

MFIN–NCAER study highlights growing adoption of formal credit among microfinance borrowers, with those opting for informal borrowing at just 1%

- Formal microfinance has dented informal sector – **only 1% of mf borrowers now access informal loans, similar study of 2011 put it at 46%**
- **100% digital disbursements, 12% repayments digital**
- Majority of loans used for income generation; over half repaid with income from business funded by the loans
- Strong borrower trust with positive lender experience seen in high repeat engagement

Gurgaon: The Micro Finance Industry Network (MFIN) today launched a report highlighting a sharp decline in informal borrowing among microfinance customers – from 46% of all reported loans in 2011 to just 1% of borrowers in 2024–25 – signalling a decisive shift towards formal, regulated sources of credit in India. The report is based on a study conducted by the National Council of Applied Economic Research (NCAER).

The nationally representative 2025 survey, based on 10,342 borrowers across 10 states and 19 regulated entities, including Banks, NBFCs, NBFC-MFIs and Small Finance Banks, was conducted to assess borrower profiles, credit usage, financial behaviour and the overall impact of microfinance. The findings underscore a structural transformation in India’s credit landscape, with microfinance institutions increasingly replacing high-cost informal sources. Loans from regulated entities are far more affordable, with an average annual percentage rate (APR) compared to a range of 97% to 178% typically charged by informal lenders. Borrowers themselves perceive microfinance interest rates as competitive, particularly in contrast to the exorbitant cost of moneylender credit, a view that was found to be significant in the study.

The study highlights strong outreach among underserved/ underpenetrated population segments, with nearly 46% of borrowers having low or no formal education. Borrowers are largely in the 26–45 age group and 76.1% of households are nuclear. State-level variations reflect differing socio-economic development, with higher shares of uneducated borrowers in Bihar, Uttar Pradesh and Telangana, while Maharashtra and Tamil Nadu show higher levels of secondary education.

Strong customer engagement and transparent lending practices

The study underscores robust levels of trust and transparency within the sector. As many as 97.9% of borrowers reported positive staff behaviour and 88% indicated willingness to return to their existing lender for future credit needs. Nearly all borrowers reported receiving loans without paying any commission, reflecting robust process integrity, while awareness of grievance redressal mechanisms reported by a majority of borrowers is indicative of healthy borrower awareness. Ownership of identification documents is nearly universal for Aadhaar and Voter ID, with around 80% of borrowers reporting holding of PAN cards as well. Microfinance continues to play a critical role in supporting livelihoods and income generation. About 75.4% of loans were utilised for business purposes, while 78% of borrowers contribute to household income and over half rely on income generated through loan-funded activities for repayment.

Sustainable borrowing patterns with scope for improved credit assessment

The study indicates responsible borrowing behaviour, with an overall Fixed Obligation to Income Ratio (FOIR) of 18.7%, which is well within the 50% limit prescribed by the RBI. With an average monthly income of Rs 25,844, borrowers allocate a significant share towards expenses, savings and repayments, suggesting the need for more granular household-level credit assessment.

Encouraging trends are visible in financial behaviour, with 97.2% of borrowers reporting regular savings indicating the contribution of microfinance in ensuring that accounts do not turn dormant and 84.4% reporting uptake of credit-linked insurance. Asset ownership patterns indicate gradual economic progress, though ownership of high-value assets remains limited.

Evolving borrower behaviour, product usage and digital adoption

The average loan size stands at Rs 51,222 with an average tenure of 23 months, indicating short- to medium-term credit cycles, with variations across states. Repayment patterns differ across geographies, with rural borrowers more likely to follow monthly repayment schedules. Digital adoption, while still evolving, is gradually gaining traction, with about 12% of borrowers making repayments through digital channels. With continued improvements in infrastructure and awareness, digital transaction modes are expected to become more popular going forward. An earlier NCAER assessment in 2021 estimated that the microfinance sector contributed 2.03% to India's Gross Value Added (GVA) and supported nearly 1.3 crore jobs, underscoring its importance to the broader economy.

Dr. Alok Misra, CEO & Director, MFIN observed, “The key takeaway from this study is the clear shift towards formal credit, with a sharp decline in reliance on informal sources and improved borrower outcomes. At the same time, there is a need to further strengthen credit assessment, particularly around household cash flows, to mitigate risks of over-indebtedness. The positive trends in borrower engagement, savings behaviour and productive use of loans reinforce the sector's role in supporting livelihoods. Going forward, continued focus on financial awareness, responsible lending and digital adoption will be critical to deepen financial inclusion.”

Dr. V Anantha Nageswaran, Chief Economic Advisor, Govt. of India remarked “The findings of this NCAER-MFIN study covering over 10,000 borrowers across 10 states give us every reason to feel encouraged and every reason to be ambitious. Microfinance institutions today have a strong relationship of trust with millions of borrowers. This creates an opportunity to go beyond credit by strengthening financial literacy, improving awareness and supporting income enhancement through skilling and other interventions. Leveraging this engagement effectively can play an important role in advancing sustainable livelihoods and improving household resilience.”