | 22.4 | 21.9 | 34.5 |
| Urban | 46.8 | 17.4 | 14.7 | 21.1 |
| Education | | | | |
| Uneducated | 21.6 | 21.6 | 21.4 | 35.4 |
| Primary | 32.2 | 20.3 | 15.4 | 32.1 |
| Secondary | 32.6 | 19.7 | 20.3 | 27.4 |
| HS & above | 34.1 | 23.0 | 18.6 | 24.3 |

| Group | Interest rate does not matter, as informal sources have exorbitant rates | Competitive with market rates | Not competitive | Don't know |
|------------------------|--|-------------------------------|-----------------|-------------|
| Wealth quartile | | | | |
| Q1 | 12.3 | 21.4 | 27.4 | 39.0 |
| Q2 | 24.4 | 24.1 | 16.4 | 35.2 |
| Q3 | 43.7 | 16.5 | 13.5 | 26.3 |
| Q4 | 37.8 | 21.4 | 21.1 | 19.8 |
| Overall | 29.6 | 20.8 | 19.5 | 30.2 |

4.2.2 Preferred loan duration and repayment schedule

The borrowers were asked about their preferred loan tenure and majority of the borrowers (76.8%) mentioned that they would prefer loans for a tenure of 1 to 2 years (Table 4.11). Tenures longer than 3 years are not preferred by borrowers unless the loan amount is relatively larger. The survey shows that borrowers, who have taken small loans (up to Rs 25,000), prefer shorter loan tenures with 29% preferring less than 12 months of loan duration, 58% preferring 12 to 24 months, and

the rest mostly up to 36 months. About 73% to 81% of borrowers having larger loan sizes (from Rs 25,001 up to Rs 1,00,000) have mentioned that they prefer loan tenure between 12 to 24 months. However, borrowers who have larger loans still, have stated preferences of longer loan tenure. About 24% of borrowers having loans more than Rs 1 lakh and 18% having loans between Rs 75,000 and Rs 1 lakh have mentioned their preference for 24 to 36 months to pay off the loan. This implies that borrowers feel that it is important to keep the instalment size low to manage repayments better (Table 4.12).

Table 4.11: Distribution (%) of borrowers in terms of loan tenure preferences

| Group | <12 months | 12-24 months | 24-36 months | >36 months |
|----------------|------------|--------------|--------------|------------|
| State | | | | |
| Assam | 42.4 | 57.4 | 0.2 | 0.0 |
| Bihar | 16.9 | 81.1 | 1.6 | 0.4 |
| Karnataka | 2.5 | 42.8 | 51.2 | 3.5 |
| Madhya Pradesh | 13.1 | 86.7 | 0.2 | 0.0 |
| Maharashtra | 1.7 | 92.1 | 6.2 | 0.0 |
| Punjab | 0.4 | 92.8 | 6.5 | 0.4 |
| Tamil Nadu | 1.0 | 77.8 | 21.2 | 0.1 |
| Telangana | 29.4 | 69.8 | 0.7 | 0.1 |
| Uttar Pradesh | 4.2 | 92.7 | 3.0 | 0.2 |
| West Bengal | 17.7 | 76.4 | 4.4 | 1.5 |

| Group | <12 months | 12-24 months | 24-36 months | >36 months |
|------------------------|-------------|--------------|--------------|------------|
| Entity | | | | |
| Bank | 27.6 | 66.4 | 5.0 | 1.1 |
| NBFC | 3.7 | 86.5 | 9.8 | 0.1 |
| NBFC-MFI | 6.4 | 78.5 | 14.2 | 0.9 |
| SFB | 3.9 | 81.6 | 14.4 | 0.2 |
| Location | | | | |
| Rural | 11.6 | 81.0 | 6.7 | 0.7 |
| Urban | 9.8 | 68.2 | 21.3 | 0.7 |
| Education | | | | |
| Uneducated | 12.1 | 79.7 | 7.8 | 0.5 |
| Primary | 8.3 | 78.8 | 11.8 | 1.1 |
| Secondary | 11.3 | 74.2 | 13.8 | 0.8 |
| HS & above | 11.6 | 76.2 | 11.7 | 0.6 |
| Wealth quartile | | | | |
| Q1 | 16.5 | 79.3 | 3.7 | 0.5 |
| Q2 | 9.5 | 78.0 | 11.9 | 0.7 |
| Q3 | 7.3 | 70.7 | 21.1 | 0.9 |
| Q4 | 10.8 | 79.7 | 8.9 | 0.6 |
| Overall | 11.0 | 76.8 | 11.5 | 0.7 |

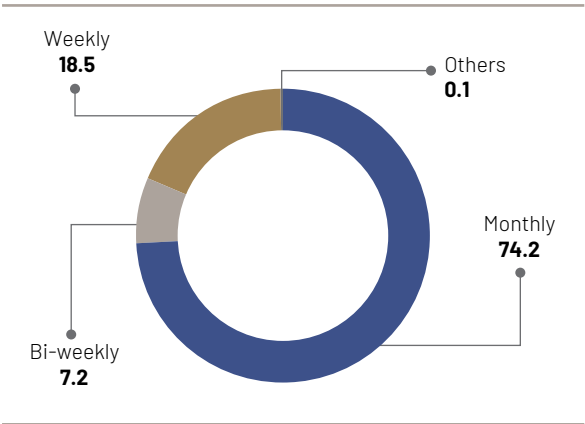
Table 4.12: Distribution of borrowers (%) by size of approved loan and preference for loan tenure

| Approved loan category (Rs) | <12 Months | 12-24 Months | 24-36 Months | 36-48 Months | >48 Months |
|-----------------------------|-------------|--------------|--------------|--------------|------------|
| 0-25,000 | 29.0 | 58.0 | 12.5 | 0.4 | 0.0 |
| 25,001-50,000 | 12.6 | 80.8 | 6.5 | 0.0 | 0.0 |
| 50,001-75,000 | 7.7 | 79.2 | 13.0 | 0.0 | 0.0 |
| 75,001-100,000 | 8.4 | 72.9 | 18.2 | 0.5 | 0.0 |
| >100,000 | 4.6 | 66.1 | 24.4 | 4.6 | 0.3 |
| Don't know the amount | 8.0 | 70.5 | 18.7 | 2.1 | 0.7 |
| Overall | 11.0 | 76.8 | 11.5 | 0.5 | 0.1 |

Most borrowers who prefer a tenure of less than one year were from Assam (42.2%) while those who preferred slightly longer than average (2-3 years) tenure were in Karnataka (51.2%). Majority of the borrowers in both rural and urban locations preferred loan tenure of 12-24 months. Here however, it was noticed that longer tenure of 2-4 years was preferred by urban borrowers over 3 times the number of rural borrowers. This could be reflective of the difference in earning capacity and hence the ability to repay of rural borrowers compared to urban ones. Similarly, the lowest quartile showed the highest share of borrowers preferring short duration loans.

About 74.2% of all surveyed borrowers prefer monthly payment of loan instalments. Weekly repayment comes second to this with 18.5% borrowers ranking it as their preferred frequency (Figure 4.2).

Figure 4.2: Share of borrowers (%) by their preferred repayment frequency



Preference of repayment frequency of the parent RE loan has been analysed in conjunction with the captured data on number of outstanding loans that borrowers had. Irrespective of the number of loans present with the borrowers, more than 70% reported a preference of a monthly repayment schedule. The proportion of borrowers who have 2-4 loans outstanding and prefer monthly repayment is higher at 76% to 78% compared to those with only 1 outstanding loan (Table 4.13). This could be because of the burden of paying higher overall loan instalments as well as the opportunity cost of attending separate and more frequent meetings if the multiple outstanding loans were from different REs. The former cause can also be linked to the cash flow these borrowers have - those engaged in trading activities may prefer weekly repayments, while those receiving salary or agricultural income may prefer monthly repayment of loans.

The survey data also shows that a higher proportion of borrowers who have monthly sources of income or income inflow after elongated periods prefer a monthly repayment schedule. This proportion is as high as 94% for those undertaking MGNREGA work, as the payment for work here is on a periodic basis. Conversely, almost a fourth of the borrowers who earn from professional self-employment, non-farm self-employment, business enterprises operating from fixed premises and petty traders prefer the weekly repayment schedule.

Table 4.13: Share of borrowers (%) by preferred repayment frequency

| Group | Weekly | Bi-weekly | Monthly | Others |
|------------------------|-------------|------------|-------------|------------|
| State | | | | |
| Assam | 46.1 | 4.7 | 49.2 | 0.0 |
| Bihar | 19.5 | 2.1 | 78.3 | 0.1 |
| Karnataka | 19.6 | 13.7 | 66.7 | 0.0 |
| Madhya Pradesh | 10.1 | 5.0 | 84.9 | 0.0 |
| Maharashtra | 30.5 | 3.0 | 66.6 | 0.0 |
| Punjab | 4.2 | 5.6 | 90.2 | 0.0 |
| Tamil Nadu | 2.8 | 8.3 | 88.9 | 0.1 |
| Telangana | 30.1 | 11.8 | 57.8 | 0.3 |
| Uttar Pradesh | 11.4 | 11.1 | 77.3 | 0.2 |
| West Bengal | 25.5 | 5.8 | 68.7 | 0.0 |
| Entity | | | | |
| Bank | 47.4 | 4.6 | 47.8 | 0.1 |
| NBFC | 0.5 | 0.8 | 98.7 | 0.0 |
| NBFC-MFI | 13.8 | 11.2 | 75.0 | 0.0 |
| SFB | 1.5 | 5.1 | 93.4 | 0.1 |
| Location | | | | |
| Rural | 17.8 | 5.2 | 77.0 | 0.0 |
| Urban | 20.1 | 11.4 | 68.5 | 0.1 |
| Education | | | | |
| Uneducated | 16.6 | 6.6 | 76.7 | 0.2 |
| Primary | 19.1 | 7.3 | 73.6 | 0.0 |
| Secondary | 20.1 | 7.6 | 72.4 | 0.0 |
| HS & above | 17.2 | 7.4 | 75.4 | 0.1 |
| Wealth quartile | | | | |
| Q1 | 20.1 | 3.5 | 76.3 | 0.0 |
| Q2 | 17.4 | 6.2 | 76.3 | 0.1 |
| Q3 | 15.7 | 11.1 | 73.2 | 0.0 |
| Q4 | 21.2 | 8.0 | 70.8 | 0.0 |
| Overall | 18.5 | 7.2 | 74.2 | 0.1 |



4.2.3 Feedback on staff behaviour, future choice of lender, challenges faced

The borrowers were asked for feedback on the behaviour of the parent RE's staff who come for meetings and collections. Almost all borrowers (97.9%) reported good staff behaviour.

Overall, 88% of borrowers also said that they

will go back to the parent RE for future loan requirements (**Table 4.14**). Proportion of borrowers who were certain about returning to the parent RE for future credit need was much lower than the average for Punjab (55.9%). Most of the borrowers mentioned not being sure about it which reflects their uncertainty about the specific source they borrow from. No specific pattern was seen in the other groups of this data point.

Table 4.14: Borrowers (%) who will go back to their parent RE for future loan requirements

| Group | Yes | No | Not sure |
|------------------|------|-----|----------|
| State | | | |
| Assam | 90.6 | 0.6 | 9.3 |
| Bihar | 86.0 | 0.2 | 14.0 |
| Karnataka | 99.0 | 0.6 | 1.1 |
| Madhya Pradesh | 88.7 | 0.8 | 11.3 |
| Maharashtra | 98.2 | 0.1 | 1.8 |
| Punjab | 55.9 | 0.5 | 44.1 |
| Tamil Nadu | 96.5 | 1.4 | 3.5 |
| Telangana | 88.4 | 2.7 | 11.7 |
| Uttar Pradesh | 85.5 | 1.0 | 14.5 |
| West Bengal | 72.4 | 1.5 | 27.6 |
| Entity | | | |
| Bank | 88.7 | 0.5 | 11.3 |
| NBFC | 89.0 | 1.3 | 11.0 |
| NBFC-MFI | 86.6 | 0.8 | 13.4 |
| SFB | 89.8 | 1.4 | 10.1 |
| Location | | | |
| Rural | 86.5 | 1.0 | 13.5 |
| Urban | 91.2 | 0.7 | 8.8 |
| Education | | | |
| Uneducated | 86.2 | 1.0 | 13.9 |
| Primary | 86.2 | 1.0 | 13.8 |
| Secondary | 89.5 | 0.8 | 10.5 |
| HS & above | 90.0 | 0.9 | 10.0 |

| Group | Yes | No | Not sure |
|------------------------|-------------|------------|-------------|
| Wealth quartile | | | |
| Q1 | 87.2 | 0.8 | 12.8 |
| Q2 | 89.5 | 1.0 | 10.5 |
| Q3 | 91.2 | 0.6 | 8.8 |
| Q4 | 84.0 | 1.1 | 16.0 |
| Overall | 88.0 | 0.9 | 12.0 |

Only 92 borrowers mentioned that they will not go back to the parent RE for future loans. Although very few in number, the main reasons seen for these 92 borrowers unwilling to go back to their parent RE were high rate of interest (55.4%), inconvenient payment terms (20.7%), inappropriate staff behaviour (14.1%), insurance amount being very high (13%), and time taken to process the loan (10.9%). Most of these borrowers mentioned that they would borrow from formal lending sources such as NBFC, Bank, SFB or NBFC-MFI (37%) or from family or friends (29.3%). Only 8% of them mentioned that they would borrow from a moneylender.

About 98.7% of borrowers also reported no difficulty in getting loan approval. Of the few borrowers who mentioned that there were some difficulties faced, the two reasons stated were complicated procedure for getting a loan (0.7%) and that the borrower's CB report showed high debt liability (0.5%). A good proportion of borrowers who found it difficult

to get a loan were from rural areas and mostly educated up to the primary level.

4.2.4 Factors considered by borrowers while choosing a loan provider

There were multiple factors found in the survey that were considered by a borrower while choosing a loan provider. The top factors are presented in **Figure 4.3**. Interest rate was stated as a factor by 3,941 borrowers (38.1%) as they felt that the RE interest rate was lower than that charged by money lenders. This is consistent with the finding shown in Figure 4.1 above, wherein 29.1% of the borrowers opined that interest rate is not very important as the alternative (moneylenders & informal sources) is very expensive. This proportion was as high as 87% for the borrowers of Maharashtra (**Table 4.15**). In terms of location, one of the important factors seen among rural borrowers but not in urban was "least paperwork".

Figure 4.3: Borrowers' criteria for choosing a loan provider (%)

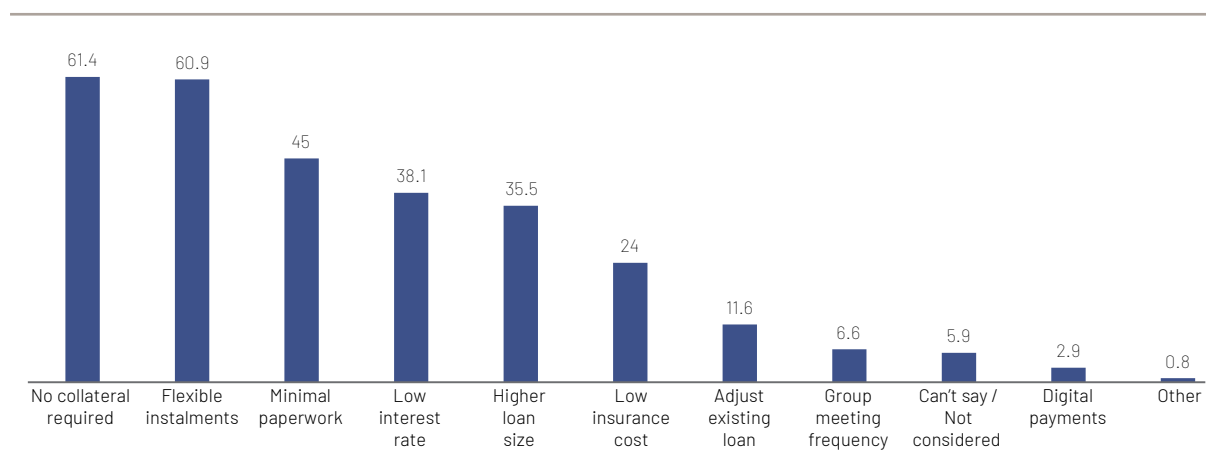


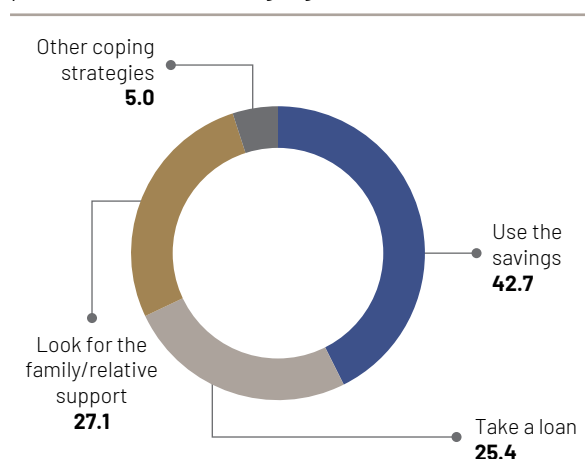
Table 4.15: Share of borrowers (%) as per the factors considered while choosing a loan provider

| Group | Flexible instalments | No collateral required | Minimal paperwork | Interest rate | Low insurance cost | Higher loan size | Adjust existing loan |
|------------------------|----------------------|------------------------|-------------------|---------------|--------------------|------------------|----------------------|
| State | | | | | | | |
| Assam | 78.7 | 16.3 | 20.5 | 64.4 | 8.4 | 6.0 | 3.4 |
| Bihar | 72.9 | 23.1 | 20.2 | 30.5 | 3.4 | 22.4 | 1.2 |
| Karnataka | 45.9 | 77.3 | 26.9 | 10.3 | 17.0 | 39.5 | 23.4 |
| Madhya Pradesh | 77.2 | 73.1 | 66.7 | 24.6 | 21.8 | 50.8 | 27.1 |
| Maharashtra | 71.3 | 93.3 | 92.6 | 87.1 | 53.4 | 75.2 | 1.5 |
| Punjab | 41.2 | 40.7 | 19.5 | 9.9 | 34.5 | 45.0 | 11.8 |
| Tamil Nadu | 47.0 | 85.7 | 66.8 | 20.3 | 13.5 | 34.1 | 8.5 |
| Telangana | 57.9 | 69.4 | 49.4 | 39.6 | 29.0 | 10.3 | 9.5 |
| Uttar Pradesh | 56.7 | 59.6 | 39.5 | 46.8 | 33.3 | 30.3 | 20.5 |
| West Bengal | 65.2 | 55.9 | 38.1 | 59.4 | 39.8 | 35.3 | 10.8 |
| Entity | | | | | | | |
| Bank | 70.7 | 52.3 | 40.5 | 49.6 | 25.2 | 32.9 | 12.3 |
| NBFC | 42.3 | 59.9 | 40.9 | 31.0 | 18.2 | 18.2 | 12.4 |
| NBFC-MFI | 57.7 | 61.8 | 44.9 | 37.7 | 27.2 | 38.1 | 11.5 |
| SFB | 64.3 | 72.7 | 53.0 | 28.1 | 18.2 | 41.3 | 10.8 |
| Location | | | | | | | |
| Rural | 59.0 | 57.8 | 44.6 | 42.5 | 23.3 | 31.5 | 9.1 |
| Urban | 64.9 | 68.9 | 46.0 | 29.0 | 25.4 | 43.7 | 16.9 |
| Education | | | | | | | |
| Uneducated | 62.3 | 64.4 | 47.3 | 39.9 | 25.9 | 38.6 | 11.7 |
| Primary | 59.3 | 70.6 | 56.1 | 42.6 | 29.0 | 39.1 | 13.6 |
| Secondary | 59.9 | 51.6 | 36.1 | 32.4 | 18.1 | 28.3 | 10.4 |
| HS & above | 60.5 | 63.9 | 46.5 | 40.2 | 25.3 | 37.3 | 12.1 |
| Wealth quartile | | | | | | | |
| Q1 | 65.4 | 43.9 | 33.6 | 43.1 | 15.6 | 21.6 | 6.3 |
| Q2 | 58.5 | 65.2 | 51.5 | 40.9 | 20.5 | 35.2 | 10.1 |
| Q3 | 65.2 | 71.7 | 47.7 | 32.2 | 24.6 | 43.7 | 15.4 |
| Q4 | 53.8 | 64.9 | 47.7 | 36.4 | 35.8 | 41.5 | 14.9 |
| Overall | 60.9 | 61.4 | 45.0 | 38.1 | 24.0 | 35.5 | 11.6 |

4.2.5 Preferences for meeting additional financial needs

Borrowers were asked what their first strategy would be if they needed extra money. It is to be noted here that the question did not indicate any amount while asking the question, and it is understood that independent coping strategies could be the first line of action if the amount required were small. **Figure 4.4** shows the distribution of borrowers across different types of reported preferences of which taking a loan comes second after the more general answer of using savings.

Figure 4.4: Share of borrowers (%) by their preference for arranging extra funds



Coping strategies that lie in generating extra money by taking on extra work, or curtailing other expenses, or selling an asset were top strategies for a very low proportion (5%) of the borrowers (**Table 4.16**). Looking towards credit was most preferred by borrowers in the states of Punjab, Assam and Bihar while Maharashtra oddly reported only 0.5% of borrowers who would resort to taking a loan. About 72% of borrowers in Maharashtra responded with opting for informal sources such as borrowing from family and friends. The strategy for relying on savings is lowest for borrowers who are uneducated - these borrowers have a higher preference for taking a loan to meet their liquidity needs. A higher proportion of borrowers from the Q1 quartile mentioned that they would take a loan to generate extra funds, while a higher proportion of borrowers from the third and fourth quartiles mentioned generating the requirements from their savings.

Table 4.16: Share of borrowers (%) as per their possible first strategies if they need extra money

| Group | Use the savings | Take a loan | Look for family/relative support | Other coping strategies |
|----------------|-----------------|-------------|----------------------------------|-------------------------|
| State | | | | |
| Assam | 43.6 | 52.3 | 4.0 | 0.2 |
| Bihar | 31.8 | 47.0 | 16.6 | 4.6 |
| Karnataka | 57.9 | 13.7 | 23.7 | 4.8 |
| Madhya Pradesh | 57.8 | 5.0 | 26.4 | 10.9 |
| Maharashtra | 24.9 | 0.5 | 72.3 | 2.3 |
| Punjab | 34.9 | 59.3 | 5.6 | 0.2 |
| Tamil Nadu | 32.0 | 28.6 | 36.9 | 2.5 |
| Telangana | 54.8 | 20.3 | 15.7 | 9.2 |
| Uttar Pradesh | 42.9 | 13.1 | 34.9 | 9.2 |
| West Bengal | 56.7 | 29.3 | 10.4 | 3.7 |

| Group | Use the savings | Take a loan | Look for family/ relative support | Other coping strategies |
|------------------------|-----------------|-------------|--------------------------------------|----------------------------|
| Entity | | | | |
| Bank | 46.1 | 24.5 | 23.9 | 5.5 |
| NBFC | 49.9 | 17.1 | 26.0 | 7.1 |
| NBFC-MFI | 39.2 | 29.8 | 25.9 | 5.2 |
| SFB | 42.4 | 21.3 | 33.9 | 2.5 |
| Location | | | | |
| Rural | 39.5 | 30.3 | 25.9 | 4.4 |
| Urban | 49.3 | 15.4 | 29.6 | 5.8 |
| Education | | | | |
| Uneducated | 37.7 | 30.7 | 25.6 | 6.0 |
| Primary | 44.0 | 20.7 | 30.5 | 4.9 |
| Secondary | 45.0 | 24.5 | 26.2 | 4.4 |
| HS & above | 44.6 | 23.0 | 28.5 | 3.9 |
| Wealth quartile | | | | |
| Q1 | 32.4 | 40.0 | 21.6 | 6.0 |
| Q2 | 40.4 | 23.4 | 31.0 | 5.3 |
| Q3 | 51.7 | 15.3 | 29.3 | 3.7 |
| Q4 | 45.9 | 23.1 | 26.4 | 4.6 |
| Overall | 42.7 | 25.4 | 27.1 | 5.0 |

4.3 Borrowers' loan repayment behaviour

The third section of the report presents the repayment behaviour of the borrower, including a discussion on the difficulties they face in loan repayment and factors that encourage better repayment behaviour.

4.3.1 Challenges faced during repayment

The borrowers were asked whether they faced difficulties in repayment of the loan with the parent REs. About 76.2% of borrowers mentioned that they did not face any difficulty in loan repayments (**Table 4.17**). The loan absorption capacity of a borrower with an average monthly income of Rs 25,844 shows that households spend 47.4% of their monthly income on combined monthly outflows of Rs 12,346, including monthly expenses, investments, savings and loan instalments.

The borrower spends 18.7% of their monthly income on loan instalments (Rs 4,827, 18.7% FOIR). This indicates that borrowers have loan absorption capacity, and that repayment, even if it is difficult for some, can be managed.

Moreover, the use of loans for productive purposes enables an extra stream of income, which makes loan repayments easier. Most of those who mentioned that they faced difficulty in repaying loans had mentioned that they had made timely payments despite facing difficulty. Only about 2% of the borrowers mentioned facing difficulty and running behind on loan repayments. In Tamil Nadu and Maharashtra, a lower-than-average share of borrowers mentioned facing no difficulty in making loan repayments on time. Delayed payment was also reported by 5% of borrowers in Tamil Nadu. This could give a hint of the state of indebtedness and repayment capacity prevailing across these geographies.

Table 4.17: Share of borrowers (%) by whether they found it difficult to repay the parent RE loan

| Group | No | Always paid on time | Delayed payments | Credit restructured or external help |
|------------------------|-------------|---------------------|------------------|--------------------------------------|
| State | | | | |
| Assam | 89.7 | 10.2 | 0.2 | 0.0 |
| Bihar | 86.8 | 12.8 | 0.5 | 0.0 |
| Karnataka | 87.5 | 1.7 | 10.5 | 0.3 |
| Madhya Pradesh | 91.9 | 7.3 | 0.8 | 0.0 |
| Maharashtra | 49.4 | 50.4 | 0.2 | 0.0 |
| Punjab | 98.0 | 1.5 | 0.5 | 0.0 |
| Tamil Nadu | 40.4 | 54.9 | 4.7 | 0.1 |
| Telangana | 90.4 | 9.0 | 0.7 | 0.0 |
| Uttar Pradesh | 84.5 | 15.2 | 0.3 | 0.0 |
| West Bengal | 73.9 | 25.1 | 0.7 | 0.3 |
| Entity | | | | |
| Bank | 77.4 | 20.3 | 2.2 | 0.1 |
| NBFC | 79.3 | 15.0 | 5.6 | 0.1 |
| NBFC-MFI | 74.8 | 23.1 | 2.1 | 0.1 |
| SFB | 76.1 | 22.5 | 1.5 | 0.0 |
| Location | | | | |
| Rural | 74.0 | 23.7 | 2.3 | 0.0 |
| Urban | 80.6 | 16.8 | 2.4 | 0.1 |
| Education | | | | |
| Uneducated | 83.3 | 14.6 | 2.2 | 0.0 |
| Primary | 73.8 | 24.4 | 1.6 | 0.2 |
| Secondary | 74.6 | 22.6 | 2.7 | 0.2 |
| HS & above | 67.9 | 29.7 | 2.3 | 0.1 |
| Wealth quartile | | | | |
| Q1 | 78.9 | 19.3 | 1.8 | 0.0 |
| Q2 | 69.2 | 26.5 | 4.2 | 0.2 |
| Q3 | 79.4 | 18.5 | 2.0 | 0.0 |
| Q4 | 76.8 | 21.8 | 1.3 | 0.1 |
| Overall | 76.2 | 21.5 | 2.3 | 0.1 |

4.3.2 Use of digital platforms for repaying loans

This sub-section discusses whether borrowers use digital methods of payment to repay loan instalments, and if they do, whether they made the payments themselves or had to take help from family members, relatives/friends, RE's staff, JLG member etc. Moreover, whether the borrower has been charged any fee in case they took help from someone, was also looked into.

During the survey, it was seen that most of the borrowers (87.2%) have not undertaken digital methods for loan repayment (**Table 4.18**). Of those who have, most used Unified Payments Interface (UPI). For instance, in Antri village

of Madhya Pradesh, some members of a JLG group pay loan instalments digitally via UPI, often with help from family or through Sahaj Jan Seva Kendra. The most common repayment mode for them is by using apps like Paytm, Google Pay, PhonePe, and BHIM, which participants find reliable as they maintain proof of payment. Other methods of digital payment such as Bharat Bill Payment System (BBPS), now Bharat Connect, Aadhaar pay and BC point, have been used by only 1.5% of borrowers to make online payments. The preference of UPI over other alternatives reflects the increasing use of this payment method, as it has a simple interface, is bank account-linked, has government backing, and therefore, users seem to have confidence in it.

Table 4.18: Share of borrowers (%) using digital methods for repayments

| Group | No | UPI | Others |
|-----------------|------|------|--------|
| State | | | |
| Assam | 97.7 | 2.1 | 0.2 |
| Bihar | 88.4 | 8.4 | 3.4 |
| Karnataka | 94.2 | 5.7 | 0.2 |
| Madhya Pradesh | 74.8 | 25.1 | 0.9 |
| Maharashtra | 92.7 | 4.3 | 3.2 |
| Punjab | 82.1 | 17.5 | 0.9 |
| Tamil Nadu | 90.5 | 9.4 | 0.7 |
| Telangana | 62.0 | 38.0 | 0.0 |
| Uttar Pradesh | 92.5 | 7.1 | 0.9 |
| West Bengal | 83.9 | 14.1 | 3.5 |
| Entity | | | |
| Bank | 93.5 | 5.3 | 1.6 |
| NBFC | 73.1 | 23.6 | 3.6 |
| NBFC-MFI | 86.5 | 12.8 | 1.4 |
| SFB | 87.6 | 11.8 | 0.7 |
| Location | | | |
| Rural | 85.8 | 12.8 | 2.0 |
| Urban | 90.1 | 9.5 | 0.6 |

| Group | No | UPI | Others |
|------------------------|-------------|-------------|------------|
| Education | | | |
| Uneducated | 86.7 | 12.0 | 1.9 |
| Primary | 76.4 | 22.6 | 2.5 |
| Secondary | 89.8 | 9.3 | 1.0 |
| HS & above | 91.9 | 7.2 | 0.8 |
| Wealth quartile | | | |
| Q1 | 90.9 | 7.9 | 1.5 |
| Q2 | 88.4 | 10.7 | 1.3 |
| Q3 | 87.6 | 11.6 | 1.1 |
| Q4 | 81.6 | 16.9 | 2.2 |
| Overall | 87.2 | 11.7 | 1.5 |

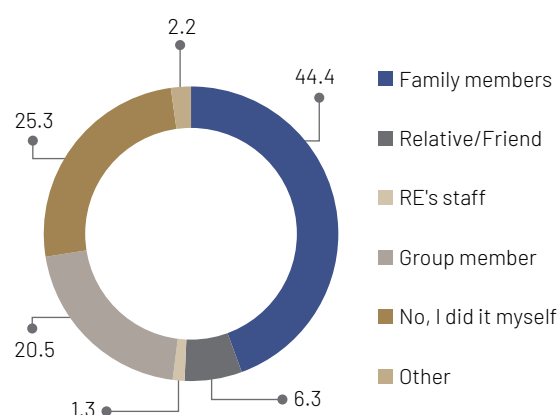
Telangana (38%) and Madhya Pradesh (25.1%) ranked high in the number of borrowers using UPI for loan repayments whereas Assam had a very low share of borrowers using digital payment system at all. This share was lowest also for banks compared to other RE types. The proportion of borrowers using digital methods (UPI) is seen to increase from Q1 to Q4 of wealth quartiles. However, a higher proportion of borrowers with only primary level education (22.6%) reported using UPI as compared to borrowers of more educational attainment.

Overall, the large numbers in which surveyed participants reported not using digital method of repayment hints at various issues like earning of borrowers in cash which has to be deposited in bank to enable digital transactions, trust factor, high convenience of doorstep collections, lack of push from REs etc. Switching to digital payment methods will reduce dependency on cash, making collection processes more transparent and less prone to fraudulent activities.

The subset of borrowers who had indeed used a digital method to repay loans were asked whether they had taken help to make the digital transaction. About 25% of these borrowers could undertake the transactions themselves while others relied on external

help (**Figure 4.5**). Among those who were able to navigate payment digitally, Punjab had the highest share of borrowers. This share was particularly low for Tamil Nadu and Telangana, showing the gap in digital adeptness across states.

Figure 4.5: Digital payment made for loan repayment (%)



A higher proportion of borrowers educated at higher secondary level or higher undertook digital payments independently (**Table 4.19**). The proportion of borrowers undertaking digital payments independently was found to increase with increasing levels of education of the borrower. A similar trend was observed with borrowers when moving from the lowest to the highest wealth quartile.

Table 4.19: Share of borrowers (%) who undertook digital payment methods, by whether they take help from anyone for making the digital repayment

| Group | Family members | Relative/ friend | RE's staff | Group member | No, I did it myself | Other (Specify) |
|------------------------|----------------|------------------|------------|--------------|---------------------|-----------------|
| State | | | | | | |
| Assam | 64.3 | 0.0 | 7.1 | 0.0 | 28.6 | 0.0 |
| Bihar | 37.6 | 3.9 | 1.7 | 22.5 | 34.3 | 0.0 |
| Karnataka | 52.1 | 12.3 | 4.1 | 2.7 | 28.8 | 0.0 |
| Madhya Pradesh | 70.8 | 1.4 | 0.5 | 0.0 | 27.4 | 0.0 |
| Maharashtra | 25.0 | 1.3 | 1.3 | 39.5 | 32.9 | 0.0 |
| Punjab | 42.4 | 4.0 | 0.0 | 0.0 | 53.5 | 0.0 |
| Tamil Nadu | 82.8 | 2.8 | 2.8 | 0.0 | 11.7 | 0.0 |
| Telangana | 11.0 | 5.9 | 0.4 | 70.2 | 12.5 | 0.0 |
| Uttar Pradesh | 69.6 | 7.6 | 0.0 | 4.4 | 14.1 | 4.4 |
| West Bengal | 30.1 | 20.3 | 1.8 | 2.5 | 30.1 | 15.3 |
| Entity | | | | | | |
| Bank | 40.1 | 4.7 | 1.7 | 16.3 | 37.2 | 0.0 |
| NBFC | 14.3 | 6.6 | 1.1 | 64.7 | 12.9 | 0.4 |
| NBFC-MFI | 66.0 | 7.8 | 1.1 | 1.8 | 18.9 | 4.4 |
| SFB | 27.9 | 3.8 | 1.5 | 21.1 | 45.3 | 0.4 |
| Location | | | | | | |
| Rural | 41.8 | 6.6 | 1.1 | 26.2 | 21.4 | 2.9 |
| Urban | 52.3 | 5.7 | 1.8 | 3.3 | 36.9 | 0.0 |
| Education | | | | | | |
| Uneducated | 53.1 | 6.6 | 0.7 | 29.5 | 6.2 | 3.9 |
| Primary | 53.5 | 6.9 | 0.0 | 20.1 | 15.3 | 4.2 |
| Secondary | 40.9 | 7.4 | 1.8 | 19.7 | 28.4 | 1.9 |
| HS & above | 38.0 | 3.9 | 1.6 | 13.1 | 43.3 | 0.0 |
| Wealth quartile | | | | | | |
| Q1 | 49.2 | 9.6 | 1.3 | 12.5 | 17.9 | 9.6 |
| Q2 | 54.2 | 7.8 | 1.0 | 18.3 | 16.6 | 2.0 |
| Q3 | 44.5 | 5.6 | 2.1 | 21.4 | 26.4 | 0.0 |
| Q4 | 35.4 | 4.2 | 0.9 | 25.4 | 34.1 | 0.0 |
| Overall | 44.4 | 6.3 | 1.3 | 20.5 | 25.3 | 2.2 |

Further, 23% of these borrowers who made digital payments for loan instalments by taking help of others reported paying some fees/ money for the help. Qualitative findings show that they had paid small amounts towards the cost of undertaking the transaction in such instances. Of this group of borrowers,

most resided in Bihar (72%) and West Bengal (55%) **(Table 4.20)**. These borrowers, who had reported paying fees for taking help for digital payments, were higher in number for NBFC-MFI, urban locations, primary education only, and belonging to the first wealth quartile.

Table 4.20: Share of borrowers (%) using digital methods for repayments

| Group | Yes | No | Don't know |
|------------------------|-------------|-------------|------------|
| State | | | |
| Assam | 0.0 | 100.0 | 0.0 |
| Bihar | 72.0 | 26.0 | 2.0 |
| Karnataka | 14.3 | 78.6 | 7.1 |
| Madhya Pradesh | 25.0 | 75.0 | 0.0 |
| Maharashtra | 6.3 | 90.6 | 3.1 |
| Punjab | 25.0 | 50.0 | 25.0 |
| Tamil Nadu | 25.0 | 75.0 | 0.0 |
| Telangana | 2.9 | 96.6 | 0.5 |
| Uttar Pradesh | 33.3 | 60.0 | 6.7 |
| West Bengal | 55.4 | 44.6 | 0.0 |
| Entity | | | |
| Bank | 7.7 | 87.2 | 5.1 |
| NBFC | 17.7 | 81.3 | 1.0 |
| NBFC-MFI | 45.2 | 52.7 | 2.2 |
| SFB | 15.5 | 84.5 | 0.0 |
| Location | | | |
| Rural | 22.2 | 76.7 | 1.1 |
| Urban | 27.8 | 66.7 | 5.6 |
| Education | | | |
| Uneducated | 23.4 | 75.0 | 1.6 |
| Primary | 35.6 | 64.4 | 0.0 |
| Secondary | 22.9 | 74.9 | 2.3 |
| HS & above | 10.5 | 89.5 | 0.0 |
| Wealth quartile | | | |
| Q1 | 55.7 | 43.0 | 1.3 |
| Q2 | 20.9 | 76.7 | 2.3 |
| Q3 | 13.3 | 86.7 | 0.0 |
| Q4 | 11.6 | 86.2 | 2.2 |
| Overall | 22.7 | 75.8 | 1.5 |

Conclusion

This chapter assessed borrowers' awareness, preferences, feedback, and repayment behaviour in relation to microfinance credit services. Borrower awareness was high for key loan parameters such as the amount applied for, loan tenure, repayment frequency, and instalment amount, though awareness of the final approved and disbursed loan amount was relatively lower.

Most borrowers reported receiving training on loan terms and conditions from the parent RE prior to disbursement. However, awareness of interest rates, AIR, processing fees, and the nature of interest calculation remained low. Less than half of the borrowers could recall the interest rate on their loan, and only a negligible proportion understood AIR. Similarly, while many borrowers were aware that processing fees were charged, very few could recall the actual amount. Awareness of the Credit Bureau was limited, while awareness of grievance redressal mechanisms was relatively high. Awareness levels improved with higher education and wealth.

The chapter also sheds light on borrower preferences and perceptions. Borrowers' opinions on interest rates are shaped more by comparison with informal lending sources than by precise knowledge of rates. Many borrowers consider formal microfinance interest rates acceptable or irrelevant when contrasted with the much higher rates charged by moneylenders. More than half of the borrowers perceived interest rates to be competitive, largely based on service experience rather than precise rate

knowledge. Most borrowers preferred loan tenures of one to two years with monthly repayment schedules, reflecting their income patterns and desire to manage instalment burdens.

Most borrowers did not face repayment difficulty, supported by an average FOIR of 18.7% and the productive use of loans. Repayments were largely cash-based, with limited digital adoption. The use of digital repayment methods remains limited, with most borrowers continuing to rely on traditional, in-person repayment mechanisms, often due to familiarity, access constraints, or reliance on assistance from others. Positive borrower-loan officer relationships supported strong repayment discipline, and most borrowers expressed willingness to return to the parent RE. Key factors influencing lender choice included lack of collateral, flexible instalments, and minimal documentation.

Overall, this chapter underscores that microfinance borrowers are confident and informed about core repayment obligations but less equipped to understand complex financial cost concepts. While institutional practices such as regular meetings, training, and clear repayment structures support good repayment behaviour and borrower satisfaction, there remains scope to strengthen financial literacy, particularly around interest rates, fees, AIR, and credit bureau functioning, to enable borrowers to make more informed credit decisions and enhance transparency in borrower-lender relationships.

05

OTHER FINANCIAL SERVICES FOR MICROFINANCE BORROWERS & DIGITAL READINESS

The focus of the chapter is on three key aspects of financial behaviour among microfinance borrowers: their savings practices, insurance experience and their engagement with digital financial methods. It aims to understand how borrowers manage their money or use their financial resources, and how prepared they are for digital financing.

5.1 Savings

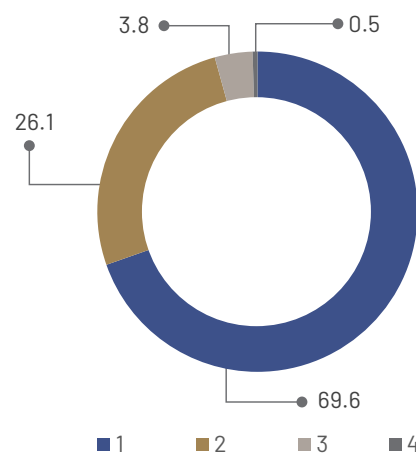
This section explores the saving behaviour of borrower's household. It presents the ownership of bank accounts and the number of accounts held by them, reflecting on their access to formal financial institutions. It also discusses the modes of transactions that borrower's household prefer - whether digital, cash-based, or through intermediaries - and the use of other savings mechanisms such as informal saving groups or home savings. Included also, is a discussion on the purpose of savings, specifically whether savings are for emergencies, consumption, investment, or other purposes, and concludes with the amount of savings maintained by respondent's household.

5.1.1 Account ownership

All respondents reported having a bank or savings account in their own name. This indicates near-complete financial inclusion in terms of basic account ownership among microfinance borrowers.

Overall, around 70% of borrowers reported having only one bank account and about a quarter of the respondents reported holding two bank accounts (**Figure 5.1**).

Figure 5.1: Distribution (%) of borrowers by no. of bank ACs held



A high proportion of borrowers in Maharashtra and Assam reported holding multiple bank accounts, 46-53% having two accounts, and 11-14% holding as many as three accounts. In contrast, states like Tamil Nadu, Uttar Pradesh, Karnataka, and Punjab have over 80% of borrowers with a single account and lower percentages in the multiple-account categories (**Table 5.1**).

More than 76% borrowers linked to NBFCs and NBFC-MFIs have just one account, while borrowers from banks and SFBs show relatively greater account diversification (28-35%) holding two accounts. Higher account holding of banks' customers is due to the fact that when they commence a lending relationship, account opening of the customer in their bank is an essential requirement.

Rural and urban borrowers exhibit a similar pattern, with slightly greater proportion of borrowers having only one account in urban areas. However, rural borrowers have two or more accounts.

Educational attainment is positively correlated with holding of multiple bank accounts. Borrowers with higher secondary education and above are more likely to maintain two or more accounts (over 37% cumulatively), while those with no formal education are more concentrated in the one-account category.

There is a slight but noticeable trend showing that borrowers who have better economic well-being tend to have more bank accounts. In the lowest wealth quartile (Q1), more than two-thirds of respondents have only one bank account, and very few hold as many as three accounts. This share gradually decreases in higher quartiles. In quartile Q4, the share of those with a single account decline by 5%, while the proportion holding multiple accounts, particularly two or three, increases. Notably, this group has the highest share of respondents with three accounts. The gradual increase in the number of individuals with two accounts across quartiles suggests broader financial access and engagement as economic wellbeing rise.

Table 5.1: Distribution (%) of borrowers by number of bank accounts held

| Group | Number of bank accounts | | | |
|----------------|-------------------------|------|------|-----|
| | 1 | 2 | 3 | 4 |
| State | | | | |
| Assam | 40.7 | 46.3 | 11.0 | 2.1 |
| Bihar | 73.7 | 23.0 | 2.9 | 0.4 |
| Karnataka | 83.8 | 15.2 | 1.0 | 0.0 |
| Madhya Pradesh | 56.7 | 37.6 | 5.2 | 0.5 |
| Maharashtra | 30.3 | 53.7 | 14.5 | 1.5 |
| Punjab | 82.8 | 14.1 | 2.5 | 0.5 |
| Tamil Nadu | 86.4 | 12.6 | 0.9 | 0.2 |
| Telangana | 64.3 | 33.6 | 1.7 | 0.4 |
| Uttar Pradesh | 86.4 | 12.8 | 0.8 | 0.0 |
| West Bengal | 65.7 | 31.5 | 2.5 | 0.3 |

| Group | Number of bank accounts | | | |
|------------------------|-------------------------|-------------|------------|------------|
| | 1 | 2 | 3 | 4 |
| Entity | | | | |
| Bank | 58.3 | 35.7 | 5.5 | 0.6 |
| NBFC | 77.8 | 20.3 | 1.8 | 0.1 |
| NBFC-MFI | 76.9 | 20.5 | 2.2 | 0.4 |
| SFB | 64.3 | 28.9 | 6.0 | 0.8 |
| Location | | | | |
| Rural | 68.4 | 27.3 | 3.9 | 0.4 |
| Urban | 72.1 | 23.6 | 3.7 | 0.6 |
| Education | | | | |
| Uneducated | 76.8 | 20.8 | 2.1 | 0.3 |
| Primary | 71.1 | 25.0 | 3.7 | 0.3 |
| Secondary | 66.2 | 28.5 | 4.6 | 0.7 |
| HS & above | 62.3 | 31.7 | 5.4 | 0.6 |
| Wealth quartile | | | | |
| Q1 | 70.8 | 25.6 | 3.1 | 0.5 |
| Q2 | 72.2 | 23.6 | 3.8 | 0.4 |
| Q3 | 69.6 | 26.7 | 3.4 | 0.3 |
| Q4 | 65.8 | 28.5 | 5.0 | 0.7 |
| Overall | 69.6 | 26.1 | 3.8 | 0.5 |

5.1.2 Borrowers' preferred modes of transaction

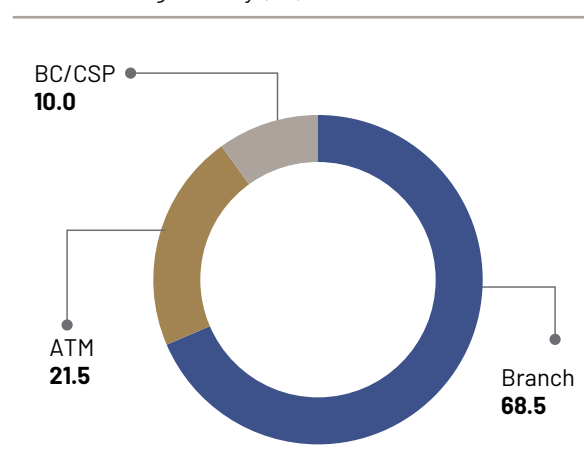
It discusses the preferred modes of financial transactions among borrowers (of all kinds of lending entities), focussing specifically on where they choose to withdraw and deposit money. Understanding these touchpoints provides insights into the accessibility of banking services and trust in formal institutions.

Preferred touchpoint for withdrawing money

Overall, over two-thirds of borrowers choose to withdraw their money directly from a bank branch, making the branch the most popular touch point for this purpose. This reflects a continued reliance on traditional banking infrastructure. ATMs are the second most preferred mode for withdrawals, while

Business Correspondent (BC)/Customer Service Points (CSP) ranked third or were the least preferred option among borrowers (Figure 5.2).

Figure 5.2: Preferred touch point for withdrawing money (%)



A majority of respondents preferred branch-based transactions in states like Bihar, Karnataka, Punjab, and Uttar Pradesh (78-92%). Telangana and Tamil Nadu have the highest usage of ATMs (45-46%). Assam stands out with more than 55% of borrowers preferring BC/CSP for withdrawals, followed by Madhya Pradesh which is much higher than the all-India level (**Table 5.2**).

Bank borrowers, understandably, show the highest use of BCs (being the extended arms of banks), particularly in rural areas where more than 22% withdraw money through them. In urban areas, their use of BCs drops sharply, with most transactions happening through ATMs and branches. Across both rural and urban areas, borrowers from NBFCs and NBFC-MFIs withdraw mainly through bank branches (around 67-75%), while their use of BCs is relatively lower (4-12%). SFB borrowers display the highest preference for ATMs, suggesting greater familiarity or access to self-service banking infrastructure. This may reflect the operational models and outreach strategies of different lending institutions.

The preference for withdrawing money through bank branches is nearly identical in both rural and urban areas. However, ATM usage is significantly higher in urban areas

compared to rural areas. A possible reason for urban borrowers relying more on bank branches as the most preferred withdrawal mode could be due to the need to withdraw the full loan amount, which exceeds ATM withdrawal limits. BC/CSP are used more in rural areas and their use in urban areas is minimal.

ATM usage increases significantly with education, with borrowers who have completed higher secondary and above far more likely to use ATMs than those who are uneducated. Reliance on bank branches is highest among the uneducated and declines as education levels rise. This trend suggests that higher educational attainment enhances digital literacy and confidence in using ATMs, while those with limited education rely more on in-person banking.

Similarly, borrowers in the lowest wealth quartile (Q1) tend to depend more on BCs and less on ATMs, likely reflecting limited access to or comfort with technology. Those in the highest wealth group (Q4) show a stronger preference for ATMs and lower reliance on intermediaries. Bank branches remain the primary mode of withdrawal across all wealth segments.

Table 5.2: Distribution (%) of borrowers by preferred mode for withdrawal of money

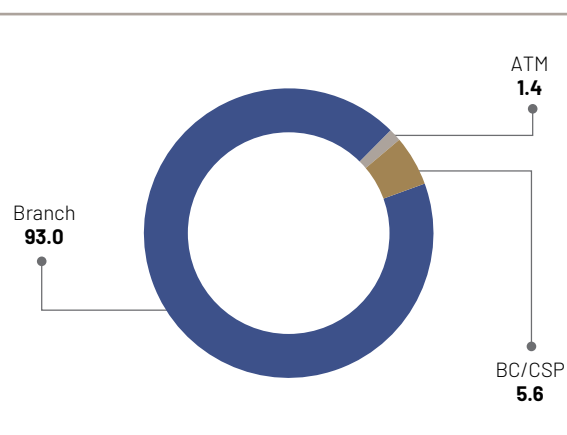
| Group | Branch | ATM | BC/CSP |
|----------------|--------|------|--------|
| State | | | |
| Assam | 23.3 | 20.9 | 55.8 |
| Bihar | 92.8 | 4.6 | 2.6 |
| Karnataka | 81.0 | 18.9 | 0.1 |
| Madhya Pradesh | 45.3 | 31.6 | 23.1 |
| Maharashtra | 72.0 | 26.8 | 1.2 |
| Punjab | 78.1 | 15.9 | 6.0 |
| Tamil Nadu | 53.9 | 45.5 | 0.6 |
| Telangana | 52.9 | 46.8 | 0.3 |
| Uttar Pradesh | 79.7 | 3.8 | 16.6 |
| West Bengal | 73.9 | 7.7 | 18.4 |

| Group | Branch | ATM | BC/CSP |
|--------------------------|-------------|-------------|-------------|
| Rural entity type | | | |
| Bank | 66.8 | 10.8 | 22.4 |
| NBFC | 70.1 | 22.3 | 7.6 |
| NBFC-MFI | 67.5 | 20.5 | 12.0 |
| SFB | 74.0 | 21.1 | 5.0 |
| Urban entity type | | | |
| Bank | 64.2 | 30.6 | 5.2 |
| NBFC | 66.7 | 33.3 | 0.0 |
| NBFC-MFI | 75.2 | 20.9 | 3.9 |
| SFB | 64.8 | 32.0 | 3.3 |
| Location | | | |
| Rural | 68.6 | 18.6 | 12.8 |
| Urban | 68.4 | 27.6 | 4.1 |
| Education | | | |
| Uneducated | 79.5 | 8.9 | 11.7 |
| Primary | 74.6 | 14.0 | 11.3 |
| Secondary | 63.1 | 27.0 | 9.9 |
| HS & above | 53.2 | 42.6 | 4.2 |
| Wealth quartile | | | |
| Q1 | 70.1 | 9.4 | 20.4 |
| Q2 | 70.6 | 20.7 | 8.6 |
| Q3 | 72.9 | 21.7 | 5.9 |
| Q4 | 59.8 | 35.0 | 5.1 |
| Overall | 68.5 | 21.5 | 10.0 |

Preferred touch point for depositing money

Overall, more than 90% of borrowers choose to deposit their money directly at bank branch, making the branch the most popular touch point for this purpose. This reflects a continued reliance on traditional banking infrastructure while depositing money. ATMs are rarely used for deposits, with only a small fraction opting for this method, while BC or CSP serve as a second preference (**Figure 5.3**).

Figure 5.3: Preferred touch point for depositing money (%)



Almost all respondents in states like Bihar, Karnataka, Maharashtra, Punjab, and Telangana (96-99%) preferred branch-based transactions. States like Madhya Pradesh, Tamil Nadu, and Telangana (3-4%) have slightly higher usage of ATMs as compared to the all-India level. Comparatively a higher

proportion of borrowers in states like Assam, West Bengal, Madhya Pradesh, and Uttar Pradesh (10-19%) used the BC/CSP as a deposit channel. Insights from FGDs suggest that this choice often depends on the availability and accessibility of BC/CSP services in their area (Table 5.3).

Table 5.3: Distribution (%) of borrowers by preferred mode for depositing money

| Group | Branch | ATM | BC/CSP |
|------------------------|-------------|------------|------------|
| State | | | |
| Assam | 80.4 | 0.5 | 19.1 |
| Bihar | 97.9 | 0.2 | 1.9 |
| Karnataka | 99.2 | 0.7 | 0.1 |
| Madhya Pradesh | 83.2 | 4.2 | 12.6 |
| Maharashtra | 98.0 | 0.2 | 1.8 |
| Punjab | 96.8 | 0.5 | 2.7 |
| Tamil Nadu | 95.9 | 3.9 | 0.2 |
| Telangana | 96.4 | 3.2 | 0.4 |
| Uttar Pradesh | 89.4 | 0.4 | 10.2 |
| West Bengal | 84.6 | 0.3 | 15.1 |
| Entity | | | |
| Bank | 89.5 | 1.9 | 8.5 |
| NBFC | 95.8 | 1.9 | 2.3 |
| NBFC-MFI | 92.1 | 1.3 | 6.6 |
| SFB | 98.2 | 0.7 | 1.2 |
| Location | | | |
| Rural | 91.3 | 1.5 | 7.3 |
| Urban | 96.7 | 1.3 | 2.0 |
| Education | | | |
| Uneducated | 93.2 | 0.6 | 6.2 |
| Primary | 91.4 | 1.7 | 6.9 |
| Secondary | 92.9 | 1.6 | 5.6 |
| HS & above | 95.6 | 2.2 | 2.3 |
| Wealth quartile | | | |
| Q1 | 88.7 | 0.6 | 10.8 |
| Q2 | 93.6 | 1.2 | 5.2 |
| Q3 | 94.5 | 1.9 | 3.6 |
| Q4 | 95.6 | 2.0 | 2.5 |
| Overall | 93.0 | 1.4 | 5.6 |

Similarly, across all types of lending entities, location (rural/urban) and wealth quartiles, bank branches remain the most preferred mode for depositing money. Use of BC is noticeably higher in rural areas (7.3%) compared to urban areas (2.0%). This may be due to lower literacy levels in rural regions, where around one-third of the population is uneducated (refer Table 2.3, Chapter 2), making BC/CSPs an important point of access for basic banking needs.

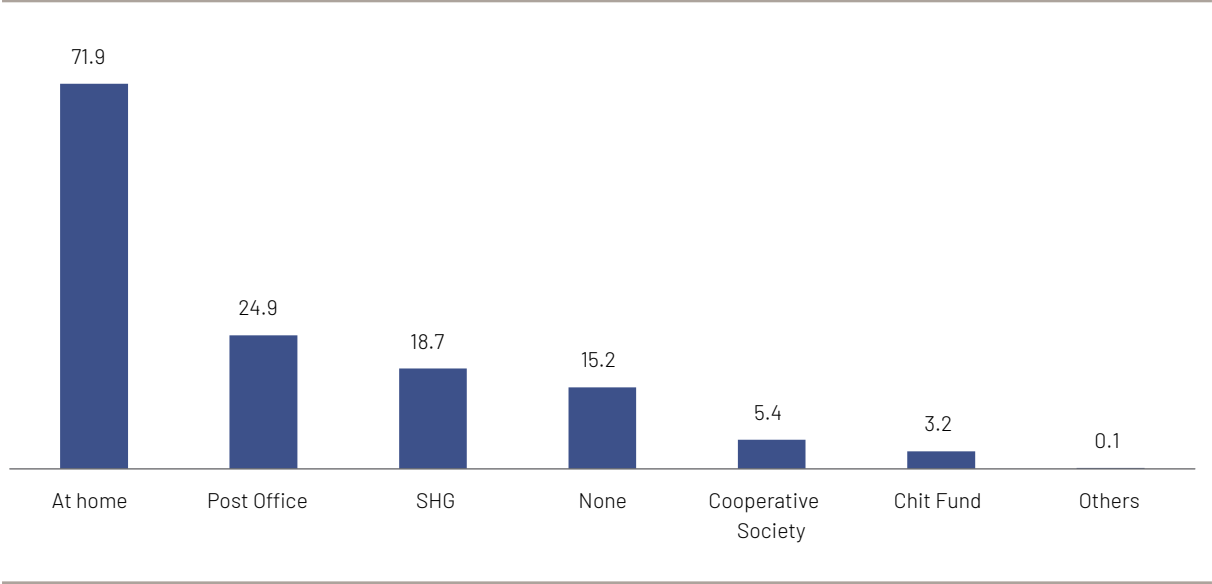
5.1.3 Other modes of saving

This section analyses other modes of savings used by the borrowers in addition to bank account, which all of them own. At the aggregate level, saving at home is by far the most common alternate mode of saving, among borrowers. Post offices are the next most commonly used mode followed by SHGs, reflecting the continued importance of community-based saving practices. In comparison, the use of cooperative societies, chit funds, and other informal channels for

saving is very limited (0-5%), which indicates that most borrowers are keeping their savings in safer and more secure options. This pattern was also observed during FGDs, which further reflects their growing financial awareness and understanding of secure methods for managing savings. Notably, 15.2% of borrowers reported not using any alternative saving method, suggesting a preference for relying solely on banks.

Among states, Punjab, Maharashtra, and Uttar Pradesh (94%-99%) reported the highest incidence of saving at home. Use of SHGs as a savings channel is prominent in states like Assam, Maharashtra, and Telangana (62-65%), which might be due to strong SHG networks in these states as compared to other states (NRLM). Borrowers in West Bengal, Karnataka, and Tamil Nadu (40-51%) have higher usage of Post Office. Karnataka also showed the highest usage of cooperative societies and chit funds. On the other hand, Tamil Nadu (48.2%) has the highest proportion of respondents reporting no other form of savings.

Figure 5.4: Distribution (%) of borrowers by modes of saving other than bank accounts



Post Office savings are relatively more common among NBFC-MFI and bank borrowers, whereas NBFC borrowers report lower engagement with community-based saving modes and show the highest proportion not using any alternative saving method. Use of cooperative societies and chit funds remains limited across all entities (Table 5.4).

Home saving is the most common method in both rural and urban areas. However, higher proportion of rural respondents save with SHGs, reflecting stronger community-based savings networks. Urban borrowers show more engagement with cooperative societies and chit funds.

Borrowers with higher education levels shows greater use of post offices, cooperative societies, and chit funds. In contrast, uneducated borrowers rely more on home-based savings and their participation is less in SHGs or formal savings channels.

Borrowers in the third wealth quartile reported relatively higher use of post offices, cooperative societies and chit funds in addition to banks. In comparison, borrowers in the lowest quartile mostly use banks, with limited engagement in such alternatives which can be seen as a positive trend given banks remain the safest option.

Table 5.4: Distribution (%) of borrowers by modes of savings other than bank account

| Group | Post office | Cooperative society | Chit fund | At home | SHG | None |
|-----------------|-------------|---------------------|-----------|---------|------|------|
| State | | | | | | |
| Assam | 20.0 | 0.2 | 2.1 | 83.1 | 65.2 | 2.9 |
| Bihar | 9.5 | 0.0 | 0.0 | 76.9 | 4.9 | 17.6 |
| Karnataka | 45.5 | 17.3 | 18.0 | 72.2 | 0.9 | 13.9 |
| Madhya Pradesh | 18.0 | 1.4 | 0.4 | 84.3 | 3.3 | 11.4 |
| Maharashtra | 32.1 | 4.3 | 0.2 | 96.9 | 62.1 | 0.1 |
| Punjab | 0.2 | 0.0 | 0.0 | 99.1 | 0.0 | 0.7 |
| Tamil Nadu | 39.8 | 11.2 | 3.5 | 30.2 | 3.1 | 48.2 |
| Telangana | 10.2 | 1.8 | 3.5 | 46.0 | 62.0 | 9.7 |
| Uttar Pradesh | 3.2 | 0.0 | 0.1 | 94.3 | 3.4 | 3.8 |
| West Bengal | 51.8 | 9.7 | 0.9 | 60.3 | 23.2 | 15.4 |
| Entity | | | | | | |
| Bank | 25.8 | 4.4 | 3.9 | 75.3 | 28.3 | 11.1 |
| NBFC | 17.2 | 3.1 | 1.8 | 59.7 | 18.0 | 17.4 |
| NBFC-MFI | 28.1 | 6.1 | 3.7 | 70.8 | 13.8 | 16.9 |
| SFB | 20.7 | 6.4 | 2.0 | 75.9 | 17.8 | 15.5 |
| Location | | | | | | |
| Rural | 23.2 | 3.0 | 0.9 | 69.7 | 21.8 | 15.6 |
| Urban | 28.6 | 10.4 | 8.1 | 76.6 | 12.3 | 14.3 |

| Group | Post office | Cooperative society | Chit fund | At home | SHG | None |
|------------------------|-------------|---------------------|------------|-------------|-------------|-------------|
| Education | | | | | | |
| Uneducated | 14.9 | 2.5 | 1.9 | 73.5 | 12.0 | 15.5 |
| Primary | 26.4 | 5.9 | 2.8 | 71.4 | 17.5 | 16.3 |
| Secondary | 30.0 | 7.0 | 4.5 | 71.9 | 22.2 | 14.0 |
| HS & above | 29.2 | 6.0 | 3.0 | 69.2 | 24.6 | 16.9 |
| Wealth quartile | | | | | | |
| Q1 | 20.4 | 2.5 | 0.5 | 72.6 | 19.0 | 15.2 |
| Q2 | 25.0 | 5.0 | 3.3 | 65.3 | 17.6 | 20.5 |
| Q3 | 35.7 | 11.2 | 6.0 | 73.7 | 16.4 | 12.9 |
| Q4 | 17.8 | 2.4 | 3.1 | 76.0 | 22.2 | 12.3 |
| Overall | 24.9 | 5.4 | 3.2 | 71.9 | 18.7 | 15.2 |

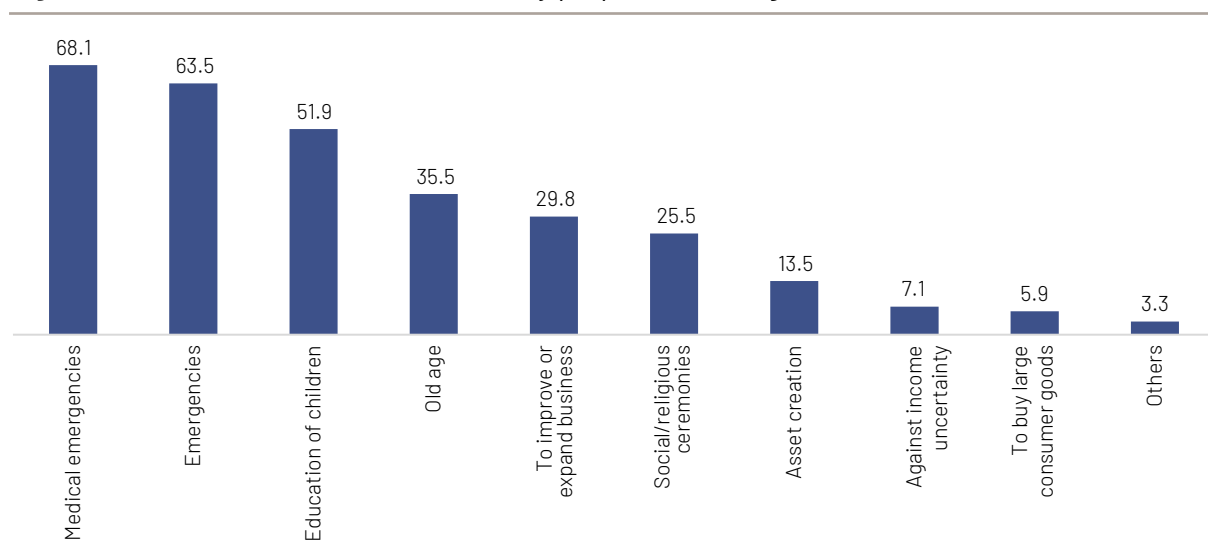
Note: This was a multiple-response question; respondents could select more than one option. Therefore, percentages may exceed 100%.

5.1.4 Purpose of saving

Borrowers were asked about the main purposes of saving, with options including emergencies, medical expenses, children's education, old age, social or religious ceremonies, improving or expanding business, asset creation, purchase of large consumer goods, protection against income uncertainty, and other personal goals. Their savings are driven by the need to secure their families against risks and invest in a better future. Overall, more than half of

the borrowers indicated saving money for medical emergencies, emergencies and children's education as the main purpose (Figure 5.5). Additionally, more than a quarter of respondents also saved for purposes such as social or religious ceremonies and for expanding or improving their business activities. Meanwhile, relatively fewer respondents reported saving for asset creation or buying large consumer goods.

Figure 5.5: Distribution (%) of borrowers by purpose of saving



State level variations can be observed (**Table 5.5**) – In Maharashtra, a high proportion of respondents saved for emergencies, old age, and children’s education, while Tamil Nadu and Karnataka report relatively lower engagement in saving for emergencies or business purposes, though medical needs remain a key concern. Punjab shows high savings for medical and educational needs.

Entity-wise, borrowers associated with banks tend to save for a wider range of purposes, including emergencies, medical emergencies, and children’s education. In particular, NBFC borrowers are saving for fewer purposes with the lowest shares saving for consumer goods or against income uncertainty. NBFC-MFI borrowers fall between these groups, saving for key needs such as emergencies and medical expenses, but their overall saving activity covers fewer purposes compared to borrowers linked to bank.

Rural and urban borrowers show broadly similar patterns, though rural borrowers

save a little more for social and religious ceremonies than urban borrowers, reflecting stronger cultural and community obligations. Medical and general emergencies stand out as the main purpose for saving across both rural & urban areas.

Education plays a critical role in shaping saving aspirations. Borrowers with higher secondary education and above not only save more for education but also for asset creation. In contrast, uneducated borrowers restrict their savings to essential needs, particularly emergencies which could be because of lesser ability to save.

A similar pattern is observed across wealth quartiles – borrowers in the lowest wealth quartile show a greater interest in saving for income uncertainty and to buy large consumer goods, showing their aspiration to improve their living standards. Saving preference in higher quartiles is for asset creation but lower for consumer goods, suggesting that these needs may have already been fulfilled.

Table 5.5: Distribution (%) of borrowers by modes of savings other than bank account

| Population group | Emergencies | Old age | Medical emergencies | Education of children | Social/religious ceremonies | Improve or expand business | Asset creation | To buy large consumer goods | Against income uncertainty |
|------------------|-------------|---------|---------------------|-----------------------|-----------------------------|----------------------------|----------------|-----------------------------|----------------------------|
| State | | | | | | | | | |
| Assam | 99.5 | 48.1 | 73.5 | 74.8 | 65.3 | 81.8 | 46.8 | 52.3 | 38.4 |
| Bihar | 63.5 | 5.0 | 65.5 | 42.2 | 18.6 | 31.0 | 1.4 | 0.5 | 10.8 |
| Karnataka | 38.4 | 18.2 | 73.6 | 34.9 | 3.2 | 9.9 | 3.8 | 1.2 | 8.5 |
| Madhya Pradesh | 92.2 | 51.6 | 59.6 | 49.1 | 40.1 | 29.7 | 8.1 | 3.9 | 0.7 |
| Maharashtra | 90.8 | 94.0 | 97.7 | 68.9 | 20.6 | 27.0 | 0.7 | 0.0 | 0.3 |
| Punjab | 68.7 | 33.1 | 87.7 | 61.3 | 43.4 | 28.8 | 0.5 | 0.0 | 0.7 |
| Tamil Nadu | 24.2 | 17.1 | 34.3 | 42.5 | 4.9 | 22.3 | 32.4 | 0.1 | 1.1 |
| Telangana | 47.4 | 37.2 | 69.0 | 49.4 | 28.5 | 40.1 | 8.5 | 3.5 | 0.1 |
| Uttar Pradesh | 69.3 | 33.3 | 71.3 | 65.9 | 50.1 | 25.7 | 12.9 | 1.9 | 8.7 |
| West Bengal | 81.1 | 52.3 | 73.7 | 53.0 | 21.9 | 33.6 | 24.3 | 17.5 | 8.0 |
| Entity | | | | | | | | | |
| Bank | 77.2 | 37.4 | 70.2 | 58.8 | 34.7 | 41.8 | 16.5 | 13.8 | 12.8 |
| NBFC | 36.9 | 25.7 | 63.1 | 41.9 | 29.1 | 22.0 | 11.5 | 0.8 | 8.3 |
| NBFC-MFI | 61.2 | 32.5 | 67.9 | 51.0 | 20.6 | 25.5 | 13.5 | 3.9 | 4.4 |
| SFB | 64.0 | 44.4 | 68.3 | 50.3 | 22.9 | 27.9 | 10.8 | 2.8 | 5.0 |
| Location | | | | | | | | | |
| Rural | 62.5 | 35.8 | 68.1 | 52.9 | 28.2 | 30.4 | 15.1 | 7.0 | 7.1 |
| Urban | 65.4 | 34.9 | 67.9 | 50.0 | 20.1 | 28.7 | 10.3 | 3.6 | 7.0 |



| Population group | Emergencies | Old age | Medical emergencies | Education of children | Social/religious ceremonies | Improve or expand business | Asset creation | To buy large consumer goods | Against income uncertainty |
|------------------------|-------------|-------------|---------------------|-----------------------|-----------------------------|----------------------------|----------------|-----------------------------|----------------------------|
| Education | | | | | | | | | |
| Uneducated | 63.4 | 29.3 | 65.3 | 40.1 | 27.5 | 26.6 | 9.7 | 3.5 | 7.3 |
| Primary | 65.7 | 39.4 | 70.4 | 48.3 | 25.7 | 26.8 | 13.4 | 5.1 | 5.3 |
| Secondary | 64.0 | 37.9 | 69.9 | 58.1 | 24.5 | 32.6 | 15.1 | 7.8 | 7.8 |
| HS & above | 58.5 | 37.0 | 65.0 | 64.2 | 24.2 | 32.2 | 17.4 | 6.2 | 6.5 |
| Wealth quartile | | | | | | | | | |
| Q1 | 68.7 | 27.9 | 66.8 | 49.1 | 29.4 | 31.5 | 17.1 | 10.7 | 11.6 |
| Q2 | 59.3 | 33.4 | 63.6 | 52.6 | 21.8 | 28.0 | 16.1 | 5.2 | 7.8 |
| Q3 | 63.5 | 39.1 | 68.7 | 51.1 | 21.8 | 27.3 | 10.6 | 4.6 | 4.8 |
| Q4 | 62.1 | 42.0 | 73.4 | 55.2 | 29.3 | 32.6 | 10.3 | 2.8 | 3.9 |
| Overall | 63.5 | 35.5 | 68.1 | 51.9 | 25.5 | 29.8 | 13.5 | 5.9 | 7.1 |

Note: This was a multiple-response question; respondents could select more than one option. Therefore, percentages may exceed 100%.

5.1.5 Amount saved by the borrowers

The average saving amount reported by borrower households is Rs 3,200 per month (p.m.) which is 12.4% of the total monthly income. This finding is consistent with the NABARD bi-monthly survey report “Rural Economic Conditions & Sentiment Survey”. The survey includes the utilisation of monthly household income into consumption expenditure, loan repayment, savings and others. The data over the last one year (Nov’24 to Nov’25) shows that on an average a rural household utilises about 13.8% of their income in savings as shown in **Figure 5.6**.

There is considerable variation in average savings across states. Borrowers in Punjab report the highest monthly average savings nearly Rs 4,900 p.m., followed by Karnataka, Tamil Nadu, and Maharashtra, each with averages above Rs 3,500 p.m. On the other end, Assam, Uttar Pradesh, and Madhya Pradesh report lower averages of around Rs 2,600 p.m. These discrepancies could be because of disparities in living expenses, income levels (**Table 5.6**).

Borrowers associated with SFBs reported the highest average savings while those linked to banks reported the lowest, which aligns with the data that SFB borrowers have the highest average monthly income and bank linked borrowers have the lowest average monthly income (refer Table 2.14, Chapter 2). NBFC-MFI and NBFC borrowers fall in between. A significant urban-rural gap is visible in average monthly savings. Urban borrowers save considerably higher than the rural borrowers. This gap might be because of differences in income opportunities and income levels – data shows that urban borrowers have the higher average monthly income and rural borrowers have lower average monthly income (refer Table 2.14, Chapter 2). Savings behaviour seems to be positively correlated with education – borrowers with better education save more, while uneducated borrowers report the lowest average savings. This indicates that individuals with higher levels of education have better earning opportunities, increased financial awareness, and more consistent saving behaviour. Borrowers in the lowest wealth quartile reported the smallest amounts in savings, while those in the highest quartile save nearly double as much.

Figure 5.6: Share of monthly HH income spent (%)

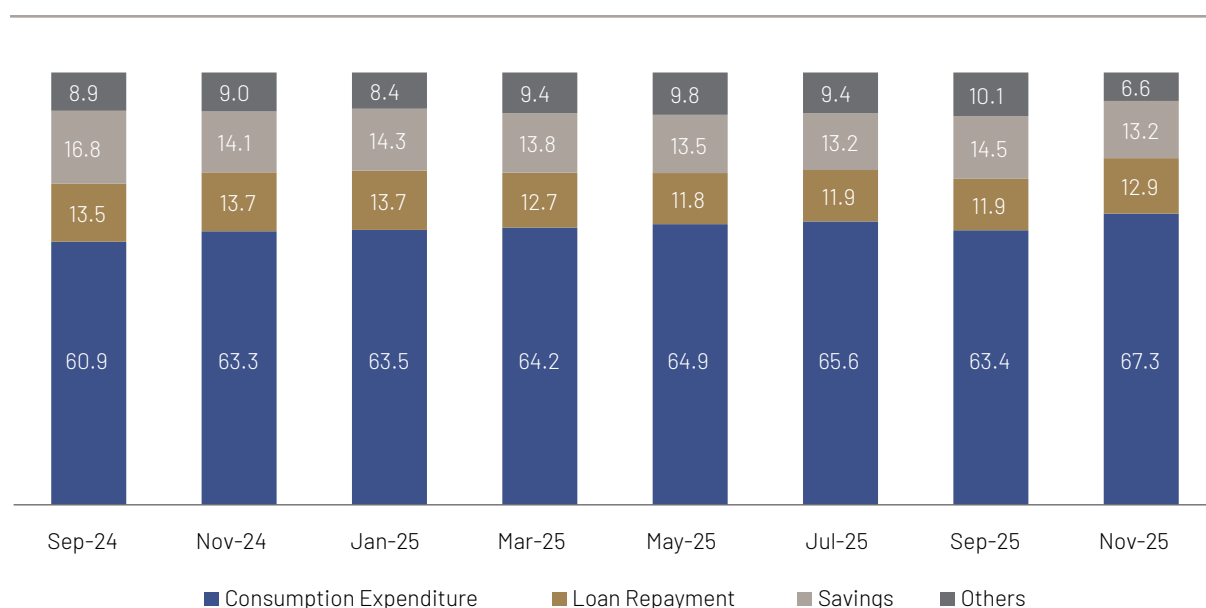


Table 5.6: Distribution (%) of borrowers by average amount of saving

| Group | Average saving amount p.m. (Rs) |
|------------------------|---------------------------------|
| State | |
| Assam | 1,963 |
| Bihar | 2,675 |
| Karnataka | 3,976 |
| Madhya Pradesh | 2,637 |
| Maharashtra | 3,502 |
| Punjab | 4,919 |
| Tamil Nadu | 3,776 |
| Telangana | 2,841 |
| Uttar Pradesh | 2,533 |
| West Bengal | 3,193 |
| Entity | |
| Bank | 2,747 |
| NBFC | 3,050 |
| NBFC-MFI | 3,299 |
| SFB | 3,620 |
| Location | |
| Rural | 2,931 |
| Urban | 3,758 |
| Education | |
| Uneducated | 2,717 |
| Primary | 3,173 |
| Secondary | 3,346 |
| HS & above | 3,871 |
| Wealth quartile | |
| Q1 | 2,170 |
| Q2 | 2,930 |
| Q3 | 3,528 |
| Q4 | 4,222 |
| Overall | 3,200 |

5.2 Insurance

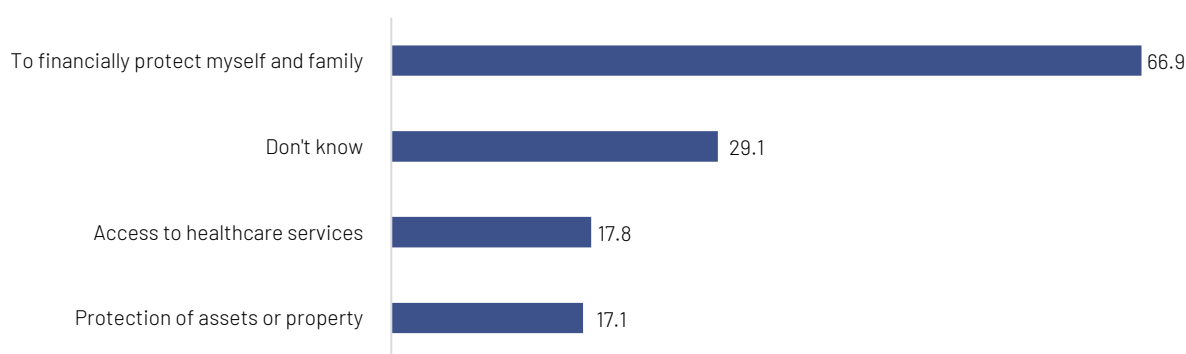
This section explores borrowers' access and preferences related to insurance products, both those offered through lending institutions and those purchased independently. It highlights the extent to which borrowers understand the benefits of insurance, their experiences with receiving claims, ownership of insurance beyond credit-linked offerings, and the types of products they are interested in purchasing. The data reveals critical gaps in knowledge and preferences shaped by geography, education, socio-economic status, and the type of financial institution.

A very small sample of 17 borrowers reported receiving an insurance claim of which 13 were credit life claims, while 3 were health claims. Among these cases, the highest number of claims were reported by borrowers associated with NBFC-MFIs, accounting for 9 claims, followed by borrowers linked to banks with 5 claims, and borrowers connected to SFBs, with 3 claims.

5.2.1 Understanding of benefits of insurance

The most commonly cited benefit of insurance is financial protection for oneself and one's family, reported by more than 66% of borrowers (**Figure 5.7**). This is followed by access to healthcare services and protection of assets or property. However, more than 29% of borrowers reported that they did not know the benefits of insurance, indicating a considerable gap in knowledge among the borrower population. Madhya Pradesh had the highest awareness across all states, with more than 97% of borrowers associating insurance with financial protection, followed by protection of property, and with healthcare access. Maharashtra shows the lowest level of awareness, where less than 7% are aware of insurance benefits (**Table 5.7**).

Figure 5.7: Understanding of insurance benefits (%)



Across different types of entities, borrowers associated with SFBs showed the strongest awareness. Nearly three-fourths of them see insurance as a means of financial protection while the remaining reported no knowledge. Borrowers of other entities also reported awareness in similar ranges for financial protection, but with slightly higher proportions of respondents who are not aware about the benefits.

Borrowers from urban areas are more informed than their rural counterparts. A significantly higher proportion of urban borrowers associated insurance with financial protection, compared to those in rural areas. Similarly, awareness of asset protection and

healthcare benefits was higher among urban respondents.

Borrowers across all education levels most commonly associated insurance with financial protection for themselves and their families, though those better educated were more aware. Awareness of other benefits, such as protection of assets and access to healthcare, followed a similar pattern.

Borrowers in the top two wealth quartiles (Q3 and Q4) reported higher awareness across all benefits compared to the borrowers in lower quartiles. Correspondingly, the proportion of respondents who do not know about the benefits of insurance declines with increasing wealth.

Table 5.7: Distribution (%) of borrowers by their understanding of insurance benefits

| Group | To financially protect myself and family | Protection of assets or property | Access to healthcare services | Don't know |
|----------------|--|----------------------------------|-------------------------------|------------|
| State | | | | |
| Assam | 61.9 | 0.8 | 28.4 | 36.5 |
| Bihar | 58.6 | 0.2 | 2.7 | 41.2 |
| Karnataka | 73.2 | 17.8 | 3.9 | 25.2 |
| Madhya Pradesh | 97.3 | 57.9 | 46.6 | 2.0 |
| Maharashtra | 6.4 | 3.6 | 3.6 | 93.8 |
| Punjab | 65.6 | 0.0 | 0.2 | 34.2 |
| Tamil Nadu | 79.9 | 11.5 | 2.6 | 18 |
| Telangana | 73.6 | 34.1 | 58.9 | 0.0 |
| Uttar Pradesh | 84.1 | 30.3 | 14.1 | 13.8 |
| West Bengal | 67.0 | 21.3 | 50.6 | 20.0 |

| Group | To financially protect myself and family | Protection of assets or property | Access to healthcare services | Don't know |
|------------------------|--|----------------------------------|-------------------------------|------------|
| Entity | | | | |
| Bank | 63.8 | 17.5 | 20.8 | 34.6 |
| NBFC | 63.1 | 13.2 | 21.7 | 23.5 |
| NBFC-MFI | 66.4 | 16.6 | 19.5 | 29.6 |
| SFB | 73.4 | 19.4 | 8.9 | 24.0 |
| Location | | | | |
| Rural | 62.7 | 12.8 | 18.7 | 32.0 |
| Urban | 75.4 | 25.9 | 16.1 | 23.2 |
| Education | | | | |
| Uneducated | 64.8 | 15.1 | 15.8 | 30.7 |
| Primary | 64.9 | 18.9 | 18.2 | 31 |
| Secondary | 68.5 | 17.9 | 19.4 | 27.5 |
| HS & above | 68.9 | 16.6 | 17.1 | 28.1 |
| Wealth quartile | | | | |
| Q1 | 63.4 | 8.6 | 16.1 | 33.7 |
| Q2 | 62.5 | 14.4 | 15.6 | 34.2 |
| Q3 | 71.5 | 23.9 | 16.9 | 23.8 |
| Q4 | 70.1 | 21.5 | 23.1 | 24.6 |

Discussions during the majority of FGDs revealed that participants were generally aware of the two types of insurance linked to their loans: Credit Life Insurance (commonly referred to as life insurance) and Health Insurance (medical insurance). Borrowers demonstrated a good understanding that credit life insurance is bundled with the loan, whereas health insurance is optional, and most participants reported opting for it voluntarily.

However, the depth of understanding varied across regions. For instance, in Uttar Dinajpur and West Bengal, while members confirmed availing insurance products, they expressed limited clarity about the specific terms, conditions, and claim processes associated with these policies. Consequently, very few have filed claims, although there is a shared understanding that, in the event of a

borrower's death, the outstanding loan would be covered by the credit life insurance.

These qualitative insights complement the survey findings, highlighting that while awareness about insurance availability is widespread, knowledge gaps regarding policy features, eligibility, and claim procedures remain.

5.2.2 Insurance products beyond RE offerings

Apart from the products facilitated by the REs, more than 93.8% of borrowers reported having purchased life insurance. However, very few of them reported having other types of insurance, with less than 8% having health, disability, property, or crop insurance (**Figure 5.8**).

Figure 5.8: Insurance products beyond RE offerings (%)



The distribution across population groups mirrors the overall insurance ownership. Except for Madhya Pradesh and Maharashtra, the coverage of life insurance was high in all other states (**Table 5.8**). Across REs, borrowers from SFB once again lead in life insurance coverage, followed by NBFCs and Banks. SFB borrowers also reported comparatively better access to health and property insurance, while NBFC borrowers had negligible coverage beyond life insurance. Life insurance coverage is higher in rural areas

than in urban areas, while urban respondents reported relatively better coverage of other products like health, property and disability.

Life insurance coverage is consistent across different wealth quartiles. However, borrowers in the top quartile are more likely to purchase health insurance, property insurance, and disability insurance compared to the bottom quartile, suggesting that they have greater affordability and awareness of insurance diversity.

Table 5.8: Distribution (%) of borrowers by insurance products bought other than offered by RE

| Group | Life | Health | Disability | Property |
|----------------|-------|--------|------------|----------|
| State | | | | |
| Assam | 95.2 | 8.9 | 0.8 | 3.2 |
| Bihar | 96.8 | 2.1 | 0.0 | 1.1 |
| Karnataka | 100.0 | 0.0 | 0.0 | 0.0 |
| Madhya Pradesh | 84.9 | 13.7 | 16.4 | 24.7 |
| Maharashtra | 62.5 | 37.5 | 0.0 | 0.0 |
| Punjab | 100.0 | 14.3 | 0.0 | 0.0 |
| Tamil Nadu | 91.8 | 3.3 | 1.6 | 0.0 |
| Telangana | 100.0 | 28.6 | 0.0 | 0.0 |
| Uttar Pradesh | 95.3 | 3.5 | 0.0 | 2.4 |
| West Bengal | 95.1 | 8.0 | 0.4 | 0.0 |

| Group | Life | Health | Disability | Property |
|------------------------|-------------|------------|------------|------------|
| Entity | | | | |
| Bank | 93.3 | 5.6 | 2.5 | 6.0 |
| NBFC | 95.7 | 0.0 | 0.0 | 0.0 |
| NBFC-MFI | 93.0 | 9.2 | 2.2 | 1.9 |
| SFB | 97.5 | 12.5 | 1.3 | 2.5 |
| Location | | | | |
| Rural | 94.6 | 6.3 | 1.4 | 1.7 |
| Urban | 91.0 | 12.3 | 4.5 | 9.7 |
| Education | | | | |
| Uneducated | 92.4 | 6.8 | 1.7 | 2.5 |
| Primary | 94.3 | 8.6 | 2.9 | 5.7 |
| Secondary | 93.6 | 7.7 | 2.1 | 3.6 |
| HS & above | 95.7 | 6.9 | 1.7 | 1.7 |
| Wealth quartile | | | | |
| Q1 | 91.8 | 7.3 | 2.3 | 2.3 |
| Q2 | 96.4 | 6.7 | 1.6 | 2.6 |
| Q3 | 93.1 | 6.9 | 1.1 | 3.4 |
| Q4 | 94.2 | 10.1 | 3.6 | 6.5 |
| Overall | 93.8 | 7.6 | 2.1 | 3.4 |

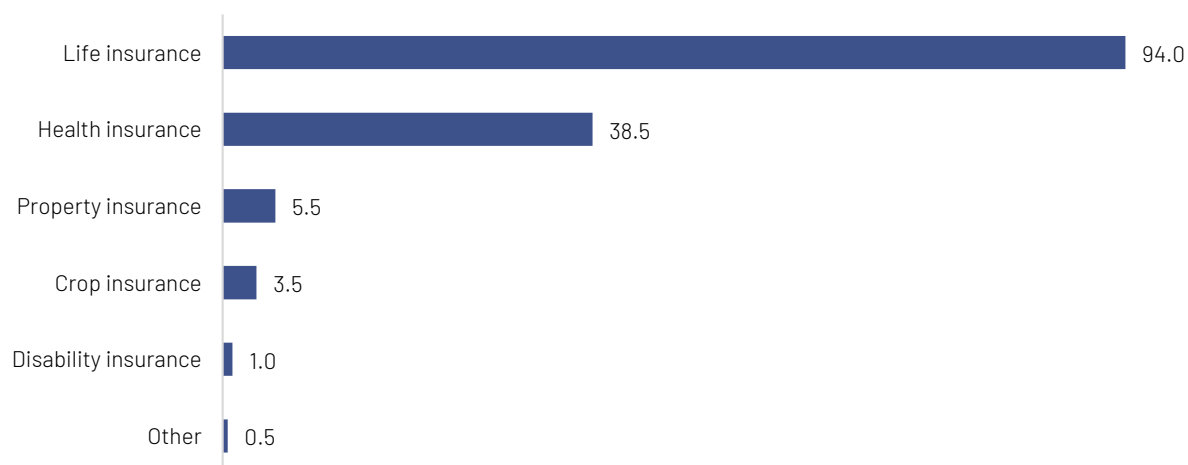
5.2.3 Preference/interest in buying a certain type of insurance product

When asked about their preferences, life insurance was the most desired product across all segments (**Figure 5.9**). Health insurance came second, followed by property insurance, crop insurance, and disability insurance.

Across states, respondents in Telangana reported very high preference for life & health insurance. More than two-third of borrowers from Bihar reported interest in health insurance, followed by West Bengal. Tamil Nadu and Uttar Pradesh show the

lowest levels of preference in buying health insurance (**Table 5.9**). SFB clients reported the highest interest in life insurance and property insurance followed by NBFC-MFIs. In terms of health insurance, bank borrowers showed the highest level of interest, while NBFC borrowers expressed the lowest interest. Interest in crop insurance was relatively higher among NBFC and NBFC-MFI borrowers compared to others. While bank borrowers showed relatively more interest in health insurance. Urban borrowers showed more interest in health insurance and property insurance compared to rural borrowers. However, preference for life insurance was high across both rural and urban areas.

Figure 5.9: Borrowers' preferences (%) for types of insurance products they are interested in purchasing



Those with primary education reported relatively high interest in property insurance along with moderate preference for health and crop insurance. Those with higher secondary education and above showed lower interest

in crop and property insurance. Borrowers in wealth quartile 4 expressed the highest preference for health and property insurance, whereas those in the lowest quartile showed greater interest in crop insurance.

Table 5.9: Distribution (%) of borrowers by preferences for types of insurance products they are interested in purchasing

| Group | Life | Health | Disability | Property |
|----------------|-------|--------|------------|----------|
| State | | | | |
| Assam | 84.1 | 20.5 | 0.0 | 1.1 |
| Bihar | 92.3 | 66.2 | 0.7 | 2.1 |
| Karnataka | 100.0 | 100.0 | 0.0 | 0.0 |
| Madhya Pradesh | 95.6 | 38.5 | 2.3 | 14.5 |
| Maharashtra | 92.9 | 4.8 | 0.0 | 0.0 |
| Punjab | 100.0 | 50.0 | 0.0 | 0.0 |
| Tamil Nadu | 98.1 | 8.6 | 1.0 | 0.0 |
| Telangana | 100.0 | 98.3 | 1.7 | 0.0 |
| Uttar Pradesh | 91.7 | 10.7 | 0.0 | 1.2 |
| West Bengal | 92.8 | 36.1 | 0.0 | 2.3 |
| Entity | | | | |
| Bank | 92.6 | 45.6 | 1.3 | 4.2 |
| NBFC | 90.7 | 30.8 | 0.0 | 0.9 |
| NBFC-MFI | 94.3 | 37.1 | 1.2 | 4.6 |
| SFB | 96.3 | 35.2 | 0.6 | 10.0 |

| Group | Life | Health | Disability | Property |
|------------------------|------|--------|------------|----------|
| Location | | | | |
| Rural | 94.2 | 31.7 | 0.8 | 4.2 |
| Urban | 93.6 | 52.4 | 1.6 | 8.0 |
| Education | | | | |
| Uneducated | 92.1 | 41.9 | 0.8 | 3.9 |
| Primary | 95.3 | 37.6 | 0.4 | 9.0 |
| Secondary | 95.2 | 36.9 | 1.5 | 5.7 |
| HS & above | 92.3 | 38.3 | 0.5 | 3.6 |
| Wealth quartile | | | | |
| Q1 | 92.9 | 30.8 | 0.8 | 3.8 |
| Q2 | 94.6 | 33 | 0.9 | 2.0 |
| Q3 | 92.7 | 42.6 | 1.3 | 5.9 |
| Q4 | 95.8 | 48.4 | 1.1 | 10.2 |

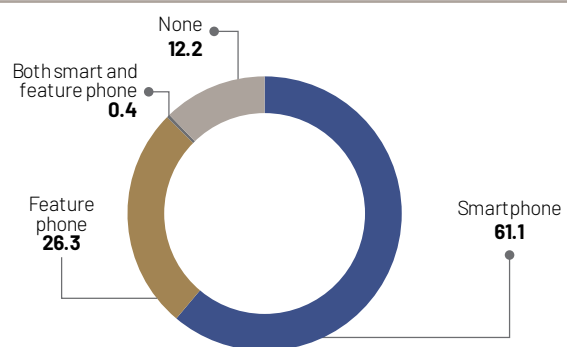
5.3 Digital adoption among borrowers

This section explores the digital adoption behaviour of borrowers. It begins by examining the ownership of digital devices, then the use of payment applications, highlighting the extent to which borrowers are engaging with digital platforms for transactions. The section further examines the level of trust borrowers place in digital methods, followed by their experiences related to the loss of money while using such platforms. It also discusses the measures adopted by borrowers to safeguard themselves from digital fraud.

5.3.1 Ownership of digital devices

Overall, smartphones are the most commonly owned mobile devices among borrowers – a little over 60% of borrowers reported using smartphones, followed by feature phones (Figure 5.10). A very small share reported owning both, while 12.2% of borrowers reported having no mobile device, indicating a digital access gap among a segment of the population.

Figure 5.10: Distribution (%) of borrowers by device ownership



More than 80% of borrowers in Maharashtra and Telangana reported smartphone ownership (Table 5.10) – the highest among the sample states. In Tamil Nadu, Uttar Pradesh, and Bihar more than 30% of borrowers reported having feature phone – higher than other states. Madhya Pradesh has the highest proportion of borrowers who do not own any device, at nearly one-third. This may be attributed to the state’s relatively low average monthly household income and the lowest monthly household expenditure compared to other states, which limits the ability of households to afford mobile devices (refer Table 2.14, Chapter 2).

Smartphone ownership is significantly higher in urban areas, with more than two-thirds of borrowers using smartphones, compared to just over half in rural areas. Feature phones are more commonly used in rural areas. Notably, the share of respondents without any phone is about twice as high in rural areas.

Mobile phone ownership is positively correlated with level of education. Almost all the borrowers with higher secondary education and above own smartphones, and

almost everyone from this population group owns a phone. On the other hand, almost a quarter of uneducated borrowers do not own any phone.

In the lowest wealth quartile, less than half of the respondents own a smartphone, and about a quarter do not own any phone at all. Smartphone ownership rises with wealth quartile and those with feature phones or without any phone reduces.

Table 5.10: Distribution (%) of borrowers by device ownership

| Group | Smartphone | Feature phone | Both | None |
|------------------|------------|---------------|------|------|
| State | | | | |
| Assam | 58.2 | 16.8 | 0.0 | 25.0 |
| Bihar | 47.8 | 31.7 | 1.1 | 19.4 |
| Karnataka | 71.4 | 27.7 | 0.7 | 0.2 |
| Madhya Pradesh | 55.7 | 12.7 | 0.4 | 31.3 |
| Maharashtra | 81.6 | 18.3 | 0.0 | 0.1 |
| Punjab | 58.4 | 26.8 | 0.2 | 14.7 |
| Tamil Nadu | 58.3 | 37.1 | 0.3 | 4.3 |
| Telangana | 80.1 | 13.4 | 0.1 | 6.3 |
| Uttar Pradesh | 52.4 | 33.2 | 0.3 | 14.1 |
| West Bengal | 56.7 | 25.6 | 0.0 | 17.7 |
| Entity | | | | |
| Bank | 60.1 | 24.5 | 0.3 | 15.1 |
| NBFC | 61.8 | 27.1 | 0.2 | 11.0 |
| NBFC-MFI | 59.6 | 28.4 | 0.6 | 11.5 |
| SFB | 65.5 | 23.7 | 0.1 | 10.8 |
| Location | | | | |
| Rural | 56.6 | 28.4 | 0.4 | 14.6 |
| Urban | 70.5 | 21.8 | 0.4 | 7.4 |
| Education | | | | |
| Uneducated | 37.8 | 37.1 | 0.5 | 24.6 |
| Primary | 52.4 | 36.2 | 0.3 | 11.2 |
| Secondary | 72.5 | 20.3 | 0.4 | 6.9 |
| HS & above | 89.7 | 7.4 | 0.2 | 2.7 |

| Group | Smartphone | Feature phone | Both | None |
|------------------------|-------------|---------------|------------|-------------|
| Wealth quartile | | | | |
| Q1 | 41.9 | 33.8 | 0.3 | 24.0 |
| Q2 | 58.1 | 30.4 | 0.6 | 10.9 |
| Q3 | 70.0 | 22.8 | 0.4 | 6.8 |
| Q4 | 75.2 | 17.8 | 0.2 | 6.9 |
| Overall | 61.1 | 26.3 | 0.4 | 12.2 |

5.3.2 Usage of digital payment platforms

The analysis of digital payment adoption is restricted to borrowers who owned a smartphone. Out of the total survey sample, 6,361 (61.5% of total borrowers) borrowers reported owning smartphones, forming the base for this section.

a) Borrowers who installed digital payment apps

Overall, 54% (3,422 borrowers) of smartphone-owning borrowers reported having installed digital payment apps on their phones, while 45% (2,856 borrowers) had not done so. A very small share (1.3%) reported not knowing about such apps. Adoption of digital payment apps shows wide variation across states. Karnataka (82%), Telangana (79%), and Tamil Nadu (66%) reported the highest installation of digital payment apps, while Bihar, Punjab, and Uttar Pradesh have the lowest at 29%. This indicates regional disparities in digital readiness, with southern states clearly leading in app adoption.

Borrowers linked to NBFCs (59%) and SFBs (56%) have higher app installation rates compared to NBFC-MFIs (54%) and banks (49%). Urban borrowers show higher adoption (61%) compared to rural borrowers (50%). Educational attainment strongly influences this adoption.

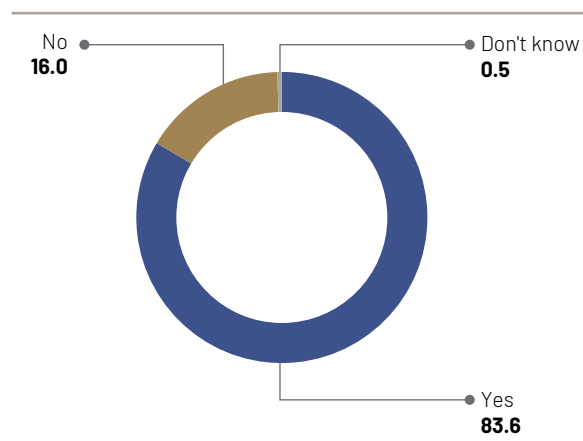
About 34% of uneducated borrowers reported installing apps, while those with higher secondary education and above shows the highest app installation rates (76%).

Digital adoption correlates with economic status – only 29% of the poorest quartile (Q1) had installed apps, compared to 61–63% in the top two quartiles (Q3 and Q4).

b) Borrowers using digital payment apps in the last month

Among the 3,422 borrowers who reported having installed digital payment apps, more than 83% (2,859) reported (Figure 5.11) using payment apps for payments of grocery/ utilities purchase, phone recharge/bill, electricity bill etc, indicating a high level of adoption of digital financial tools – this is about a significant 27.7% of the total sample. Remaining borrowers reported they do not use such apps and a very small share was unsure. Also, at an overall level it is seen that more than 11% (1,240 out of 10,342 total borrowers) of borrowers reported using payment apps for the payment of loan instalments (refer Table 4.21, Chapter 4).

Figure 5.11: Distribution (%) of borrowers by use of payment apps



Borrowers from Assam, Tamil Nadu, Telangana, and Punjab show high levels of usage of payment apps approximately above 90%, suggesting strong digital adoption

(Table 5.11). On the other hand, Maharashtra, Uttar Pradesh and Bihar lag behind, with Maharashtra showing the lowest usage.

Table 5.11: Distribution (%) of borrowers by use of digital payment apps

| Group | N=3,422 | | | N=10,342 | | |
|------------------------|-------------|-------------|------------|-------------|------------|------------|
| | Yes | No | Don't know | Yes | No | Don't know |
| State | | | | | | |
| Assam | 96.2 | 3.1 | 0.8 | 20.2 | 0.7 | 0.2 |
| Bihar | 76.9 | 22.7 | 0.5 | 10.9 | 3.2 | 0.1 |
| Karnataka | 84.3 | 15.1 | 0.7 | 49.9 | 8.9 | 0.4 |
| Madhya Pradesh | 86.8 | 13.2 | 0.0 | 21.9 | 3.3 | 0.0 |
| Maharashtra | 57.9 | 41.1 | 1.0 | 28.3 | 20.1 | 0.5 |
| Punjab | 90.5 | 9.5 | 0.0 | 15.5 | 1.6 | 0.0 |
| Tamil Nadu | 95.3 | 4.6 | 0.2 | 37.0 | 1.8 | 0.1 |
| Telangana | 95.8 | 4.2 | 0.0 | 61.0 | 2.7 | 0.0 |
| Uttar Pradesh | 69.1 | 28.7 | 2.1 | 10.6 | 4.4 | 0.3 |
| West Bengal | 88.0 | 12.0 | 0.0 | 23.8 | 3.2 | 0.0 |
| Entity | | | | | | |
| Bank | 80.3 | 19.3 | 0.4 | 23.6 | 5.7 | 0.1 |
| NBFC | 83.7 | 15.7 | 0.5 | 30.5 | 5.7 | 0.2 |
| NBFC-MFI | 84.3 | 15.2 | 0.5 | 27.5 | 5.0 | 0.2 |
| SFB | 85.2 | 14.1 | 0.6 | 31.5 | 5.2 | 0.2 |
| Location | | | | | | |
| Rural | 82.6 | 17.0 | 0.4 | 23.4 | 4.8 | 0.1 |
| Urban | 84.8 | 14.6 | 0.6 | 36.4 | 6.3 | 0.3 |
| Education | | | | | | |
| Uneducated | 81.0 | 16.9 | 2.1 | 10.2 | 2.1 | 0.3 |
| Primary | 76.3 | 23.1 | 0.5 | 76.6 | 23.2 | 0.5 |
| Secondary | 83.0 | 16.7 | 0.3 | 17.0 | 3.4 | 0.1 |
| HS & above | 88.9 | 11.0 | 0.1 | 26.5 | 3.3 | 0.0 |
| Wealth quartile | | | | | | |
| Q1 | 78.8 | 20.3 | 0.9 | 9.7 | 2.5 | 0.1 |
| Q2 | 73.7 | 25.5 | 0.8 | 21.8 | 7.6 | 0.2 |
| Q3 | 85.9 | 13.5 | 0.6 | 38.2 | 6.0 | 0.3 |
| Q4 | 88.9 | 11.0 | 0.1 | 41.2 | 5.1 | 0.0 |
| Overall | 83.6 | 16.0 | 0.5 | 27.7 | 5.3 | 0.2 |

Use of payment apps was high (>82%) in both rural and urban areas though slightly better in urban, while a very small share in both areas said they don't know about them. This shows that digital payment adoption is widespread, but marginally stronger in urban settings.

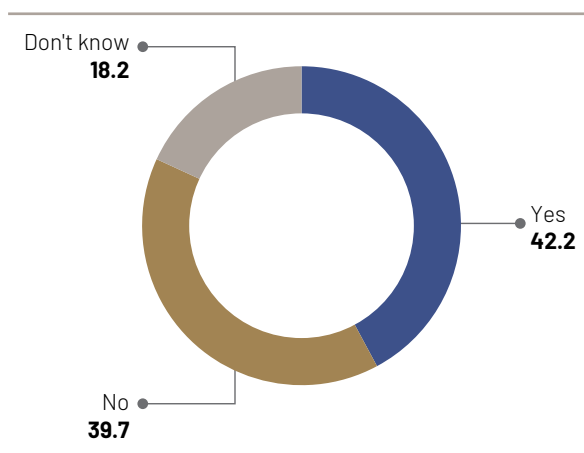
Usage of payment apps is strongly influenced by the level of education. Borrowers with higher secondary education and above have a higher proportion reporting usage of digital payment apps, while those with only primary education show lower usage.

Usage of payment apps increases with wealth quartiles – borrowers in the top quartile have the highest usage rates, while those in the lower quartiles are more likely to be non-users or uncertain.

5.3.3 Trust in digital financial methods

At the aggregate level, proportion of borrowers who have trust in digital methods is slightly greater than the proportion who do not trust (Figure 5.12). The remaining proportion of borrowers reported that they do not know.

Figure 5.12: Level of trust in digital methods (%)



The highest levels of trust are observed in Telangana and Madhya Pradesh, indicating strong acceptance of digital methods in these states (Table 5.12). Very low trust levels are seen in Punjab, Maharashtra, and Uttar Pradesh, with Punjab having the highest share of borrowers reporting no trust at all. At the same time, Punjab also records one of the highest levels of digital app usage, which may indicate that people use them out of necessity or convenience despite low trust levels. Maharashtra and Uttar Pradesh have the highest shares of respondents who are uncertain about digital tools.

More than half of the borrowers associated with SFBs reported trust in digital methods, which is the highest among all REs. Borrowers from banks show comparatively lower levels of trust while NBFCs have the highest share of borrowers who are uncertain about trusting digital payment apps.

A relatively higher proportion of urban borrowers trust digital methods compared to rural. Similarly, a greater proportion of rural respondents reported not knowing whether to trust digital platforms. These findings indicate a rural-urban divide in familiarity, exposure, and confidence in using digital financial services.

A clear positive relationship can be seen between the level of education and trust in digital methods. Borrowers with higher secondary education and above show the highest trust level in digital methods. Trust declines among those with secondary and primary education, and it is lowest among the uneducated. These patterns indicate that digital confidence is closely related to educational attainment, emphasising the importance of digital literacy, especially for borrowers with limited formal education.

Table 5.12: Distribution (%) of borrowers by level of trust in digital methods

| Group | Yes | No | Don't know |
|------------------------|-------------|-------------|-------------|
| State | | | |
| Assam | 28.7 | 50.7 | 20.7 |
| Bihar | 44.5 | 40.3 | 15.2 |
| Karnataka | 46.8 | 36.4 | 16.8 |
| Madhya Pradesh | 73.6 | 19.6 | 6.8 |
| Maharashtra | 21.6 | 44.7 | 33.7 |
| Punjab | 20.4 | 76.7 | 2.9 |
| Tamil Nadu | 39.6 | 48.3 | 12.1 |
| Telangana | 74.7 | 17.2 | 8.1 |
| Uttar Pradesh | 24.1 | 38.1 | 37.9 |
| West Bengal | 50.8 | 32.5 | 16.7 |
| Entity | | | |
| Bank | 38.0 | 42.0 | 19.9 |
| NBFC | 45.9 | 27.9 | 26.2 |
| NBFC-MFI | 40.0 | 43.1 | 16.9 |
| SFB | 50.1 | 35.2 | 14.7 |
| Sector | | | |
| Rural | 39.0 | 41.2 | 19.9 |
| Urban | 48.7 | 36.7 | 14.6 |
| Education | | | |
| Uneducated | 30.0 | 46.8 | 23.2 |
| Primary | 31.8 | 44.2 | 24.0 |
| Secondary | 47.9 | 37.6 | 14.5 |
| HS & above | 65.4 | 24.0 | 10.5 |
| Wealth quartile | | | |
| Q1 | 30.4 | 44.7 | 24.9 |
| Q2 | 35.4 | 40.4 | 24.1 |
| Q3 | 49.5 | 35.9 | 14.6 |
| Q4 | 53.7 | 37.7 | 8.6 |
| Overall | 42.2 | 39.7 | 18.2 |

Trust in digital methods increases steadily with increase in wealth status. More than half of the borrowers in Q4 reported trust in digital methods, which is the highest among all wealth quartiles. Similarly, proportion of

borrowers who are uncertain declines with the increase in wealth status. This suggests that economic well-being plays a significant role in enabling trust and comfort with digital methods.

5.3.4 Reported losses while using digital platforms

The reported incidence of financial loss due to digital risk or fraud while using digital payment methods is extremely low (0.7%) among microfinance borrowers. A large majority (88.0%) reported no loss, while 11.3% were unsure. The only exception is Maharashtra, where reported losses are relatively higher (2.4%) alongside the lowest level of digital app adoption (57.9%). This suggests that there are weaker digital awareness and practices in the state, which may be making borrowers more vulnerable.

5.3.5 Reported losses while using digital platforms

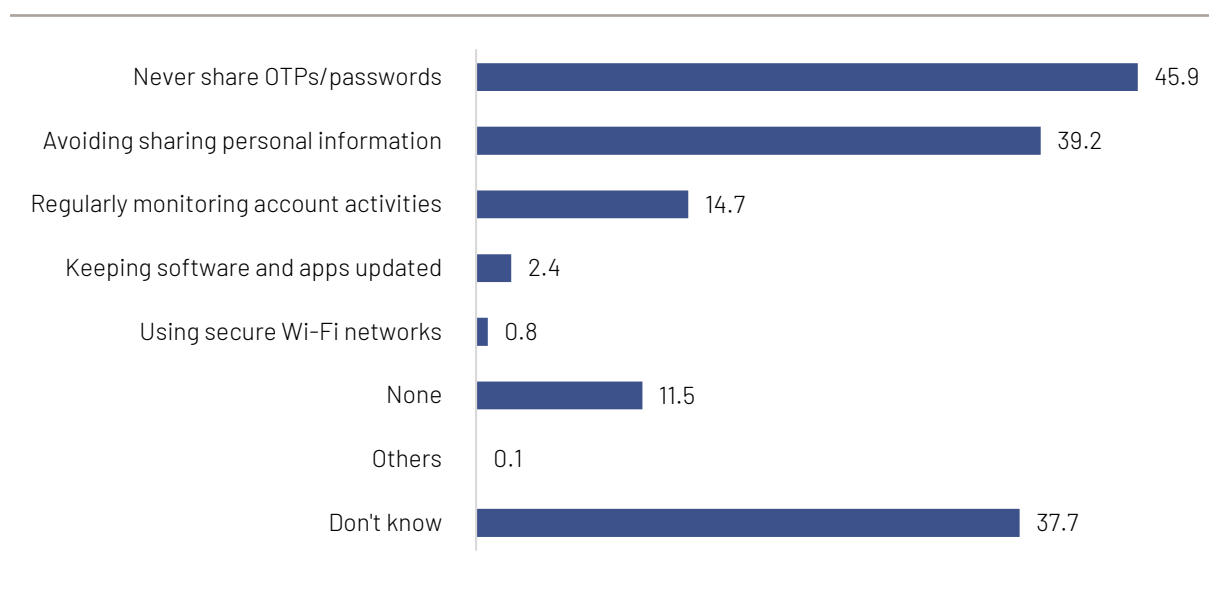
At the aggregate level, the most commonly reported measures taken by borrowers to protect themselves from digital fraud include never sharing OTPs or passwords and avoiding sharing personal information (Figure 5.13). More technical safety practices such as keeping apps updated or using secure Wi-Fi are still rarely adopted. Notably, over one-third of all respondents said they “don’t know” how to protect themselves, and more than one in ten said they take no protective steps

at all. This points to a lack of awareness and digital literacy gap.

Telangana, Tamil Nadu, Karnataka, and Madhya Pradesh report a relatively high proportion of borrowers adopting multiple protective practices, especially never sharing OTPs and avoiding personal information sharing (Table 5.13). In Assam, Maharashtra, and Punjab, a large proportion of borrowers (over 58%) do not know about safety measures. In Maharashtra, an exceptionally high share of borrowers (86.5%) reported not knowing any safety measures, which aligns with the state’s lowest digital adoption levels and the higher number of reported digital losses. Additionally, Punjab and Bihar have the highest proportion of respondents taking no protective measures at all.

Borrowers associated with SFBs and NBFCs appear somewhat more aware of fraud prevention measures, where more than half of them report never sharing OTPs or passwords and a sizable proportion avoids disclosing personal information, which may be because the borrowers are well informed about such precautions while getting the training from local RE office during the loan application process. However, across all entities, about 30% to over 40% still reports not knowing

Figure 5.13: Measures that borrowers take to protect themselves from fraud (%)



how to protect themselves, indicating that financial institutions need to strengthen user education and support.

Urban borrowers show significantly higher levels of protective behaviour, particularly the two most common ones (never sharing OTPs and avoiding personal information). More than half of the urban respondents reported practicing these measures, compared to less than 40% in rural areas. On the other hand, a higher proportion of rural borrowers do not know how to protect themselves, suggesting the need for awareness efforts in rural areas.

Education level has a strong positive correlation with digital safety awareness. Borrowers with higher secondary education and above are much more likely to adopt a range of safety measures, particularly

monitoring their accounts regularly and keeping software or apps updated. In contrast, lower proportion of uneducated respondents engage in any protective behaviour, and more than 40% of them reported being unaware of how to protect themselves.

Borrowers in the top wealth quartiles reported adopting protective practices, while those in the lowest wealth quartile are the least informed and most vulnerable. About half of them do not know how to protect themselves, and a significant portion say they take no safety measures at all. This pattern highlights a sharp digital safety divide linked to economic capacity, suggesting that efforts to promote secure digital usage must be more inclusive and focused on the poorest segments.

Table 5.13: Distribution (%) of borrowers by measures to protect against fraud

| Group | Never share OTP | Avoiding sharing personal information | Regularly monitoring account activities | Keeping software & apps updated | Using secure Wi-Fi networks | None | Don't know |
|----------------|-----------------|---------------------------------------|---|---------------------------------|-----------------------------|------|------------|
| State | | | | | | | |
| Assam | 23.7 | 13.1 | 10.0 | 3.7 | 0.0 | 0.2 | 76.1 |
| Bihar | 18.6 | 19.0 | 2.1 | 0.0 | 0.0 | 30.2 | 48.0 |
| Karnataka | 67.3 | 51.1 | 5.9 | 2.4 | 0.3 | 10.6 | 21.0 |
| Madhya Pradesh | 68.0 | 60.5 | 26.6 | 4.8 | 1.9 | 12.0 | 7.5 |
| Maharashtra | 13.3 | 11.7 | 5.3 | 1.8 | 0.1 | 0.2 | 86.5 |
| Punjab | 10.5 | 9.8 | 6.1 | 4.5 | 4.5 | 30.7 | 58.6 |
| Tamil Nadu | 60.8 | 46.5 | 23.1 | 2.4 | 2.0 | 2.3 | 34.8 |
| Telangana | 82.1 | 63.6 | 43.1 | 4.8 | 0.0 | 7.3 | 3.9 |
| Uttar Pradesh | 51.6 | 59.8 | 7.4 | 0.4 | 0.5 | 18.7 | 12.2 |
| West Bengal | 54.1 | 44.5 | 28.8 | 3.8 | 0.2 | 0.7 | 42.3 |
| Entity | | | | | | | |
| Bank | 43.3 | 33.9 | 14.7 | 2.5 | 0.4 | 11.9 | 41.7 |
| NBFC | 53.4 | 44.5 | 13.8 | 0.9 | 0.5 | 11.7 | 29.2 |
| NBFC-MFI | 43.4 | 37.0 | 15.2 | 2.9 | 1.3 | 12.3 | 39.6 |
| SFB | 51.0 | 48.0 | 14.3 | 2.2 | 0.5 | 9.4 | 33.0 |

| Group | Never share OTP | Avoiding sharing personal information | Regularly monitoring account activities | Keeping software & apps updated | Using secure Wi-Fi networks | None | Don't know |
|------------------------|-----------------|---------------------------------------|---|---------------------------------|-----------------------------|-------------|-------------|
| Location | | | | | | | |
| Rural | 39.3 | 33.8 | 13.9 | 2.2 | 0.8 | 12.7 | 42.2 |
| Urban | 59.7 | 50.4 | 16.4 | 3.0 | 0.8 | 9.2 | 28.5 |
| Education | | | | | | | |
| Uneducated | 30.3 | 29.4 | 7.1 | 1.1 | 0.3 | 20.0 | 40.7 |
| Primary | 42.4 | 33.9 | 11.0 | 1.9 | 0.4 | 9.8 | 43.7 |
| Secondary | 52.2 | 42.6 | 17.0 | 2.7 | 1.0 | 8.2 | 36.8 |
| HS & above | 66.4 | 58.0 | 30.2 | 5.4 | 1.9 | 5.3 | 25.8 |
| Wealth quartile | | | | | | | |
| Q1 | 28.5 | 25.3 | 9.9 | 1.5 | 0.5 | 14.5 | 50.5 |
| Q2 | 41.7 | 36.7 | 13.5 | 1.9 | 0.9 | 10.9 | 41.0 |
| Q3 | 61.0 | 50.1 | 13.6 | 2.2 | 0.6 | 8.0 | 27.8 |
| Q4 | 52.5 | 44.7 | 22.4 | 4.3 | 1.3 | 12.9 | 31.7 |
| Overall | 45.9 | 39.2 | 14.7 | 2.4 | 0.8 | 11.5 | 37.7 |

Note: This was a multiple-response question; respondents could select more than one option. Therefore, percentages may exceed 100%.

In conclusion, while nearly all borrowers have access to a bank account, their level of engagement with financial services varies significantly based on their social, economic, and educational backgrounds. As an alternative method, most save money at home or use community-based groups like SHGs apart from savings at banks. Their savings are typically set aside for emergencies and essential expenses. Although this is a sign of financial awareness and judicious financial decisions being made among low-income households, the idea for the low-income community is to shift the purpose of savings from emergencies/essentials to asset

creation/investments/ business expansion etc. Smartphones ownership is widespread but lower among rural, low-income, and less-educated borrowers. Among smartphone users' digital payment apps are widely used, particularly among wealthier and more educated individuals. However, trust in digital tools and awareness of safety practices remain low in rural areas and among less educated and lower-income groups. These insights point to a clear need for initiatives that enhance financial security by promoting digital literacy and expanding awareness of formal saving options.

This chapter synthesises evidence from the survey and FGDs to answer a simple question: what, in practice, does microfinance do for its borrowers and their communities? Five strands of analysis are presented here - borrower profiles and capabilities, financial literacy and its determinants, loan use and repayment behaviour, how interest rates shape (or do not shape) lender choice within the formal sector, and the drivers of digital adoption. The results are consistent: borrowers are predominantly women in their prime working years, literacy improves with education and targeted pre-sanction training, productive loan use is strongly associated with better repayment behaviour of borrowers, interest rate is not the primary deciding factor for many, and digital adoption rises with borrowers' income, savings, and access to formal credit channels. Together, these patterns reveal a pathway from credit access to capability gains at the household level and measurable spillovers in local labour markets.

6.1 Profile and awareness of borrowers

The report shows that microfinance borrowers are predominantly women, about 37 years old, married, with secondary education, living in nuclear households (76% of them) averaging 4.4 members, earning roughly Rs 3.1 lakh per year, and mostly engaged in petty trade or business. A large majority (78% of surveyed borrowers) contributes to household income wherein an average household is seen to have about two earning members. The list of primary sources of livelihood are topped by petty trade, followed by casual labour, self-

employment, salaried work, and agriculture. Average MPCE is found to be Rs 3,742. The reported home ownership is widespread such that 56% of borrower households live in pucca structures and mostly have good access to basic amenities, barring some state-level gaps.

Having understood the household profile, it is important to map financial awareness to it. This is because participation in the ecosystem of microfinance lending and borrowing is expected not only to expand credit access but also to strengthen borrowers' financial capabilities for routine transactions and for making informed choices.

To assess loan product literacy and its determinants, an index called Product Literacy Index (PLI) is constructed in this section from five indicators:

- Knowledge of the loan interest rate
- Knowledge of the loan tenure
- Awareness of the processing fee
- Understanding of insurance benefits linked to the loan
- Awareness of credit bureaus and their role

Each of these five variables is constructed by doing binary coding of responses to the relevant survey questions such that for each, a final value of 1 indicates that the survey participant has knowledge of the indicator while 0 indicates lack of awareness. The PLI is then calculated by taking the arithmetic sum of these five variables, resulting in a score that ranges from 0 to 5, where 0 represents no product literacy and 5 represents the highest level of product literacy. Finally, based on their

total PLI score, individuals are categorised into three levels of product literacy namely:

- 'Low' – if the score is between 0 and 2
- 'Medium' – if the score is 3
- 'High' – if the score is 4 or 5

This categorical index of borrowers (low, medium and high) is then used as the dependent variable in an ordered logistic regression analysis¹³ to examine the predictors of financial literacy. The model estimates the log-odds of being in a higher financial literacy category, given that the assumption of proportional odds¹⁴ holds. Coefficients from this model indicate whether a unit change in a predictor increases or decreases the likelihood of the borrower being in a higher literacy category.

The independent variables in the regression model were selected to represent different factors that could together influence the level of financial understanding:

- (i) Training provided by the RE: Training before loan sanction is expected to enhance borrowers' understanding of loan terms, repayment conditions and any other associated costs. This variable captures the effect of structured financial or product education interventions on borrowers' literacy outcomes.
- (ii) Education level: Educational attainment has been taken as a proxy for cognitive ability and capacity to comprehend financial concepts. A higher education level could improve understanding of financial documents, interest rates, and contractual terms. Therefore, education can serve as a determinant of product literacy.
- (iii) Total number of active loans: The number of active loans represents the extent of a borrower's financial exposure and engagement with different credit markets. Borrowers with multiple loans may have more experience

navigating credit conditions but may also experience cognitive overload, leading to reduced comprehension. This variable intends to capture that dual effect.

- (iv) Preferred touchpoint for depositing money: This indicator reflects the mode of financial interaction of a borrower by considering whether she uses an RE branch, an ATM, or a BC for depositing money into her account. Different channels for banking services delivery can influence client engagement, information access, and borrowers' comfort with financial systems, thereby affecting literacy levels.
- (v) Saving behaviour: Whether a borrower maintains savings reflects financial discipline and awareness of formal financial products. Regular saving behaviour indicates exposure to financial institutions and understanding beyond credit, which can foster better product understanding.
- (vi) Entity type: Different institutional categories vary in their communication practices, borrower outreach, and financial literacy initiatives. Including entity type in the regression equation helps control for institutional differences in promotion of product awareness and transparency.
- (vii) Social group: Caste or community background can affect a borrower's access to financial services, exposure to training, and level of awareness. Different social groups may have had varying opportunities and experiences with financial institutions, which can influence their product literacy.
- (viii) Household income: Household income reflects the borrower's economic capacity. People with higher income are likely to have better access to information, education, and resources that can improve not only their repayment ability but also their financial knowledge.

¹³ A statistical method used to test a hypothesis where the outcome variable is categorical and ordered but its intervals are not on a numeric scale (i.e., dependent variable is 'ordinal'). Jeffrey M. Wooldridge, 2010. "Econometric Analysis of Cross Section and Panel Data", MIT Press

¹⁴ Alan Agresti, 2007. "Categorical Data Analysis." Wiley-Interscience

The regression results (**Table 6.1**) show that education, social group, income, access to training, saving behaviour, preferred banking channels, etc. are statistically significant predictors of product literacy among the surveyed microfinance borrowers.

Table 6.1: Determinants of product literacy (ordered logit regression results)

| Variables | Change in probability |
|--|-----------------------|
| Education level (ref. uneducated) | |
| Up to Upper Primary | 0.055*** (0.0065) |
| Secondary | 0.104*** (0.0082) |
| Above higher secondary | 0.134*** (0.0105) |
| Social group (ref. SC/ST) | |
| OBC | -0.042*** (0.0063) |
| General | 0.006 (0.0072) |
| Household income | |
| Log of Income | 0.077*** (0.0071) |
| Total active loans (ref. 1 lone) | |
| 2-5 Loans | 0.045*** (0.0101) |
| Training provided by RE before sanction of loan (ref. no) | |
| Yes | 0.058*** (0.0075) |
| Preferred touch point (ref. branch) | |
| ATM | -0.052** (0.0209) |
| BC | -0.022** (0.0109) |
| Saving (ref. no) | |
| Yes | 0.056*** (0.0087) |

| Variables | Change in probability |
|--------------------------------|-----------------------|
| Entity type (ref. bank) | |
| NBFC | -0.014 (0.0105) |
| NBFC-MFI | 0.003 (0.0073) |
| SFB | -0.050*** (0.0084) |
| Pseudo R ² | 0.2856 |
| Observations | 10,289 |

Note: Robust standard error in parentheses; State fixed effects were included; ***p<0.01, **p<0.05, *p<0.1

Education emerges as one of the most influential determinants of product literacy. The marginal effects indicate that borrowers with higher education are substantially more likely to exhibit higher product literacy compared to those who are uneducated. Specifically, in comparison to borrowers without any formal education, individuals educated up to upper primary level are 5.5 pp more likely to have higher product literacy. Further, those who have received yet higher education of secondary level and above higher secondary have a likelihood of being product literate that is higher than uneducated borrowers by 10.4 pp and 13.4 pp respectively. In addition, borrowers' product literacy is also shaped by their household income, which plays an important role in financial understanding. With every unit increase in log income, the probability of a borrower being more product-literate rises by 7.7 pp.

The number of loans reported in the survey is used as a proxy for borrowers' experience with lenders. The findings indicate that a higher number of loans is positively associated with product literacy, suggesting that greater exposure to financial products enhances borrowers' understanding and management of them. Specifically, borrowers holding two to five active loans are 4.5% pp more likely to exhibit higher product literacy than those with only one loan. This suggests that repeated

borrowing from formal financial institutions enhances familiarity with lending procedures, repayment mechanisms, and associated charges. Borrowers holding multiple loans would also be more likely to compare loan products and interact with different lending institutions, which may lead to greater exposure and understanding of interest rates, insurance, processing fees etc.

Training programs provided by the REs prior to loan sanction have a significant positive effect on product literacy. Borrowers associated with REs that offer such training are 5.8 pp more likely to exhibit high levels of product literacy compared to those whose REs do not conduct these training sessions. This underscores the critical role of REs in educating prospective borrowers, on all features of credit products as well as their implications, prior to extending credit to them. This goes on to show how structured borrower education programs can enhance people's understanding of credit terms, repayment obligations, and insurance benefits. These RE trainings provide direct opportunities for borrowers to clarify doubts, gain awareness about responsible borrowing practices, and understand grievance redressal mechanisms. The model results thus show that financial literacy interventions integrated into the loan process can substantially improve borrower awareness and empower clients to make informed credit-taking decisions.

Furthermore, interaction with financial institutions and clients' saving behaviour were also seen to significantly influence the borrowers' literacy levels. Results in Table 6.1 show that borrowers who primarily transact through ATMs or BCs are less likely to be product-literate compared to those who prefer visiting branches. The probability of high product literacy is 5.2 pp lower for those preferring ATMs and 2.2 pp lower for those preferring BCs, suggesting that direct, in-person engagement at RE branches provides greater scope for communication and hence better understanding of loan-related information.

In contrast, saving behaviour exhibits a strong positive association with product literacy. Borrowers who maintain savings accounts are 5.6 pp more likely to have higher product literacy than those without. This could imply that regular saving habits and frequent interactions with financial institutions contribute meaningfully to improving borrowers' financial awareness and understanding of financial products. Lending institution type was also seen to matter for product literacy outcomes. Compared to bank borrowers, those borrowing from NBFC-MFIs and NBFCs showed no significant difference in borrowers' state of product literacy but SFB borrowers were seen to be 5.0 pp less likely to be highly literate.

The results demonstrate that product literacy among microfinance borrowers is influenced by a range of socio-economic and institutional factors. Education and income emerge as key enablers of financial understanding. Overall, the findings emphasize that improving product literacy requires a multifaceted approach, combining education, targeted training, and institutional support, to ensure that microfinance truly fosters informed and empowered borrowers.

6.2 Factors influencing repayment behaviour among borrowers

At the national level, average microfinance loan amount stands at Rs 51,222, with a typical loan tenure of 23 months. Households allocate approximately 18.7% of their household income toward loan instalments (**Section 2.6**), suggesting that the repayment burden remains within manageable limits for most borrowers. Notably, around three-fourths of the respondents reported no difficulty in repaying their loans. Even among those who did face repayment stress, the majority continued to make timely payments. This reflects a strong commitment to credit discipline.

6.2.1 Loan utilisation patterns and repayment outcomes

This section investigates whether the use of loans for productive purposes, such as business investment, farming, or asset creation, improves repayment outcomes. The central question guiding this analysis is: “Do borrowers who use loans for productive purposes exhibit better repayment behaviour than those who don’t?”

Variable Construction

(i) Repayment Behaviour

This is captured using responses to the question: “Have you found it difficult to repay your loan?”

Responses are coded into a binary categorical variable as follows:

- Good repayment behaviour which includes survey responses
 - o 1 or “No”
 - o 2 or “Yes, but I have always made my payments timely”
- Poor repayment behaviour which includes survey responses
 - o 3 or “Yes, I was running behind on payments”
 - o 4 or “Yes, my credit has been restructured”
 - o 5 or “Yes, I had to manage from other means”

(ii) Productive Use of Loans

Responses to loan usage questions are categorised as productive and non-productive and coded into a binary variable as follows:

- Productive use (productive usage=1) includes:
 - o 5 or “Farm/crop activity”

- o 6 or “Investment in existing household business”
- o 7 or “Investment in new business”
- Non-productive use (productive usage=0) includes:
 - o All other responses (e.g., medical, education, household expenses, social obligations, etc.)

To test the association between loan use and repayment behaviour, the Pearson Chi-Square Test of Independence¹⁵ is employed.

Hypotheses

- Null (H_0): There is no association between the productive use of loans and repayment behaviour.
- Alternative (H_1): There is an association between the productive use of loans and repayment behaviour.

The results of the chi-square test (**Table 6.2**) indicate a highly significant association between loan use and repayment behaviour at a 99% confidence interval with a p-value less than 0.01. This finding leads to the rejection of the null hypothesis, providing strong evidence that the purpose for which a loan is used – whether productive or non-productive – is closely linked to repayment behaviour of borrowers. Specifically, among borrowers who used their loans for productive purposes (e.g., farming, business investment), only 0.87% reported poor repayment behaviour. In contrast, among those who used loans for non-productive purposes, 5.8% reported poor repayment behaviour. These results suggest that borrowers who channel their loans into income-generating activities are significantly more likely to maintain timely repayments to lenders, highlighting the importance of encouraging productive loan utilisation to improve financial discipline and credit outcomes among microfinance clients.

¹⁵Wackerly, Mendenhall, Scheaffer, 2008. “Mathematical Statistics with Applications”, Thomson Learning.



Table 6. 2: Association between loan use and repayment behaviour

| Loan Use | Good repayment behaviour | Poor repayment behaviour | Total |
|--------------------------------------|--------------------------|--------------------------|---------------|
| Non-productive | 3,062 | 187 | 3,249 |
| Productive | 7031 | 62 | 7,093 |
| Total | 10,093 | 249 | 10,342 |
| Pearson Chi-square (X^2): 225.98 | | | |
| p-value: 0.000 | | | |

6.2.2 Repayment behaviour across levels of indebtedness

Question: “Do borrowers with higher levels of indebtedness exhibit poorer repayment behaviour compared to those with low or medium indebtedness?”

Indebtedness level

The survey collects detailed information on two types of outstanding loans: (i) loans from the parent RE and (ii) loans from other sources, including formal institutions, moneylenders, friends, and family, etc. The total outstanding loan amount is computed by summing the values of all loans reported by each borrower. The level of indebtedness, expressed as the Debt-to-Income (DTI) ratio, is then calculated by dividing the total outstanding loan amount by the borrowers’ total household income. The following formula defines DTI ratio:

$$\text{DTI ratio} = \frac{\text{Total outstanding loan amount}}{\text{Total household income}} \times 100$$

To facilitate analysis, the DTI ratio is categorised into three groups based on the share of total household income accounted for by debt obligations:

- Low Indebtedness: DTI \leq 15%
- Medium Indebtedness: DTI between 15% and 25%

- High Indebtedness: DTI > 25%

To test the association between level of indebtedness and repayment behaviour, again, the Pearson Chi-Square Test of Independence is employed.

Hypotheses

- Null (H_0): There is no significant relationship between the level of indebtedness and repayment behaviour. Borrowers with higher levels of indebtedness do not differ in their repayment behaviour compared to those with low or medium indebtedness.
- Alternative (H_1): There is a significant relationship between the level of indebtedness and repayment behaviour. Borrowers with higher levels of indebtedness exhibit poorer repayment behaviour compared to those with low or medium indebtedness.

The chi-square test examines the association between the level of indebtedness (measured by the DTI ratio) and repayment behaviour (**Table 6.3**). The results show a Pearson Chi-square value of 26.79 with a p-value of 0.000, indicating a statistically significant relationship between the two variables at the 99% confidence level.

Table 6.3: Association between indebtedness and repayment behaviour

| Level of indebtedness | Good repayment behaviour | Poor repayment behaviour | Total |
|-------------------------------------|--------------------------|--------------------------|-------|
| Less than or equal to 15% | 2,044 | 9 | 2,053 |
| Between 15% and 25% | 2,626 | 28 | 2,654 |
| More than 25% | 4,187 | 84 | 4,271 |
| Pearson Chi-square (X^2): 26.79 | | | |
| p-value: 0.000 | | | |

Specifically, borrowers with higher levels of indebtedness (>25%) exhibit poor repayment behaviour in a greater proportion of the total indebted borrowers than those with low ($\leq 15\%$) or medium (15-25%) levels of indebtedness do. This suggests that as the burden of debt increases relative to income, the likelihood of repayment difficulties also rises. Therefore, the null hypothesis (that there is no relationship between indebtedness and repayment behaviour) is rejected, and the alternative hypothesis indicating that higher indebtedness is associated with poorer repayment performance among borrowers is supported.

6.3 Interest rate and choice of lender

Borrowers confront a multidimensional choice set when selecting a lender. With moneylender rates often in the 5% to 10% per month range in our data, RE pricing is perceived as acceptable by many. Moreover, while interest rates are theoretically expected to play a key role in such decisions, findings from the survey reveals that, interest rates are not always decisive - other attributes substantially influence RE selection. To empirically verify this, we first tested whether at least half of the borrowers consider interest rates important when choosing a loan provider. This was done using a one-sample proportion test¹⁶, which confirmed that only less than 50% of surveyed borrowers value interest rate as a key factor for deciding the source of loan. Here, a 50%

threshold is applied to mark significance - when a majority (half or more) cite interest rate as important, it is deemed a significant consideration in making lender choice.

Question: Do less than 50% of borrowers consider interest rate as a factor in choosing a lender?

Hypotheses

- Null (H_0): 50% of borrowers consider interest rate important
- Alternative (H_1): Less than 50% of borrowers consider interest rate important

The analysis shows that only 38% of borrowers (**Table 6.4**) consider the interest rate as an important factor when choosing a loan provider. This proportion is significantly lower than the hypothesised value of 50%, which would indicate that at least half of the borrowers who were surveyed care about interest rates.

Table 6.4: Importance of interest rates in loan provider selection

| Statistic | Value |
|--------------------------|------------------|
| Proportion (mean) | 0.3811 |
| Standard Error | 0.0048 |
| 95% Confidence Interval | [0.3717, 0.3904] |
| Test z-value | -24.19 |
| p-value (one-sided test) | 0.000 |
| Number of observations | 10,342 |

¹⁶ A statistical test used to determine if the proportion of an event in a sample is significantly different from the proportion in the hypothesis. Jeffrey M. Wooldridge, 2010. "Econometric Analysis of Cross Section and Panel Data", MIT Press

To statistically validate this observation, a one-sample proportion test was conducted. The test returned a p-value < 0.01, leading to rejection of the null hypothesis ($H_0: p=0.5$). This provides strong statistical evidence that fewer than half of the borrowers view interest rates as a key criterion in loan selection. Despite economic theories suggesting interest rates should matter while choosing lender, actual borrower preferences in the survey show that for the bottom-of-the-pyramid borrowers other factors such as availability of credit without collateral requirement (61.4%), ease of loan application (45%), flexibility in choosing repayment frequency (60.9%), and costlier alternatives for getting credit such as moneylenders may dominate. This is an important insight into the financial behaviour exhibited by customers in the microfinance sector where accessibility and flexibility may outweigh cost of interest charged by formal lending institutions.

Further support for this interpretation comes from qualitative evidence gathered through FGDs. Across different geographies, borrowers consistently described the staff of REs as respectful and supportive. This stands in stark contrast to their experiences with informal moneylenders, who often employed coercive methods to recover their loans. The perceived dignity and approachability of RE staff specifically emerge as intangible

but important factors influencing borrower choices.

Following this result, the analysis is extended to ask a deeper question:

Question: Are borrowers who value interest rates more likely to choose a particular type of lending institution (e.g., Bank, NBFC, NBFC-MFI, SFB)?

To explore this, the study employs the multinomial logistic regression method¹⁷ where -

Dependent Variable: Entity type - It represents the type of institution from which the borrower has taken a loan:

- Bank (=1)
- NBFC (=2)
- NBFC-MFI (=3) - Reference category
- SFB (=4)

Independent Variable: Interest rate as a deciding factor - It is a binary variable derived from multiple-response data:

- 1 = Borrower considers interest rate as an important factor in choosing a loan provider
- 0 = Borrower does not consider interest rate as an important factor

Table 6.5: Association between interest rate sensitivity and type of RE chosen (multinomial logit model results)

| Entity type compared to NBFC-MFI | Coefficient (β) | Std. error | p-value | Interpretation |
|----------------------------------|-------------------------|------------|---------|--|
| Bank | 0.483 | 0.0495 | 0.000 | Borrowers who care about interest rates are more likely to borrow from banks than from NBFC-MFIs |
| NBFC | -0.3 | 0.0745 | 0.000 | Borrowers who care about interest rates are less likely to borrow from NBFCs compared to NBFC-MFIs |
| SFB | -0.439 | 0.057 | 0.000 | Interest-sensitive borrowers are also less likely to borrow from SFBs relative to NBFC-MFIs |

Note: All coefficients are statistically significant ($p < 0.01$)

¹⁷ A regression model used to estimate the probability of choosing a category of the dependent variable which has multiple unordered and exclusive categories. Jeffrey M. Wooldridge, 2010. "Econometric Analysis of Cross Section and Panel Data", MIT Press

These results complement the earlier proportion test, which showed that only 38% of borrowers consider interest rates important. Despite this low share, those who do prioritize interest rates are:

- More inclined toward borrowing from Banks, which often provide regulated interest rates and transparent structures, than from NBFC-MFIs.
- Less likely to borrow from NBFCs and SFBs when compared to NBFC-MFIs, possibly due to higher interest rates or less favourable terms.
- For an interest-sensitive borrower, banks will be the most-preferred lender followed by NBFC-MFIs and then by NBFCs or SFBs.

6.4 Digital adoption by borrowers

Digital readiness in India is rising but uneven. Among smartphone owners (which was 61% of all surveyed borrowers), 54% have installed digital payments apps. Digital adoption is also seen to increase with education and wealth and is higher in urban areas. Use of digital methods for loan repayment remains modest overall (about 12% of surveyed borrowers) and many who do pay digitally take help from family, JLG members or agents, sometimes for a small fee. This shows need for an assisted model for repayments which will later convert to full digital adoption as the familiarity and trust on digital methods improves with usage.

To better understand the nuances of digital adoption among borrowers, this section analyses the factors that influence borrower's choice for using digital methods to execute financial transactions.

Question: Which factors are associated with a borrower's likelihood of digital adoption?

Dependent Variable: Digital Adoption, coded from survey responses as follows:

- 1, if the borrower has used digital methods either to:
 - a. make any kind of payment (e.g., bills, groceries, utilities, etc.), or
 - b. repay a loan instalment using digital platforms (e.g., UPI, Aadhaar Pay, BBPS).
- 0, otherwise.

A logistic regression model with robust standard errors to account for potential heteroskedasticity is estimated. The results stand for the marginal effect that each explanatory variable has on the log-odds of the outcome variable. Since the estimated parameters in the logit model are on a log-odds scale, they have no direct practical interpretation other than the sign. Each predictor coefficient represents the change in the probability of digital adoption resulting from a one-unit change in the respective predictor variable, holding other variables constant.

The analysis reveals several predictors of digital adoption (**Table 6.6**) among borrowers. Borrowers who prefer to withdraw money via ATMs are 30.4 pp more likely to adopt digital payment methods compared to those who prefer bank branches, holding other factors constant. Conversely, those who use BCs as their preferred withdrawal touchpoint are 4.6 pp less likely to adopt digital methods, suggesting that reliance on traditional or semi-formal financial agents may hinder digital uptake.

Saving behaviour also shows a significant relationship with digital adoption. Borrowers who use informal saving modes (like at-home savings or chit funds) are 13.5 pp less likely



to use digital methods than those using formal savings channels such as bank, post office, etc., underscoring the role of financial inclusion in digital engagement. Additionally, increases in monthly savings and monthly income, both logged to reduce skewness, are positively associated with digital adoption. Specifically, a one-unit increase in savings is associated with a 6 pp increase in the likelihood of using digital methods, while a one-unit increase in logged income corresponds to a 12.2 pp increase.

Table 6.6: Determinants of digital payment adoption among borrowers

| Variables | Odds of digital adoption |
|---|--------------------------|
| Preferred touch point for withdrawal (Ref. Branch) | |
| ATM | 0.304*** |
| | -0.12 |
| Bank Correspondent | -0.046*** |
| | -0.014 |
| Saving mode (Ref. Formal) | |
| Informal | -0.135*** |
| | -0.01 |
| Monthly saving | |
| Log of saving | 0.060*** |
| | (0.0731) |
| Monthly income | |
| Log of income | 0.122*** |
| | (0.135) |
| Observations | 10,003 |

Note: Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Taken together, these findings underscore that digital adoption is closely linked to financial behaviour and capacity. Access to and familiarity with formal financial infrastructure (ATMs and formal saving channels) as well as higher income and savings significantly enhance the likelihood of using digital platforms. These insights suggest that efforts to expand digital financial inclusion

should not only focus on infrastructure and technology but also on improving financial literacy and encouraging formal saving practices.

Summing up

Microfinance in India has evolved into far more than a credit channel – it has become a bridge to opportunity, confidence, and financial independence. It is helping borrowers, especially women, build steadier incomes, greater resilience, and stronger control over their money. The findings of this study reaffirm that microfinance remains a critical pillar of financial inclusion while also revealing new challenges.

The survey shows that women make up nearly the entire base of microfinance borrowers, underscoring the sector's central role in women's empowerment. Most clients are between 30 and 45 years of age, representing the most economically active phase of life. Yet, many have received only basic education, which shapes how they interact with and understand financial products. A large proportion of borrowers have taken two or more loans, often from multiple institutions, reflecting not only strong credit demand but also the growing vintage and experience of microfinance customers. Encouragingly, most borrowers use their loans for income-generating purposes such as small trade, livestock, or agriculture, confirming the close connection between microfinance and livelihood improvement.

Lending patterns also show clear institutional differences. Banks and SFBs tend to offer larger loan sizes but with shorter tenures, resulting in higher monthly repayment obligations. In contrast, NBFCs and NBFC-MFIs provide relatively smaller loans with longer repayment cycles, leading to lower EMIs. These structural differences reflect the diversity in lending models and risk assessment approaches across institutions, each catering to distinct borrower needs.

The empirical analysis further shows that both institutional practices and borrower behaviour play a strong role in shaping product literacy. Borrowers who received training before loan sanction are significantly more likely to be financially literate, and those with higher education levels demonstrate a stronger grasp of loan features and repayment obligations. Clients using ATMs or digital touchpoints for transactions are over four times more likely to be financially aware, reflecting deeper engagement with digital finance. Conversely, borrowers juggling multiple loans are less likely to be financially literate, suggesting that over-borrowing may dilute understanding. Regular savers also display higher literacy, underlining the close link between saving discipline and financial awareness.

Borrowers who use their loans for productive, income-generating activities rarely report repayment issues, while those who use them for non-productive purposes face higher repayment stress. This clearly demonstrates that when credit supports livelihoods, it also strengthens repayment discipline and financial stability.

Across borrower segments, interest rates remain largely uniform regardless of education or income level. However, the awareness of borrowers on overall cost of loan remains low, though the disclosure systems (like Key Fact Sheet) are in place and are compliance requirements. Interestingly, interest rates play only a minor role in how borrowers choose their lenders. A very small proportion of clients considered the rate of interest an important factor, while most prioritised no-collateral loans, flexible repayment options, and minimal paperwork. This suggests that accessibility, trust, and simplicity in process often matter more to borrowers than pricing alone.

India's microfinance story carries lessons of both progress and purpose. Credit has reached millions who were once excluded; now, the task is to turn that access into understanding, resilience, and empowerment. The journey from inclusion to capability is underway, and with continued commitment to education, transparency, and trust, microfinance can remain one of India's most powerful instruments for social and economic transformation.



ANNEXURES

ANNEX 1: SURVEY QUESTIONNAIRE

Consent Statement

[Instruction to Co-ordinator/Supervisor: Introduce yourself by saying "Namaste, my name is ----. I am from the National Council of Applied Economic Research (NCAER), New Delhi. NCAER is one of India's oldest, independent, non-profit, economic research institutes conducting studies on the economic and social conditions of people in India. We are conducting a research study called "Assessing the Effectiveness of Small Borrowing in India". The study is sponsored by micro finance Industry Network, Gurgaon, Haryana. The study aims to evaluate the effectiveness of the small borrowing and its impact on the borrowing households. Please allow me to interview the member of the household who has taken micro-credit from an entity regulated (RE) by the Reserve Bank of India (RBI). Once the main respondent is identified: I would like to ask you

about your households with respect to loan, demographic, economic and social conditions. We are asking many households who have borrowed small loans from microfinance organizations to participate in the study. This study is being conducted in your state and in nine other states of India. This visit will take approximately 30-40 minutes.

Participation in the study is voluntary. You may choose not to participate in the study. The information obtained from this survey will be kept confidential and will not be shared with anyone outside the research team. Your personal information will be kept confidential and retained securely by NCAER. For more information about the study, or if you have any further questions, please contact Prabir Kumar Ghosh (email: pkgghosh@ncaer.org) at NCAER, 11, Indraprastha Estate, New Delhi 110 002. Tel (011) 23452603.

| | |
|---|--|
| Ask for the name of the respondent | |
| Do you agree to participate in the interview? Yes -1, No -2 (If "No," end interview) | |

I. Primary Sampling Unit (PSU) Identification:

| | | |
|-----|------------------------------|--------------|
| 1.1 | Unique Identification Number | Please Enter |
| 1.2 | State | Backend data |
| 1.3 | State ID | Backend data |
| 1.4 | District | Backend data |
| 1.5 | District ID | Backend data |
| 1.6 | Pincode | Backend data |
| 1.7 | 1-Rural, 2-Urban | |
| 1.8 | Name of village/town | |
| 1.9 | Name of the block/ward | |

II. Identification of Borrower

| | | |
|-----|--|----------------------------------|
| 2.1 | Name of the Borrower | Auto populated from consent form |
| 2.2 | Contact number of the borrower | |
| 2.3 | What is your marital status? 1-Married, 2-Unmarried, 3-Divorced/ Separated, 4-Widowed | |
| 2.4 | To which social group do you belong? 1-Schedule Caste (SC), 2-Scheduled Tribe (ST), 3-Other Backward Classes (OBC), 4-General | |
| 2.5 | What religion do you follow? 1-Hinduism, 2-Islam, 3-Christianity, 4-Sikhism, 5-Buddhism, 6-Jainism, 7-Other (Specify), 8-Religion not stated | |
| 2.6 | Which of the following government identification cards do you possess? (Multiple responses possible) 1-Aadhaar Card, 2-PAN Card, 3-Voter Id, 4-MGNREGA Card, 5-Passport, 6-None | |
| 2.7 | Household Size for MFIN study Note: a) In case of married borrower, a household will include husband, wife and their unmarried children. b) In case of unmarried borrower, a household will include borrower herself/himself and her/his parents & unmarried siblings. c) In case of divorce/widow borrower, a household will include herself and her parents & unmarried children. | |
| 2.8 | Household Size [Should not be less than the number put in Q2.6] Here we will put the household size as per the Census definition i.e: the family members living in the same house and sharing the kitchen for six months or more in the last one year) | |



III. Loan particulars from parent RE

[Interviewer: We will talk about the microfinance loan **that is currently outstanding** with <RE name>. We will refer to this RE as the parent RE, for purposes of this interview. In case the household has more than one (1) loan outstanding with the parent RE, then details of the **latest loan** will be captured.

| Lender details | |
|----------------------------|---|
| 3.1 | Name of parent RE/lender Backend data , as it has to be disclosed to the borrower by the interviewer |
| 3.2 | Entity type of the parent RE/lender Backend data , based on type, 1-NBFC-MFI, 2-Bank, 3-SFB, 4-NBFC |
| 3.3 | How did you come to know of this RE/lender? 1-Existing Client, 2-Friends/Relatives, 3-Agents/Brokers, 4-Advertisement, 5-Company Representative, 6-Others (Specify) |
| 3.4 | How many loans you have taken from the parent RE (including the current loan)? 1-One, 2-Two, 3-Three 4-Four, 5-Five, 6-More than five, 99-Don't know |
| 3.5 | Number of active loans (loans that are still to be repaid) of the parent RE If don't know, put '99' |
| Loan details (latest loan) | |
| 3.6 | Loan amount applied (Rs) If don't know, put '99' |
| 3.7 | Loan amount approved (Rs)– do not factor processing fee, insurance charges etc. if adjusted from the loan. If don't know, put '99' |
| 3.8 | Loan amount received (Rs)– after deducting processing fee, insurance charges etc. if adjusted from the loan. If don't know, put '99' |
| 3.9 | How did you receive the loan 1-In Bank Account, 2-Cash, 3-Other (Specify)? |
| 3.10 | Tenure/Duration of the loan (in months). If don't know, put '99' |
| 3.11 | Repayment frequency of the loan (options to be read out) 1-Daily, 2-Weekly, 3-Fortnightly, 4-Monthly, 5-Quarterly, 6-Half yearly, 7- One time (bullet), 8- Others (Specify), 99-Don't know |
| 3.12 | What is the instalment amount (in Rs.)? If don't know, put '99' |
| 3.13 | Number of instalments you have paid on the date of interview. 99-Don't know |
| 3.14 | Did you provide any security/collateral against the loan taken? 1-No security, 2-Land, 3-House, 4-Vehicle, 5-Gold/Jewellery, 6-Livestock, 7-Other immovable asset (Specify), 99-Don't know |
| 3.15 | Time taken to get the loan (in days), from application date to disbursement date If don't know, put '99' |
| 3.16 | What is the interest rate of your loan in percentage?(upto one decimal) If don't know, put '99' |

| | | |
|--|--|--|
| 3.17 | What is the All-Inclusive Rate (AIR) or Annual Percentage Rate (APR) of your loan in percentage as disclosed by the parent RE in the key fact sheet? If don't know, put '99' [AIR or APR is the annual cost of credit to the borrower which includes interest rate and all other charges associated with the credit like processing fee, insurance charges, valuation fee etc.] | |
| 3.18 | Is the interest rate charged on reducing balance or flat rate? 1-Reducing, 2-Flat Rate, 99-Don't know | |
| 3.19 | What is the processing fees charged on your loan (in Rs)? 77- Paid but don't know the amount; 88-Not Applicable, 99-Don't know | |
| Other costs associated with the loan (latest) | | |
| 3.20 | Credit life insurance premium (in Rs.) 77 - Paid but don't know the amount; 88-Not Applicable, 99-Don't know | |
| 3.21 | Health insurance premium (in Rs.) 77 - Paid but don't know the amount; 88-Not Applicable, 99-Don't know | |
| 3.22 | Any other insurance premium (Specify)(in Rs.) 77 - Paid but don't know the amount; 88-Not Applicable, 99-Don't know | |
| 3.23 | If amount in Rs or coded 77 in 3.20 and/or 3.21 and/or 3.22 then ask: Which of the insurance was compulsory to obtain the loan? (Multiple response possible) 1-Credit life, 2-Health, 3-Any other (Specify), 4-None, 99-Don't know | |
| 3.24 | If amount in Rs or coded 77 in 3.20 and/or 3.21 and/or 3.22 then ask: The premium for which of the insurance was adjusted with the loan amount? (Multiple response possible) 1-Credit life, 2-Health, 3-Any other (Specify), 4-None, 99-Don't know | |
| 3.25 | If amount in Rs or coded 77 in 3.20, 3.21 and/or 3.22 then ask: Have you received any insurance claim in the last one year? 1-Yes, 2-No, 3-Not applicable, 99-Don't know [If code is 2 or 3 or 99, skip Q3.26 and Q3.27] | |
| 3.26 | If coded 1 in 3.25, for which insurance policy? (Multiple response possible) 1-Credit life, 2-Health, 3-Any other (Specify), 99-Don't know | |
| 3.27 | If coded 1 in 3.25, what was the total value of claim received (in Rs)? 99-Don't know | |
| 3.28 | Was any commission given to loan officer/group leader (if any) in Rs. for obtaining loan or during loan tenure? If 'No Commission paid', put '0'. | |
| 3.29 | Any other charges/cost (Specify)(in Rs.), put '0' if no other charges | |
| 3.30 | Did you have to buy or pay for any other non-financial product/services from the Parent RE to obtain the loan? 1-Yes, 2-No, 99-Don't Remember. [If code is 2 or 99, skip Q3.31 to Q3.33] | |



| | | |
|--|---|--|
| 3.31 | What are those products? (Multiple response possible) 1-Mobile phone, 2-Solar appliance, 3- Household appliance, 4-Other (Specify), 99-Don't remember | |
| 3.32 | What was the cost of these product/services (in Rs.)? If Don't know, put '99' | |
| 3.33 | Was this cost included in the loan amount? 1-Yes, 2-No, 99-Don't Remember | |
| Now I would like to ask you about the use of Loan & repayment behaviour | | |
| 3.34 | How was the loan actually used? (Multiple response possible) 1-Purchase of house/land/real estate, 2-Construction of the house, 3-Construction of shop/structure for business purpose, 4-Repair of the house, 5-Farm/crop activity, 6-Investment in existing HH business (like livestock, grocery shop, tea stall, autorickshaw etc.), 7-Investment in new business, 8-Medical emergency, 9-Education, 10-Repayment of other loan/debt, 11-Lend to someone else, 12-Meeting HH expenses, 13-Meeting social obligation, 14-Asset purchase (HH items/mobile device/appliances/vehicle), 15-Cover unexpected expenses, 16-Others (Specify), 99- Don't Remember | |
| 3.35 | How are you repaying your loan? (Multiple response possible) 1-Income from activity financed by the loan, 2-My income from other activity (not financed by the loan), 3-Income of other HH members, 4-Remittances received from migrated HH member, 5-Borrowed from other formal sources, 6-Borrowed from moneylender, 7-Borrowed from family/friend, 8-Sold an Asset, 9-Other (Specify) | |
| 3.36 | Have you found it difficult to repay your loan? 1-No, 2-Yes, but I have always made my payments timely, 3-Yes, I was running behind on payments, 4-Yes, my credit has been restructured, 5-Yes, I had to manage from other means (Specify). | |
| 3.37 | What difficulties did you face to get the loan approved? (Multiple response possible) 1-Complicated procedure for getting a loan, 2-My credit bureau report shows high debt liability, 3-Too much time taken to get the loan approval, 4-Procedural delays, 5-Other (Specify), 6-No difficulty | |

IV. Ease and access to finance for the borrowers from Parent RE and preferences

| | | |
|-----|---|--|
| 4.1 | Was the loan from the Parent RE received when it was needed? 1-Yes, 2-No | |
| 4.2 | Has your loan application (microfinance loan of the household by any RE, including the parent RE) ever been rejected? 1-Yes, 2-No [If code is 2, skip Q4.3] | |
| 4.3 | If coded 1 in 4.2, ask: What were the reasons for rejection? (Multiple response possible) 1-Bad credit bureau history, 2-Lack of collateral, 3-Existing debt liability, 4-Medically unfit, 5-Number of years of stay at current address was less than 1 year, 6-Was not eligible for the loan as my household income exceeded the required limit, 7-Irregular or almost no income, 8-Incomplete documentation, 9-Others (Specify), 99-Don't know; | |

| | | |
|------|---|--|
| 4.4 | Were you provided training by the parent RE on their process & product terms & conditions before your loan was sanctioned and disbursed? 1-Yes, 2-No, 99-Don't remember | |
| 4.5 | Do you think that the interest rate and charges on the loans provided by the parent RE are competitive with market rates (in comparison with other REs)? 1-Does not matter, as interest rate loans from informal sources are exorbitant, 2-Yes, 3-No, 99-Don't know | |
| 4.6 | What is your preferred loan tenure? (In months) | |
| 4.7 | What is your preferred repayment frequency? 1- Daily, 2-Weekly, 3-Bi-weekly, 4-Monthly, 5-Others (Specify) | |
| 4.8 | Do the field staff who come for the meetings and payment collections show good behaviour? 1-Yes, 2-No, 3-Can't say | |
| 4.9 | Are you aware of the grievance redressal process? 1-Yes, 2-No [If code is 2, skip Q4.10] | |
| 4.10 | If coded 1 in 4.9, ask: Do you know whom to call/approach for any grievance related to product and services offered by the parent RE? (Multiple response possible) 1-Branch staff, 2-RE toll free number, 3-MFIN toll free number, 4-Others (specify) | |
| 4.11 | Are you aware of the Credit Bureau and their functions? 1-Yes, fully; 2-Yes, partially; 3-No [Note: Choose 'Yes, fully' if the respondent understands that the credit bureau is for checking the loan details that I or my household members have from various sources. The parent RE uses it to ascertain my household's indebtedness level to decide the amount of loan I can get, or if I am ineligible for a loan]. | |
| 4.12 | What will be your first strategy if you need extra money? (Only one option) 1-Use the Savings, 2-Take a Loan, 3-Sell an Asset, 4-Look for the Family/Relative Support, 5-Do extra job/over time, 6-Curtail Other Expenses, 7-Others (Specify) | |

V. Loans from other sources

In this section, details regarding loan taken from other REs (except parent RE) and informal sources would be captured.

| | | |
|-----|---|--|
| 5.1 | At present, do you have loan outstanding from other sources apart from parent RE? 1-Yes, 2-No [If code is 2, go to next section] | |
| 5.2 | If yes in 5.1, How many active loans do you have at present (Number) from other sources? (active means, loans that are outstanding and still to be repaid) 99-Don't Remember | |
| 5.3 | If yes in 5.1, provide the details of all currently outstanding loans from other sources? | |



| Sl. No | 5.3.1 | 5.3.2 | 5.3.3 | 5.3.4 | 5.3.5 | 5.3.6 | 5.3.7 | 5.3.8 | 5.3.9 | 5.3.10 |
|--------|--|----------------|---|---|---|---|--|---|----------------|--------------------------------|
| | Source Type | Loan amt. (Rs) | Loan Tenure (months) | Instl. amt. (Rs) | No. of instl. Paid | Int. rate (%) | Repayment frequency | Any other Charges (multiple option) | Purpose (Code) | Any collateral provided |
| | 1-Formal 2-Money lender 3-Family/friend 4-Shop keeper 5-Others (Specify) | 99-Don't know | 99-Don't know [In case of informal loan, the answer may be flexible. In that case 'put 1'] | 99-Don't know [In case of informal loan, the answer may be flexible. In that case 'put 1'] | 99-Don't know [In case of informal loan, the answer may be flexible. In that case 'put 1'] | 99-Don't know [In case of informal loan, the answer may be flexible. In that case 'put 1'] | 1-Daily 2-Weekly 3-Fortnightly 4-Monthly 5-Quarterly 6-Half yearly 7-One time (bullet) 8-Others (Specify) 98-Flexible 99-Don't know | 1-Credit life 2-Processing fee 3-Health insurance 4-Stamp duty 5-Doc. charges 6-No charges 7-Any other (specify) 99-Don't know | | 1-Yes 2-No 99-Don't know |
| 1 | | | | | | | | | | |
| 2 | | | | | | | | | | |
| 3 | | | | | | | | | | |

Formal Sources include: NBFC-MFI, Bank, SFB, NBFC

Codes for Purpose: 1-Purchase of house/land/real estate, 2-Construction of the house, 3-Construction of shop/structure for business purpose, 4-Repair of the house, 5-Farm/crop loan, 6-Investment in existing HH business (like livestock, grocery shop, tea stall, autorickshaw etc.), 7-Investment in new business, 8-Medical emergency, 9-Education, 10-Repayment of other loan/debt, 11-Lend to someone else, 12-Meeting HH expenses, 13-Meeting social obligation, 14-Asset purchase (HH items/mobile device/appliances/vehicle), 15-Cover unexpected expenses, 16-Others (Specify), 99- Don't remember.

VI. About future plan and factors considered in loan selection

| | | |
|-----|--|--|
| 6.1 | Will you go back to your parent RE in case you need to take a loan again in future? 1-Yes, 2-No, 3-Not sure [If code is 1, skip Q6.2] | |
| 6.2 | If No in 6.1, why? (Multiple response possible) 1-High interest rate, 2-Time taking process, 3-I had to pay a commission to get the loan, 4-The repayment process is not convenient, 5-There was lot of paperwork, 6-Insurance amount is very high, 7-Inappropriate staff behaviour, 8- Collateral Issues, 9-Others (Specify) | |
| 6.3 | If no in 6.1, what are your preferred loan sources? 1-Formal (includes NBFC-MFI, Bank, SFB, NBFC) 2-Money lender 3-Family/ friend 4-Shop keeper 5-Others (Specify) | |
| 6.4 | What are the things that you consider as important for choosing a loan provider? (Multiple response possible, no prompts by the interviewer) 1-Choice of the loan instalments (weekly, fortnightly, monthly etc.), 2-No requirement of collateral, 3-Least paperwork/formalities, 4-The interest rate, 5-Lower insurance amount, 6-Higher loan size, 7-The facility of adjusting the existing loans, 8-Digital payment facility, 9-Frequency of group meetings, 10-Can't say, never thought about it, 11-Any other (Specify) | |

VII. Savings behaviour of borrower's household

| | | |
|-----|--|--|
| 7.1 | Do you have a bank/saving account in your name? 1-Yes, 2-No | |
| 7.2 | If coded 1 in 7.1, ask: How many bank accounts do you have? (number) | |
| 7.3 | If coded 1 in 7.1, ask: What is the preferred touch point for withdrawal? 1-Branch, 2-ATM, 3-Business Correspondent/Customer Service Point | |
| 7.4 | If coded 1 in 7.1, ask: What is the preferred touch point for depositing money? 1-Branch, 2-ATM, 3-Business Correspondent/Customer Service Point | |
| 7.5 | What are the other modes of savings that you use apart from the bank account (Multiple response possible) 1-Post Office, 2-Cooperative Society, 3-Chit Fund, 4-At home, 5-SHG, 6-None, 7-Other (Specify) | |
| 7.6 | What are the main purposes of savings? (Multiple response possible) 1-Emergencies (accidents, natural disasters, etc), 2-Old age, 3-Medical emergencies, 4-Education of children, 5-Social/religious ceremonies, 6-To improve or expand business, 7-Asset creation (land, house, jewellery), 8-To buy large consumer goods (car, television, fridge, etc), 9-Against income uncertainty, 10-Others (Specify) | |
| 7.7 | How much are you able to save on an average each month (in Rs.)? | |



VIII. Awareness of insurance services

(Awareness of insurance services refers to the understanding and knowledge individuals have about the various types of insurance available, their benefits)

| | | |
|-----|---|--|
| 8.1 | What are the benefits of insurance? (Multiple response possible) 1-To financially protect myself and my family from adverse events, 2-Protection of assets or property, 3-Access to healthcare services, 4-Other (Specify), 99-Don't know | |
| 8.2 | Have you purchased any other insurance product/s apart from what is offered by the parent RE? 1-Yes, 2-No, 99-Don't know | |
| 8.3 | If Yes in 8.2, what type of insurance products did you purchase? (Multiple response possible) 1-Life insurance, 2-Health insurance, 3-Disability insurance, 4-Property insurance (housing, assets, livestock), 5-Crop insurance, 6-Other (specify) | |
| 8.4 | If No in 8.2 would you be interested in purchasing an insurance product in the future? 1-Yes, 2-No, 99-Don't know | |
| 8.5 | If Yes in 8.4, what is the most likely insurance product that you would purchase. (Multiple response possible) 1-Life insurance, 2-Health insurance, 3-Disability insurance, 4-Property insurance (housing, assets, livestock), 5-Crop insurance, 6-Other (specify) | |
| 8.6 | If there is an insurance product for protecting your loan from natural calamities like cyclone, flood, draught, excess heat, earthquake etc., would you be interested in purchasing it? 1-Yes, 2-No, 3-Depends on the premium and coverage, 4-Can't say | |

IX. Assessing digital adoption of borrowers

| | | |
|-----|--|--|
| 9.1 | Which mobile device/s do you own? (If coded 4, skip Q 9.2 and Q9.3) 1-Smartphone, 2-Feature phone, 3-Both smart & feature phone, 4-None | |
| 9.2 | If 1 or 3 in 9.1 ask: Have you installed any digital payment apps on your phone for making payments (like Paytm, BHIM, G-Pay, PhonePe, Amazon Pay etc.)? 1-Yes, 2-No, 99-Don't know | |
| 9.3 | If 1 in 9.2 ask: Have you used these apps to make any kind of payments in the last one month (like grocery/utilities purchase, phone recharge/bill, electricity bill etc.) 1-Yes, 2-No, 99-Don't know | |
| 9.4 | Have you used any digital methods to repay the loan instalment of your parent RE? (Multiple response possible, prompts by the interviewer may be needed) 1-No, 2-UPI, 3-Bharat Bill Payment System (BBPS), 4-Aadhaar Pay, 5-Business Correspondent (BC) Point, 6-Other (Specify) | |
| 9.5 | If any option other than 1 in 9.4 ask: Did you take the help from anyone for making the digital repayment to parent RE? 1-Family members, 2-Relative/Friend, 3-RE's Staff, 4-Group member, 5-No, I did it myself, 6-Other (Specify) | |

| | | |
|-----|--|--|
| 9.6 | If any option other than 1 or 5 in 9.5, ask: Were you charged any fee for making the payment? 1-Yes, 2-No, 99-Don't know | |
| 9.7 | Do you trust digital payment methods (whether it is safe & efficient)? 1-Yes, 2-No, 99-Don't know | |
| 9.8 | Have you ever lost any money due to any digital risks or frauds? 1-Yes, 2-No, 99-Don't know | |
| 9.9 | What measures do you take to protect yourself from digital risks or frauds? (Multiple response possible) 1-Never share OTPs/passwords, 2-Avoiding sharing personal information, 3-Regularly monitoring account activities, 4-Keeping software and apps updated, 5-Using secure Wi-Fi networks, 6-None, 7-Other (Specify), 99-Don't know | |

X. Demographic and socio-economic profile of borrower's household

| | 10.1 | 10.2 | 10.3 | 10.4 | 10.5 | 10.6 |
|-------|--|-------------|------------------------------|--|---|---|
| SI No | Relationship with respondent 1-Self-married 2-Spouse 3-Unmarried Child 4-Self-unmarried 5-Father 6-Mother 7-Unmarried Sibling | Age (Years) | Gender 1-Male 2-Female | Currently Staying with HH 1-Yes 2-No | Level of Education (Code)* (Completed) | Did contribute to HH income in last one year 1-Yes 2-No |
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |

*Q10.5 – Codes for education: 88-Illiterate, 99-Literate but without formal schooling, 1 to 12-Code as per class completed, 13-Graduate, 14-Post Graduate, 15-Certificate/Diploma/Vocational training, 16-Others (Specify), 77-Children

Now I would like to ask you about the income of your household: Please tell me the income sources of your household (multiple answer)

| 10.7 | Household income |
|------|--|
| | <ol style="list-style-type: none"> 1. Farming (own/leased-in/shared land) 2. Allied agricultural activities (Dairy, poultry farming, Fishing, Bee-keeping) 3. Agriculture labour 4. Non-agriculture labour (except MGNREGA) 5. MGNREGS labour |



| 10.7 | Household income |
|-------|---|
| | 6. Petty traders (Retail services operating from no fixed premises e.g. hawkers, street vendors) etc. 7. Business enterprise operating from fixed premises (manufacturing, service, retail business, etc.) 8. Non-farm self-employment (artisan, tailor, plumber, electrician, tutors, barber etc) 9. Professional self-employment (Doctor, Lawyer, Chartered Accountant etc) 10. Salaried government job 11. Salaried private job 12. Others (Specify) |
| 10.8 | What is the first major source of household income (Code-Drop down). |
| 10.9 | What is the second major source of household income (Code-Drop down). |
| 10.10 | Average household income of the household from all sources in Rupees. |

XI. Household consumption expenditure

Includes expenditure on the food and the non-food items consumed by all the members of household during the last one month or year **preceding the date of survey**.

| | | |
|------|---|--|
| 11.1 | In the last one month , how much did your household spend on food in Rs.? [such as cereals, pulses, sugar, oil, spices, fruits, vegetables, milk & milk products, meat, egg, fish, tea, coffee, pan, tobacco, snacks, food from restaurants & gas/cooking fuel] | |
| 11.2 | In the last one month , how much did your household spend on non-food in Rs.? [such as school/college fees, tuition fees, uniforms, books, stationary, transport, hostel fee, regular health expenses (medicines, doctors' fees, tests, etc.), electricity, water, EMI - loans, house rent, toiletry & cosmetics, phone/ internet charges, cable/dish TV, public transport, vehicle fuel, entertainment including cinema/ theatre/ picnic, repair/maintenance] | |
| 11.3 | In the last one year , how much did your household spend on non-routine items in Rs.? [such as clothing, footwear, furniture, electric appliances, mobile phone, cooking utensils, house repair/renovation, etc.] | |
| 11.4 | In the last one year , how much did your household spend on other non-routine expenditure in Rs.? [such as hospitalization, onetime expenses on education, travel (leisure, holidays, pilgrimage, religious), legal expenditure, purchase on two-wheeler/ four-wheeler etc.] | |
| 11.5 | In the last one year , how much did you invest in Rs.? [such as purchase/constructed house or land, gold/jewellery, tools/machinery for business, investments in mutual funds/bonds etc.] | |
| 11.6 | Total annual expenses & investments of the household (auto calculated from 11.1 to 11.5) in Rs. $[(11.1+11.2)*12+(11.3+11.4+11.5)]$ | |

XII. Household asset ownership

| | | |
|------|--|--|
| 12.1 | Ownership of the house (referring to the house you are currently residing in) 1-Owned, 2-Rented, 3-Others | |
| 12.2 | Structure of the house 1-Kutchra, 2-Semi Pucca, 3-Pucca | |

| 12.3 | Real estate assets & amenities | 1- Yes; 2-No |
|--------|--------------------------------|--------------|
| 12.3.1 | Agriculture land | |
| 12.3.2 | Non-Agriculture land | |
| 12.3.3 | Separate kitchen | |
| 12.3.4 | Toilet in HH | |
| 12.3.5 | Electricity | |
| 12.3.6 | Water supply | |

| 12.4 | Vehicles | 1- Yes; 2-No |
|--------|--------------------|--------------|
| 12.4.1 | Bicycle | |
| 12.4.2 | Scooter/Motorcycle | |
| 12.4.3 | Auto rickshaw | |
| 12.4.4 | Tractor | |
| 12.4.5 | Car/ Four-Wheeler | |

| 12.5 | HH Appliances | 1- Yes; 2-No |
|---------|-------------------------------|--------------|
| 12.5.1 | Sewing machine | |
| 12.5.2 | Cooking Gas (LPG) | |
| 12.5.3 | Music system | |
| 12.5.4 | Cooler | |
| 12.5.5 | Fan | |
| 12.5.6 | Refrigerator | |
| 12.5.7 | Washing machine | |
| 12.5.8 | Television | |
| 12.5.9 | Water purifier | |
| 12.5.10 | Furniture (bed, sofa, closet) | |
| 12.5.11 | Internet Connection | |
| 12.5.12 | Air conditioner | |



| 12.6 | Type of livestock | Number of livestock Put '0' if no livestock |
|--------|-------------------|--|
| 12.6.1 | Cattle | |
| 12.6.2 | Goat | |
| 12.6.3 | Pigs | |
| 12.6.4 | Poultry | |

That is all we have to ask of you. Thank you for your time and the information shared for the purposes of this study.

| | | |
|------|------------------------------------|--|
| 13.1 | Name of Interviewer | |
| 13.2 | Contact number of Interviewer | |
| 13.3 | Name of Supervisor | |
| 13.4 | Contact number of Supervisor | |
| 13.5 | Date of Interview (Day/Month/Year) | |

ANNEX 2: SUMMARY OF FGD DISCUSSIONS

| # | FGDs | Summary |
|---|---|--|
| 1 | State: Assam District: Dhubri Place: Spanchughat No. of participants: 13 Parent RE: Bandhan | <ul style="list-style-type: none"> The joint liability group was established in July 2017. All the initial group members continued, but there was inclusion of a few new members. Many financial institutions existed, but Bandhan remained the primary lender for the group. The group members meet once a week in a time-bound frame with full attendance to manage loan repayments and to maintain a good credit bureau score. The loan amount was determined through the credit bureau score, and the paperwork was usually faster for Bandhan than other REs. Also, all members paid their instalments on time through cash and UPI, and there was not any need to purchase the third-party products. RE staff behaviour was good and polite, and members were aware of the procedure of complaint with the parent office only, but, not with the toll-free number. The loans increased the confidence and empowerment in women, reduced the dependence on the moneylenders, and enhanced the household income for instance, Mamoni Ghosh took a Rs 40,000 loan, which supported her during a challenging time, while other members used microfinance loans for small businesses and sewing activities |
| 2 | State: Assam District: Nagaon Place: Khairamari No. of participants: 15 Parent RE: Satin | <ul style="list-style-type: none"> The JLG was established only 3-4 months ago and has 17 members, and all of them were first-time borrowers. Previously they took the loan from SHG; now they are all affiliated with Satin, and the group is led by President Najma Khatun. Team meetings were held biweekly with 100% attendance of members. The group met 3 time before taking the loan. In the meetings, the members were educated regarding the KYC process, repayment of loans, insurance coverage, and credit bureau scores. The loan process was influenced by the credit bureau score, and it took nearly a month to secure the first loan. The group has made timely instalments, and if anyone was unable to make the payment, other members collectively covered the instalments. No one was forced to purchase third-party products - Satin loan covers both credit life and health insurance. The staff members showed a positive attitude, but the group members were not informed about the process of lodging the complaints or accessing helplines. The loan was used for farming and fishing, and it enhanced their earnings; moreover, through this, they were able to invest in their children's education and cover the medical expenses. Finally, the members appreciate the absence of collateral requirements, which made the loan accessible. |
| 3 | State: Bihar District: Darbhanga Place: Singwada No. of participants: 12 Parent RE: Annapurna | <ul style="list-style-type: none"> This group was established in January 2024. In addition to Annapurna, several other REs - such as RBL, Asirvad, Belstar, Ramsetu, Muthoot Finance, and IDFC - operate in the area and offer loans. All borrowers are dependent on these REs for credit. Traditional moneylenders were reported to be inactive, and no borrowing from family or friends was observed. The loan amount was decided using the credit bureau score and typically approved within four days, which was less than another REs. Also, a loan was once rejected for the group leader. The members repaid their EMI through online payment, and if anyone failed to pay, then the group collectively paid. Group meetings were held, but there was no training during these meetings. The members were not required to purchase the third-party products. The loan was used for commercial ventures, and the staff of RE was polite and helpful. |



| # | FGDs | Summary |
|---|---|---|
| 4 | <p>State: Bihar District: Gaya Place: Agni No. of participants: 8 Parent RE: Arohan</p> | <ul style="list-style-type: none"> • The group was formed in July 2022, and no one has left it yet. All members took the loan from parent RE only, and no money lenders were active there. • Loan amounts were determined by the repayment capacity of the borrowers, and everyone repaid the loan. In case a member was unable to repay a particular instalment, then group members collectively supported her. • Group meetings were held monthly to educate members about the repayment of loans and resolve their doubts; no one purchased the third-party product or paid the commission before obtaining the loan. • The staff was appreciated for the polite behaviour even in the case of difficulties in repayment by members, and in case of any misbehaviour, the members planned to directly approach the branch office. • The loans were used for urgent farming and agricultural needs, and members were satisfied with the loan amounts. |
| 5 | <p>State: Bihar District: Nalanda Place: Itasan Serpur No. of participants: 8 Parent RE: ESAF</p> | <ul style="list-style-type: none"> • The group was formed in 2018 and currently has 8 members. All members took the loan from parent RE only, even though there were four other REs, digital lending apps, and informal money lenders. • ESAF provides the loan for Rs 40,000, which is lower than the Rs 55,000 that was offered by other REs, but the loan process was quick within 3 days and hassle-free as compared to 8 days by other REs. • Loans were repaid through cash, and they were not aware of digital payments, and everyone paid their loan, and no one purchased the third-party product before obtaining the loan. • The staff was humble and courteous, and people were aware of the toll-free number for reporting complaints about staff misbehaviour; they view ESAF as a safe and superior financial service provider. • The loans were used for agricultural activities and allied activities, and instalments were manageable, but members did not experience any significant financial relief. |
| 6 | <p>State: Bihar District: Patna Place: Kankarbagh East Indiranagar No. of participants: 10 Parent RE: Ujjivan</p> | <ul style="list-style-type: none"> • The JLG was established in February 2024. There had been no changes in the composition of the group. Many financial institutions operate in the area; however, Ujjivan members do not have loans from these institutions. Very few members had existing loans from moneylenders, and these borrowers were also part of Ujjivan. • Group meetings were conducted once a month to discuss timely loan repayment, maintaining a good credit bureau score and selecting the right group members. The loan was repaid through both cash and UPI, but members found UPI more convenient. • The loan was approved based on credit bureau scores, and no applications got rejected, and it typically took 1-2 days to process a loan, which is less than others RE. Moreover, no third-party products and commissions were required to obtain the loan. • The bank staff was approachable and polite, although, the members were aware of being able to complain in the parent RE's branch office, but awareness of the toll number was limited. • The loan was utilized for business purposes, and it helped the women to get self-independence and financial stability; moreover, they felt increased confidence and empowerment in the family. • Ujjivan emerged as the most popular RE because it offered easy access loans without collateral at a lower interest rate. |

| # | FGDs | Summary |
|---|---|--|
| 7 | <p>State: Bihar District: Purnia Village: Hanumanpuri No. of participants: 12 Parent RE: Dvara KGFS</p> | <ul style="list-style-type: none"> • The JLG, formed in July 2024, expanded from 5 to 20 members under Dvara KGFS, with members typically holding loans from 2-3 REs; while they avoid moneylenders and digital lending apps due to access to formal credit and concerns about scams. The members occasionally rely on short-term, interest-free informal borrowing for urgent household or social needs. • The group held monthly meetings mainly for EMI collection, with attendance recorded, and repayments were made by collecting cash from members and depositing it through a Bank Mitra agent at Phulwaria, about 10 km from their hamlet, who completed the online transaction and charged around Rs 5 per transaction. The members preferred paying the transaction fee as they avoided using digital apps themselves due to fears of transaction failure or being marked overdue. • Loans were sanctioned after verification of standard documents and disbursed within about one week (or 7-15 days for other REs), with no loan rejections reported, though missed EMIs could lead to OD marking and loss of future loan access; one sanctioned borrower withdrew after intending to on-lend the loan (give the loan to someone else for interest), and while no commissions or mandatory products were reported, processing fees and credit-life insurance were deducted, with health insurance being mandatory. • Participants reported that loans were mainly used to strengthen household livelihoods by investing in their own or spouses' businesses (e.g., labour contracting, bakery, CNG three-wheelers, tea shop, poultry, petty trade), which improved economic stability and women's financial decision-making, and reduced dependence on relatives and moneylenders by shifting reliance to microfinance institutions. • Participants described bank staff and the field officer as polite and approachable and said complaints would be raised through the branch or manager contact provided (though none had been filed). • While members preferred the parent RE for easier access, they recommended a higher initial loan size (Rs 50,000 vs Rs 35,000), a 24-month monthly repayment tenure, and scope to increase loans up to Rs 1,00,000 based on good repayment history. |
| 8 | <p>State: Karnataka District: Davanagere Village: Kadajji No. of participants: 8 Parent RE: Bajaj</p> | <ul style="list-style-type: none"> • The JLG, formed two years ago and expanded from 8 to 11 members, operated in an area where CAGL was the only active MFI, with some members also holding CAGL loans alongside loan from Bajaj. There was no reliance on moneylenders or digital/app-based lending. • Loans were processed through home-based KYC and credit bureau verification, followed by training. The loans varied from Rs 20,000-Rs 54,000 based on standard documents and credit bureau score, and disbursement completed within 2-3 days without any reported rejections. • Monthly Thursday meetings were held for cash EMI collection, passbook updating, and signature recording, with short training (~30 minutes) on repayment discipline, credit bureau scores, and insurance (credit-life/health), while any delayed payments were later recovered from defaulters. • Loans improved income and reduced reliance on moneylenders through livelihood investments (e.g., Pavithra bought an auto and saved ~Rs 20,000/month, while Ambika used a Rs 54,000 loan to run a tiffin center earning ~Rs 40,000/month). CAGL loans were seen as easy to access and collateral-free. The members prefer 2-year tenure and monthly cash repayments. • Participants reported that third-party products were not mandatory, staff behaviour remained respectful and cooperative, and borrowers were aware of the formal grievance mechanism (Branch Manager/toll-free numbers), with no complaints recorded till date. |



| # | FGDs | Summary |
|----|---|---|
| 9 | <p>State: Karnataka District: Mysuru Place: BM Shrinagar No. of participants: 10 Parent RE: Ujjivan</p> | <ul style="list-style-type: none"> • The JLG, formed 10 years ago with 10 members and no new additions, primarily borrowed from Ujjivan as the parent RE, with some members also holding loans from Suryoday, and reported no reliance on moneylenders or digital lending apps. • Monthly meetings were held for EMI collection and issue resolution, with additional focus on cross-selling services (insurance, gold/two-wheeler loans, savings). The RE provided structured training for 2–3 hours on loan terms, insurance deductions, and timely repayment. While repayments were mostly in cash (some via UPI), and staff ensured smooth collection through professional and focused engagement. • Loan amounts were determined based on credit bureau scores and repayment history – loans varied from Rs 35,000 – Rs 1,00,000, and the age limit of the borrower should be a maximum of 59 years. The loans required standard documentation and disbursement was within 3–5 days (compared to ~7 days for other REs). No commissions or mandatory third-party products were reported. Staff behaviour was courteous, and members were aware of the manager’s phone number or toll-free complaint mechanism, but no complaints recorded till now. • Loans improved household income and stability by supporting livelihood and education investments, e.g., Prema expanded her tailoring work, Pallavi started a vegetable business and began saving for children’s education, and Soubhagya repaired her house and repaid through rental income, while it reduced the need for moneylender credit and enhanced women’s self-reliance. • Participants expressed satisfaction with the RE due to easy access, larger collateral-free loans, and manageable monthly repayments over a two-year tenure, despite limited awareness of interest rates. |
| 10 | <p>State: Karnataka District: Tumkur Place: Turvekere No. of participants: 7 Parent RE: Muthoot</p> | <ul style="list-style-type: none"> • The JLG was formed in 2023 and expanded from 8 to 12 active members under the leadership of the group leader, Rekha. The JLG operates in an area served by Grameena Koota, BSS, and Chaitanya Finance., There is no reliance on moneylenders or digital lending apps. • Participants reported that the RE explained all key loan terms (interest rate, loan tenure, EMI and total repayment) before disbursement. The sanctioned amounts were based on credit bureau score and group repayment performance. The standard documents (Aadhaar, PAN, passbook) were required for processing loans; and loans were typically disbursed within 2–3 days. • Monthly meetings, fixed on the 5th of every month, were held mainly for EMI collection and record updates; EMIs were paid only in cash. While loans were not formally rejected, members with poor repayment histories were informally restricted from receiving future loan extensions. • Loans improved household income and reduced reliance on moneylenders by supporting livelihoods and key needs – e.g., Meenaxi expanded her grocery shop (earning ~Rs 22,000/ month) and Kempamma started dairy with a Rs 40,000 loan (earning ~Rs 18,000/month) – while others used loans for education and housing, increasing women’s confidence and decision-making role. • Loans strengthened household income and reduced dependence on moneylenders by supporting livelihood and priority needs, while others used credit for education and housing, leading to greater confidence and participation in household decision-making. • Participants reported that third-party products were not mandatory. Moreover staff behaviour was helpful and cooperative, and members were aware of the complaint mechanism through the manager or toll-free contact numbers provided by the RE. |

| # | FGDs | Summary |
|----|---|---|
| 11 | <p>State: Karnataka District: Tumukur Place: Tumukur No. of participants: 15 Parent RE: CAGL</p> | <ul style="list-style-type: none"> • The JLG, formed 18 years ago and now comprising around 32 members, accessed loans from multiple REs (IDFC, YES, Jana, Ujjivan, and SKDRDP), with some members borrowing from these institutions, and reported no reliance on moneylenders or digital lending apps. • Loans were processed through home-based KYC and credit bureau verification. Members were provided with basic training. Loans were processed using standard documents (Aadhaar, PAN, Voter ID, passbook, photo), with disbursal in 1-2 weeks and some applications were rejected due to excessive number of EMI outflow. • Weekly Tuesday meetings were held for attendance and passbook updates, and members also received a one-time five-day short training before loan disbursement covering group responsibilities, company policies, loan products, repayment procedures, and insurance (health and credit life). • Repayments were made weekly, mostly in cash (with UPI used by migrated members), and defaults were managed through group contributions and escalation to the RE manager or toll-free number, with repeat defaulters facing ID blocking. • Loans were used for businesses and household needs, improving income, education, and emergency coping while reducing reliance on moneylenders and boosting women's confidence. • Participants reported no mandatory third-party product purchases and awareness of the complaint mechanism, and viewed CAGL loans as easily accessible with manageable repayments, while some expressed a desire for higher loan amounts to support business growth. |
| 12 | <p>State: Madhya Pradesh District: Bhopal Place: Arjun Nagar Town No. of participants: 13 Parent RE: IndusInd</p> | <ul style="list-style-type: none"> • Participants from 3-4 JLGs (1-2 years old) reported some member turnover, about 50% held loans from other REs besides IndusInd; moneylenders were used earlier, but digital lending was not used. • Loans were disbursed within 7-8 days with smooth documentation, though a few applications were rejected due to income or document issues, and borrowers were required to purchase mandatory credit-life insurance. • Weekly meetings were held for EMI collection and loan matters, with repayments made in cash due to low digital usage; pre-loan training was provided, loan amounts were decided through group discussion, missed EMIs were covered collectively without coercion, and members were not eligible for a second loan from this RE. • Participants reported that loans improved financial stability through business investment and education support (e.g., Sheela used a loan to buy an e-rickshaw and construction supplies, increasing income and avoiding moneylenders). The members preferred IndusInd-Bharat Financial Inclusion due to low interest charged and the fast disbursal process; preferred to have monthly EMIs with a recommended 2-3 years tenure. Members confirmed that no commissions were charged, and there was no need for additional borrowing from other sources, as the loan amount was sufficient to meet their needs. • Participants described RE staff as respectful, helpful, and non-discriminatory even during missed payments, and reported they were aware of the complaint mechanism and RE contact numbers for grievance reporting. |



| # | FGDs | Summary |
|----|--|---|
| 13 | <p>State: Madhya Pradesh District: Gwalior Place: Antri No. of participants: 11 Parent RE: Annapurna</p> | <ul style="list-style-type: none"> • Eleven borrowers (group formed 3-5 years ago), reported 15+ active JLGs in Antri village. The members had loans ranging from Rs 30,000-Rs 50,000 mainly from Annapurna but had loans from other REs as well. Reliance on moneylenders had declined, and no digital loans were taken. • Weekly meetings were held for EMI collection and loan updates. The RE had provided pre-loan training. Repayments were mostly done digitally via UPI/ apps (often with family /Sahaj Kendra support), missed EMIs were covered collectively, and repeated non-payment was handled through loan restructuring without harassment. • Participants reported a smooth loan process with RE staff and disbursing loans to bank accounts within a week after insurance and processing fee deductions; loan amounts were decided through group consultation based on repayment capacity, no applications were cancelled, and no clear information was reported on third-party products. • Loans were used to expand small businesses (shops, tailoring, beedi work), strengthening savings, confidence, and women's empowerment – e.g., Pinki used an Annapurna loan to buy a sewing machine and later expanded to five machines, employing four women and earning ~Rs 30,000/month – and participants preferred Annapurna. • Participants described Annapurna staff as friendly, respectful, and supportive, and reported awareness of complaint channels (toll-free number or through the group leader), though no complaints had been filed. |
| 14 | <p>State: Maharashtra District: Solapur Place: Vijapur No. of participants: 10 Parent RE: CAGL</p> | <ul style="list-style-type: none"> • JLGs formed 8-10 years ago had been borrowing from CAGL for the past 8 years with some member turnover. Multiple MFIs were active in the area with ~20 groups. Earlier reliance on moneylenders (6% monthly interest) had reduced, and no digital/app-based lending was used due to low awareness. • Weekly meetings were held for loan sanctioning and EMI collection, supported by a one-day pre-loan training on interest and repayment terms; loan amounts were decided through group-leader discussions, EMIs were paid in cash with no digital use, missed instalments were covered collectively without coercive recovery, and members were not eligible for a second loan from the RE until the existing loan was fully repaid. • Participants reported smooth documentation and a 7-8 day disbursement timeline (faster than other REs), though some applications were rejected due to income or documentation issues, and borrowers were required to purchase third-party products along with mandatory credit-life insurance. • Participants reported that loans improved household stability through business investment and timely repayment (e.g., Sheela bought an e-rickshaw and shuttering supplies, increased income, supported children's education, and avoided moneylenders). The group members preferred IndusInd-Bharat Financial Inclusion for low interest and quick disbursement. However, the preference is for monthly EMIs with a suggested 2-3-year tenure. The members have not paid commission and found the loan amount sufficient without needing other borrowing. • Participants described RE staff as helpful and respectful with no discrimination even during missed payments and reported awareness of the formal complaint mechanism and RE contact numbers for grievances. |

| # | FGDs | Summary |
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| 15 | State: Maharashtra District: Thane Place: Khoni No. of participants: 12 Parent RE: Ujjivan | <ul style="list-style-type: none"> • Group members mainly borrowed through Ujjivan Bank, with very few loans from other REs despite multiple institutions being active locally and reported shifting away from moneylenders due to high interest (5% to 10% p.m. depending on collateral) and harsh terms, while remaining largely unaware of digital/app-based lending. • Meetings were held only at loan disbursement or as required by staff, with no formal training beyond brief explanations of loan terms; repayments were made monthly via cash or digital modes depending on borrower comfort, often collected through home visits, while confidence in digital payments remained mixed due to fraud concerns. • Participants submitted standard documents (Aadhaar, PAN, photos, bank passbook) and received loans within 5-7 days, with no rejections reported due to bank pre-assessments, and no clear evidence of mandatory third-party or add-on product purchases. • Staff behaviour was not clearly detailed, but participants said issues were usually resolved informally during staff visits, and overall awareness of formal complaint mechanisms was low, with members relying mainly on direct communication with bank staff. • Participants reported using loans for shops, children's education, and household businesses, which improved financial stability and reduced dependence on moneylenders; however, they also highlighted the need for structured training, better digital awareness, and clearer knowledge of complaint mechanisms to maximize benefits. |
| 16 | State: Maharashtra District: Yavatmal Village: Parwa No. of participants: 12 Parent RE: CAGL | <ul style="list-style-type: none"> • The FGD included 12 participants from JLGs formed 1-2 years ago, and some member left due to loan defaults; only the parent RE (CAGL) was active in the area, and while private moneylenders were present (with limited borrowing reported by group members), no participant used digital lending apps due to low awareness and limited smartphone access. • Loans were disbursed within 7-8 days with easy documentation, though some applications were rejected due to incomplete documents or low repayment capacity. Missed EMIs were covered by the group, and RE staff remained supportive without coercion. • EMIs were collected weekly in cash (digital payments avoided due to fraud fears and low awareness), loan amounts were fixed after assessing repayment capacity, brief pre-loan training was provided. • Loans were used for small businesses and farming (e.g., petty shops, kirana, livestock), improving income, education, health, and emergency coping while reducing reliance on moneylenders; participants reported higher confidence and decision-making power, preferred the parent RE (CAGL) for collateral-free loans and better terms. They requested higher loan limits and a 2-3-year tenure and confirmed no commissions/bribes were paid. • Participants reported that third-party products were not sold, credit-life insurance was compulsory, RE staff were generally helpful and cooperative though strict on timely repayment, and complaint awareness was mixed (some knew toll-free numbers) with no complaints filed to date. |



| # | FGDs | Summary |
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| 17 | State: Punjab District: Hoshiarpur Place: Mandial No. of participants: 10 Parent RE: Fusion | <ul style="list-style-type: none"> • The Manjeet Group was formed 12 years ago and associated with Fusion, experienced periodic member turnover after loan completion, and operated in an area with multiple REs. While members preferred the parent RE for easier loan access, they largely avoided moneylenders due to high interest rates (around 15% per month), instead relying mainly on MFIs and occasionally on short-term, interest-free borrowing from friends or relatives, with no usage of digital lending apps. • The next meeting date was decided during the current meeting in the presence of all members and then communicated to the RE. Meetings mainly focused on timely EMI payments, along with basic training on loan procedures, interest rates, insurance, and fees; EMIs were paid primarily in cash, though some members used Google Pay, and any missed instalments were jointly covered by the group to prevent default. • Loan amounts were determined after online verification of Aadhaar and PAN along with checks on income, address, and existing loans; while disbursement took up to 15 days (was faster with other REs). • Loans were used for completion of house construction, marriage expenses, funding for overseas employment, and income-generating activities, thereby improving household income, financial security, and women's participation in decision-making while reducing reliance on moneylenders charging who charged around 15% monthly interest. • Repayments were made mainly in cash and members sought higher loan amounts of up to Rs 1,00,000; however, one grievance was reported in which a member facing a medical emergency paid three EMIs together (Rs 8,000), but the amount was not deposited by the official, resulting in a disputed overdue of Rs 12,000, including a demanded fine. • Participants reported that no third-party products were required to obtain loans, and staff behaviour was polite and supportive, while members were aware of the complaint mechanism through the Branch and Manager. |
| 18 | State: Punjab District: Ludinana Place: Jeenat Colony No. of participants: 10 Parent RE: Bandhan | <ul style="list-style-type: none"> • The JLG Palavi Group was formed around four years ago with 20 women members, all of whom borrowed only from Bandhan Bank despite the presence of other REs and moneylenders in the area. Members avoided moneylenders due to high interest rates like 10% per month without collateral or 5% with collateral; and relied on formal credit sources. • Loan amounts were decided after document verification and credit bureau score checks, and loans were usually disbursed within 2-3 days, which members considered quick and convenient; no loan applications were rejected, although members were aware that poor credit history could lead to rejection. • The Palavi Group met weekly (Wednesdays) to manage EMIs and loan accounts, repaid mainly in cash, collectively covered missed payments to avoid defaults, received basic training at formation, reported supportive RE staff behaviour, and showed limited understanding of the loan repayment structure beyond their EMI amount. For instance, one member paid Rs 900 weekly on a Rs 60,000 loan, with Rs 800 toward repayment and Rs 100 credited as savings. • Loans were used for various household and business purposes; for example, one member invested Rs 60,000 in a garment business that later failed but continued repayment from household income, another invested in a spare-parts business, and one member supported her daughter's beauty parlour, all contributing to improved household income and financial confidence. • The staff behaviour was reported to be polite and supportive, with no demands for commissions or third-party product purchases, but credit life insurance was mandatory to avail the loan; members viewed Bandhan Bank as a reliable and safe financial service provider, although awareness of formal complaint helplines was limited. |

| # | FGDs | Summary |
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| 19 | <p>State: Tamil Nadu District: Chennai Place: Kunnathur No. of participants: 22 Parent RE: ESAF</p> | <ul style="list-style-type: none"> • The group was established 13 years ago and currently has 22 members; ESAF is the parent RE, with multiple REs including Belstar, Bandhan, IDFC, and Ujjivan active in the area, and all members hold 2-3 loans simultaneously. Moneylenders are present and three members have borrowed from them, but none used digital lending apps. • Loan amounts were decided based on credit bureau score and repayment track record, with disbursement within 3 days (up to 7 days for Bandhan); no applications were rejected, but future loans were withheld for defaulters. In some cases, the group leader paid instalments on behalf of members facing difficulty. • Monthly group meetings were held mainly for repayment collection, with no formal training or financial literacy discussions conducted by ESAF or other REs, as the focus remained largely on lending and recovery rather than borrower awareness. • Repayments were largely made in cash, with only a few REs accepting digital payments; staff were described as polite, patient, and professional, no commissions or mandatory third-party products were reported, and credit life insurance was adjusted from the loan amount. • Loans supported both livelihood and emergency needs; for example, Chitra used Rs 50,000 for her daughter's education, and Vanjana took Rs 70,000 for medical treatment, while multiple borrowings and cases of loan recycling raised concerns about over-indebtedness, despite improved income, reduced reliance on moneylenders, and greater financial confidence among members. |
| 20 | <p>State: Tamil Nadu District: Chennai Place: Royapettah No. of participants: 17 Parent RE: ESAF</p> | <ul style="list-style-type: none"> • The group was formed in 2018 and currently has 17 active members; ESAF is the parent RE, with Bandhan, Ajaya Development Foundation, Equitas, and Jana Bank also operating in the area, and most members hold 2-3 loans simultaneously, while no moneylenders or digital lenders are used. • Loan approval was based on credit bureau score with simple documentation and no collateral, a 36-month tenure, and quick disbursement within 1-3 days; no loan rejections were reported, and in case of default, future loans were collectively withheld by the group. • Monthly group meetings were conducted mainly for repayment collection, with limited discussion beyond loan terms; repayments were made entirely in cash, all instalments were paid on time, and group members collectively supported repayments when any member faced difficulty. • Loans significantly improved livelihoods and financial security; for example, Sajida Begum used a Rs 30,000 loan to purchase a grinder for her flour business and later took Rs 60,000 to open two retail outlets, earning around Rs 30,000 per month and repaying regularly, while Rafika used repeated loans up to Rs 1,00,000 to fund her children's education and manage household needs despite irregular income, contributing to greater financial stability, reduced dependence on moneylenders, and increased confidence among borrowers. • The staff was described as polite and professional, no commissions or mandatory third-party products were reported, insurance was adjusted with the loan amount, and members were aware of complaint mechanisms. However, none were filed, and borrowers expressed satisfaction with easy access, but recommended larger loan sizes, and monthly repayments over a period of 2-3 years. |



| # | FGDs | Summary |
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| 21 | <p>State: Tamil Nadu District: Kanchipuram Place: Sevimeds No. of participants: 15 Parent RE: CAGL</p> | <ul style="list-style-type: none"> • The JLG, formed in 2018, currently has 18 active members after member removals and replacements due to repayment issues. The JLG operates in an area with 12 active MFIs and multiple banks, with most members borrowing from multiple REs. While moneylenders were present in the area, they are not preferred, and no digital loan apps were used either. • Loans were approved through document and credit bureau verification with loan amount varying from Rs 50,000–Rs 3,00,000. Loans were disbursed in one day, with a few rejections due to outstanding loans. No third-party products were mandatory. Staff behaviour was respectful, and members were aware of the complaint mechanism, but with no complaints recorded. • The group held weekly Tuesday meetings for EMI collection and passbook updates, with payments mainly in cash (UPI allowed for migrated members) and instalments to be cleared by 6 PM. Strict discipline was followed with Rs 1 late fines and collective liability for defaults. • Participants reported that loans supported livelihood expansion and household stability through productive investments – e.g., Selvi expanded from tailoring to a kirana shop and supported her daughter’s engineering education (~Rs 4 lakh), Sandhya started a dairy business earning ~Rs 30,000/month and built a house, and Navaneethan invested Rs 2 lakh in a hotel business. CAGL loans were viewed as easily accessible, collateral-free, but the preference was for monthly repayments. There was one death insurance claim case reported (Kasturi). |
| 22 | <p>State: Tamil Nadu District: Madurai Place: Madurai No. of participants: 10 Parent RE: Belstar</p> | <ul style="list-style-type: none"> • The group was formed 18 months ago with 18 members and has remained unchanged; Belstar is the parent RE, while ESAF, Pragathi Finance, and Samasta are also active in the area. Several members held loans from more than one MFI, but there was no reliance on moneylenders or digital lending apps. • Loan amounts ranged from Rs 50,000 to Rs 1,00,000 with disbursement within 1–2 days (3 days for Pragathi); no rejections were reported at Belstar, though some rejections at other MFIs occurred due to multiple outstanding loans, and several members held loans from more than one MFI. • Monthly group meetings were held on the 5th for repayments and training on loan terms and insurance. Repayments were made using a mix of digital (80%) and cash (20%) modes, and no defaults or coercive recovery practices were reported. • Loans were mainly used for business expansion; for instance, Yogarani used multiple loans to expand vegetable businesses and support children’s education, while Nandini used loans from Belstar and other MFIs to grow her textiles business and save for her daughter’s marriage. • The staff was described as respectful and supportive, no commissions or mandatory third-party products were reported. Members were aware of complaint mechanisms, and while satisfied with easy access, the preference was for larger loan sizes, monthly repayments, and a 2-year tenure. Some members expressed a need for additional loan amounts. |

| # | FGDs | Summary |
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| 23 | State: Telangana District: Adilabad Place: Gudihatnoor No. of participants: 10 Parent RE: Spandana | <ul style="list-style-type: none"> The JLG was formed two years ago with 10 women members; all members borrow from multiple REs, Spandana (parent RE), Bandhan, Tata, and Fincare, while avoiding moneylenders and digital lending apps due to high interest rates and data security concerns, preferring formal REs for safety and reliability. Spandana conducted weekly meetings with cash-based instalment collection through a group leader, but apart from initial training at formation, no further training or group discussions have taken place, resulting in very low awareness of interest rates, insurance products, and flat versus reducing rates. Loan disbursal was quick and smooth, with Spandana and Bandhan disbursing loans within 2-3 days and Tata and Fincare within 5 days without the need of purchase of third party products; no applications were rejected except age-based rejections above 66 years, and all repayments are made in cash collected by the leader in the meeting without coercive recovery, asset sales, or borrowing for repayment. Loans improved income and financial resilience; one member doubled her profits by investing Rs 40,000 in a cosmetic shop, another used Rs 45,000 for marriage expenses and repaid it fully, and members reported better support for children's education and improved ability to handle emergencies without relying on moneylenders. |
| 24 | State: Telangana District: Warangal Place: Hanamkonda No. of participants: 20 Parent RE: Bandhan | <ul style="list-style-type: none"> The group was formed four years ago and expanded from 15 to 29 members over time; the parent RE is Bandhan, other REs such as IDFC, Spandana, and Utkarsh are also active in the area, and 11 members currently had loans with IDFC, and no moneylenders operating locally. Loan amounts were decided based on borrower eligibility and home ownership, with quick disbursal within 2 days. There was one case of loan rejection (Kumari Sarna) reported due to a low credit bureau score and age limits applied (63 years for Bandhan, ~50 years for others); all members repaid their loans, and in cases of temporary difficulty, the group collectively contributed to ensure timely repayment. Bandhan conducted weekly group meetings with regular training on loan terms, repayment, savings, insurance, and interest rates; no commissions were paid, and no mandatory third-party products were purchased, though health and credit-life insurance costs were adjusted from loan amounts. The staff was described as respectful and supportive, and members were aware of complaint mechanisms, including the Branch Manager's and toll-free numbers, though no complaints have been reported so far. Loans were mainly used for business expansion and livelihood activities; for instance, one member invested Rs 95,000 to upgrade a general store, leading to higher income. Members expressed satisfaction with loan usage but desired for higher loan amounts up to Rs 2 lakh. |



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| 25 | <p>State: Uttar Pradesh District: Aligarh Place: Harduaganj No. of participants: 10 Parent RE: Ujjivan</p> | <ul style="list-style-type: none"> • The Parvati JLG, formed eight years ago with 20 members, primarily borrowed from Ujjivan due to lower interest rates and reported no active reliance on other REs, moneylenders, or digital loan apps despite their presence. • The Parvati JLG held bi-monthly meetings focused on timely EMI repayment, supported by training from Ujjivan on loan procedures and credit bureau implications; repayments were mainly in cash (limited PhonePe use), and in case of any difficulty, the group ensured payment through follow-up visits/ phone calls or collective sharing to prevent delays and protect the group's reputation. • Loan amounts were sanctioned after home-based verification of financial status, loan purpose, income, and credit history using Aadhaar and PAN, and disbursement typically took 4–5 days, with rare rejections linked to poor credit bureau scores or prior defaults. No commissions were charged, borrowers could opt to purchase third-party products, and life insurance was bundled with the loan and deducted from the loan amount. • Participants reported that small loans significantly improved income and women's empowerment by enabling business start-ups and expansion (e.g., a cosmetic shop earning 500–600/day and a loan of 60,000 for general store earning 1,000/day) while also supporting education and emergency needs, reducing dependence on family, and increasing respect in the community. Moreover, members preferred Ujjivan because of its lower interest rates, monthly repayment instalments, supportive staff, and the option to restructure EMIs/tenure when required. • Participants described RE staff as helpful and cooperative in ensuring timely EMIs. Although members knew the branch manager as the point for lodging complaints (with limited awareness of the toll-free number), no complaints had been filed over eight years due to consistently positive staff behaviour. |
| 26 | <p>State: Uttar Pradesh District: Gorakhpur Place: Chiutaha No. of participants: 10 Parent RE: Bajaj</p> | <ul style="list-style-type: none"> • The Chiutaha JLG, formed in January 2024 and expanded from 3 to 9 members, primarily borrowed from Bajaj Finance, while most members also held loans from other REs such as Bharat Finance (SKS). Although moneylenders were present and used earlier for emergencies, no participant currently relied on them, and digital lending apps were largely avoided for obtaining the loan; however, one member used PhonePe to make payments. • Members had limited awareness of how loan amounts were determined, referring to Bajaj's system-based approval; Bajaj Finance rejected no loan application, whereas delays and rejections were reported with other REs, despite similar documentation requirements. • Monthly cash-based repayments were preferred over weekly collections followed by other REs, with strong group discipline ensuring no defaults. Most repayments were made in cash – only one member used digital payments. Members understood that delayed payments could affect future loan eligibility. • Loans supported income-generating activities such as videography, fisheries, and vegetable businesses, leading to higher earnings, increased confidence, and greater household decision-making power; participants preferred the parent RE for its higher loan amount (Rs 40,000), monthly repayments, easier process, and supportive staff, and expressed a strong demand for larger loans (up to Rs 2,00,000) to consolidate existing loans and further scale their businesses. • Participants reported that no commissions or additional charges were taken apart from insurance and processing fees, no third-party products were mandatory despite being offered, most relied on credit-life insurance (with separate LIC and Ayushman Bharat coverage), staff behaviour was courteous and professional, and members were aware of the manager-level and toll-free complaint mechanisms, though no complaints had been raised. |

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| 27 | State: Uttar Pradesh District: Mathura Place: Jait No. of participants: 10 Parent RE: Arohan | <ul style="list-style-type: none"> • The Jaitvan Geeta Group, formed around 2020 with 26 members, operates in an area with about 10 active REs. While most members borrow from multiple MFIs, their reliance on moneylenders has declined due to wider MFI access. Currently, there are no informal or digital loans, and limited smartphone usage means members mainly rely on feature phones. • Loan amounts were sanctioned after document verification, with disbursement taking from a few days to about a month; some applications were rejected due to poor credit credentials, and members were informed at the time of application about the interest rate. • The Jaitvan Geeta Group met monthly mainly for EMI collection, with no training or discussions beyond repayments; EMIs were paid in cash from business income, and if any member was unable to pay on the meeting day, the group collectively managed the payment to avoid default and settled the amount later among themselves. • Participants reported using loans mainly to expand their traditional Tulsi Mala-making business, where each Mala costs about Rs 25 to produce and sold for Rs 50, while a few members invested in dairy activities. As a result, access to collateral-free MFI loans of Rs 2–3 lakh at around 1.75% monthly interest replaced high-interest moneylender credit, thereby improving household income, savings, and financial security, and prompting members to recommend higher loan amounts to further scale their businesses. • Participants reported that while no extra charges or bundled products were involved and RE staff behaved professionally, members were aware of the complaint mechanism, although no complaints were filed; however, they noted an isolated incident in another group that was promptly resolved through staff removal. |
| 28 | State: Uttar Pradesh District: Shaharanpur Place: Dhaurala No. of participants: 10 Parent RE: Satin | <ul style="list-style-type: none"> • The Rupa Jagpal Group, formed in 2022 with 28 active members, operates under Satin Credit Care in an area with multiple MFIs. While all members hold loans from several REs, they avoid moneylenders due to high interest rates and do not borrow from friends, relatives, or digital lending apps, instead relying exclusively on the JLG-MFI model to meet their financial needs. • The group met bi-weekly on Wednesdays to reinforce timely EMI repayment, and there was no formal training beyond repayment instructions; EMIs were paid in cash as digital modes were not used and while members had limited awareness of interest or insurance charges, they knew the total number of EMIs. Strong group discipline ensured rare, missed payments. • Loan amounts were determined solely by the RE after assessing documents and the borrower's financial profile - including income, repayment capacity, and existing EMIs; disbursement was completed within 3–4 days, and rejections occurred only when the total EMI burden exceeded acceptable limits. • Participants unanimously reported that MFI loans have enabled sustainable improvements in income, household stability, and quality of life through productive investments (commercial vehicles, dairy, irrigation), generating monthly incomes of Rs 10,000–Rs 50,000; however, they expressed the need for higher loan amounts, monthly (instead of quarterly/weekly) repayment options, and EMI rescheduling flexibility. • Participants reported polite and professional staff behaviour and awareness of the complaint mechanism, with no commissions demanded by the parent RE, though some felt pressured to purchase insurance/products and cited commission demands by another RE. |



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| 29 | State: West Bengal District: Burdwan Place: Korela No. of participants: 18 Parent RE: Bandhan | <ul style="list-style-type: none"> The JLG group was established 9 years ago, and currently it has 22 members, and members took loans from Bandhan and SHGs. The loan approval process was influenced by the credit bureau score, and it took 4 to 5 days for a new loan and 2 to 3 days for the subsequent loans. So far, no members of the group got rejected for loan sanction. The group meetings were conducted weekly, where new loans were applied for and existing ones were repaid. If a member could not come to meetings, then she sent her instalment through another person, or they repaid the loan along with the week's back log in the next instalment. All payments were made by cash only. The loans were used for small business ventures, medical expenses, house repairs, or agricultural activities, and they didn't have to buy any third-party product or pay any commission for the loan. The behaviour of the staff members was neither rude nor impolite; however, they were informed about the toll-free number for the complaints, but no complaints had been lodged so far. |
| 30 | State: West Bengal District: Murshidabad Place: Usthia-Hatinagar No. of participants: 14 Parent RE: Bandhan | <ul style="list-style-type: none"> The JLG was formed a decade ago and grew from 10 members to 26 members. Money lenders operate in this area, but no one took the loan from them, as they need collateral. The group meetings were conducted weekly for an hour to collect the loan instalments and to train the new loan applicants about the loan tenure, interest rate, and repayment schedule. The loan amount was determined through credit bureau scores with a provision for "top up" loans, and funds were disbursed through bank or cash within 2-3 days without the requirement of purchasing the third-party products. In some cases, processing fees or insurance payments had to be deposited separately in the bank. Loans were repaid in weekly instalments through Nagad Taka (cash settlements). Bank staff were approachable, polite, and always respectful; also, members were informed about the free toll number for the complaint. The loans were utilised for land cultivation, small business ventures, medical expenses, house repairs, and starting new businesses. |
| 31 | State: West Bengal District: Murshidabad Place: Shahajadpur No. of participants: 14 Parent RE: Satya | <ul style="list-style-type: none"> The loan was used for commercial ventures, and the staff of RE were polite and helpful. The group was formed 3 years ago and currently has 18 members. The group primarily took loans from Satya and Bandhan MFI, and there was no other JLG. The group meetings were held after 14 days, and all members paid their instalments during each meeting, and no member of the group had been refused a loan. The loan process typically took 4-6 days and required an Aadhaar card, voter ID, and PAN card. No member of the group reported missing a loan instalment. Repayments were usually made in cash, though digital payments were used occasionally. Some members also deposited instalments into the bank through a shopkeeper, who charged a fee of Rs 10 per Rs 1,000 transacted. There was a mandatory requirement to purchase the third-party product for obtaining the loan. The bank staff were approachable and polite. Moreover, the bank has informed them of a toll-free number for complaints about the staff. The loan was utilized for small business, health expenses, house repair, land cultivation, or starting a new business. |

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| 32 | State: West Bengal District: Uttar Dinajpur Place: Susihar No. of participants: 13 Parent RE: Bandhan | <ul style="list-style-type: none"> • The JLG was established 4 years ago and grew from 12 members to 35 members, and all members took the loan from Bandhan or other SHGs they were part of. Money lenders were not active in this area. • The group members meet weekly for 30 minutes to an hour to manage the loan repayments and to review the new applications for loans. • The loan amount was determined through the credit bureau score, and the paperwork was usually faster for Bandhan. For new borrowers it took 4-5 days to get the loan, and for old borrowers it took 2-3 days, and no applications had been rejected so far. All members paid their instalments through cash, and some used UPI. If someone failed to attend the meeting, then they sent it through another person or paid the full amount in the following week. • No participant was required to purchase the third-party products, and staff member's behaviour was good and polite. However, members were informed that a toll-free number is provided on the back of their passbook, which they can call in case of staff misbehaviour. It was noted that not all members were aware of this information. • The loan was utilised for improving financial situations, house construction, or for the marriage of the daughter, and all members felt comfortable in approaching the MFI instead of a moneylender who charged them 15% per month interest. |



