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MICROFINANCE INDUSTRY NETWORK

Micro Matters: Macro View

India Microfinance Review FY 2025-26

An MFIN Publication
November 2026



MICRO MATTERS: MACRO VIEW

India Microfinance Review
FY 2025-26

By
Micro Finance Industry Network

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Abbreviations

AAP	Annual Activity Plan
APR	Annual Percentage Rate
AAs	Account Aggregators
ADB	Asian Development Bank
AE	Advance Economy
AePS	Aadhaar Enabled Payment System
AIDWA	All India Democratic Women Association
AIFI	All India Financial Institutions
AMFI	Association of Mutual Funds in India
AML	Anti-Money Laundering
ANBC	Adjusted Net Bank Credit
API	Application Programming Interface
APY	Atal Pension Yojana
ASR	Automatic Speech Recognition
ASUSE	Annual Survey of Unincorporated Sector Enterprises
AUM	Asset Under Management
BC	Business Correspondents
BFSI	Banking, Financial Services and Insurance
BHIM	Bharat Interface for Money
BIRD	Bankers Institute of Rural Development
BIS	Bank for International Settlements
BL	Base Layer
BNPL	Buy Now Pay Later
BPS	Basis Points
BSBD	Basic Savings Bank Deposit
CAGR	Compound Annual Growth Rate
CAIIB	Certified Associate of Indian Institute of Bankers
CB	Credit Bureau
CBDC	Central Bank Digital Currency
CCE	Customer Care Executive
CCRF	Comprehensive Compliance Rating Framework
CDD	Customer Due Diligence
CD Ratio	Credit to Deposit Ratio
CEOBSE	Credit Equivalent of Off-Balance Sheet Exposures
CFSS	Core Financial Services Solution
CGFMU	Credit Guarantee Fund for Micro Units
CGRM	Customer Grievance Redressal Mechanism
CGSMFI	Credit Guarantee Scheme for MFIs
CI	Credit Institution
CIC	Credit Information Company
CIR	Credit Information Report
CKYCR	Central KYC Registry
COC	Code of Conduct

COF	Cost of Fund
COR	Certificate of Registration
CPI	Consumer Price Index
Cr	Crore
CNRM	Concentration Risk Management
CRM	Credit Risk Management
CSC	Common Service Centre
DAY	Deendayal Antyodaya Yojana
DBT	Direct Benefit Transfer
DDM	District Development Managers
DEA	Depositor Education and Awareness
DEAR	Department of Economic Analysis & Research
DFM	District Forum Meeting
DFS	Department of Financial Services
DLA	Digital Lending Apps
DLG	Default Loss Guarantee
DPI	Digital Payments Index
DQI	Data Quality Index
EBLR	External Benchmark-based Lending Rate
ECI	Election Commission of India
EIR	Effective Interest Rate
EMDE	Emerging Market and Developing Economies
EMI	Equated Monthly Instalment
EOW	Economic Offences Wing
FAQ	Frequently Asked Questions
FB	Foreign Banks
FCI	Food Corporation of India
FCR	Financial Cost Ratio
FFCR	Free Full Credit Report
FI	Financial Inclusion
FIDC	Finance Industry Development Council
FIOR	Fixed Income to Obligation Ratio
FIP	Financial Information Providers
FLW	Financial Literacy Week
FO	Field Officer
FOIR	Fixed Obligation to Income Ratio
FPC	Fair Practice Code
FY	Financial Year
GAR	Guardrails Adherence Report
GCC	Global Capability Centres
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure
GFCF	Gross Fixed Capital Formation
GLP	Gross Loan Portfolio
GNDI	Gross National Disposable Income
GNPA	Gross Non-Performing Assets
GOI	Government of India
GVA	Gross Value Added
HCES	Household Consumption Expenditure Survey
HH	Household
HHIA	Household Income Assessment

IDRBT	Institute for Development and Research in Banking Technology
IGA	Income Generation Activities
IIP	Index of Industrial Production
IMF	International Monetary Fund
IMPS	Immediate Payment Service
INR	Indian Rupee
IO	Internal Ombudsman
IRACP	Income Recognition, Asset Classification and Provisioning
IRDAI	Insurance Regulatory and Development Authority of India
IRR	Internal Rate of Return
JAIIB	Junior Associate of the Indian Institute of Bankers
JLG	Joint Liability Group
K	Thousand
KCC	Kisan Credit Card
KFS	Key Fact Sheet
KLEMS	K: Capital, L: Labour, E: Energy, M: Materials and S: Services
KMA	Karza Mukti Abhiyan
KUY	Krishi Unnati Yojana
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LDM	Lead Development Managers
LFPR	Labour Force Participation Rate
Lk	Lakh
LLP	Loan Loss Provision
LMS	Learning Management System
LO	Loan Officer
LSP	Lending Service Providers
MCLR	Marginal Cost of funds-based Lending Rate
MCS	Micro Credit Scheme
MDG	Millennium Development Goals
MDPI	Multi-Dimensional Poverty Index
MF	Micro Finance
MFAP	Microfinance Awareness Programmes
MFI	Microfinance institution
MFIN	Micro Finance Industry Network
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MIS	Management Information System
ML	Middle Layer
MOB	Months of Business
MoF	Ministry of Finance
MoSPI	Ministry of Statistics & Programme Implementation
MPC	Monetary Policy Committee
MPCE	Monthly Per Capita Consumer Expenditure
MSME	Micro, Small and Medium Enterprises
NABARD	National Bank for Agriculture and Rural Development
NAFIS	NABARD All-India Rural Financial Inclusion Survey
NatCat	Natural Catastrophe
NBFC	Non-Banking Financial Company

NBFC-MFI	Non-Banking Financial Company - Micro Finance Institution
NCAER	National Council of Applied Economic Research
NCGTC	National Credit Guarantee Trustee Company Limited
NEFT	National Electronic Funds Transfer
NIM	Net Interest Margin
NNPA	Net Non-Performing Assets
NOF	Net Owned Fund
NPA	Non-Performing asset
NPCI	National Payments Corporation of India
NPS	National Pension System
NRLM	National Rural Livelihoods Mission
NSEIT	National Stock Exchange Information Technology
NSFI	National Strategy for Financial Inclusion
NSO	National Statistical Office
NSSO	National Sample Survey Office
NTC	New to Credit
NUCFDC	National Urban Cooperative Finance and Development Corporation Ltd
O/S	Outstanding
OER	Operating Expense Ratio
On-BS	On-Balance Sheet
OSS	Operational Self-Sustainability
OTP	One Time Password
P2P	Peer-to-peer
PA	Payment Aggregator
PAN	Permanent Account Number
PAR	Portfolio at Risk
PER	Personnel Expense Ratio
PFCE	Private Final Consumption Expenditure
PFI	Partner Financial Institution
PFRDA	Pension Fund Regulatory and Development Authority
PLI	Production Linked Incentive
PMAY	PM-Awas Yojana
PMFBY	Pradhan Mantri Fasal Bima Yojana
PMJAY	Pradhan Mantri Jan Arogya Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
PML	Prevention of Money Laundering
PMMVY	Pradhan Mantri Matratva Vandana Yojana
PMMY	Pradhan Mantri Mudra Yojana
PMSBY	Pradhan Mantri Suraksha Bima Yojana
PMUY	Pradhan Mantri Ujjwala Yojana
PPP	Purchasing Power Parity
PSB	Public Sector Banks
PSL	Priority Sector Lending
PSLC	Priority Sector Lending Certificates
PVB	Private Banks
QA	Qualifying Assets
QAR	Quarterly Adherence Report
QoQ	Quarter on Quarter

QR	Quick Response
R&D	Research and development
RBC	Responsible Business Conduct
RBI	Reserve Bank of India
RE	Regulated Entity
ROA	Return on Assets
ROE	Return on Equity
RRB	Regional Rural Banks
Rs	Rupees
RSA	Resolution of Stressed Assets
SBA	Small Borrowal Accounts
SBLP	SHG-Bank Linkage Programme
SBR	Scale Based Regulation
SCB	Scheduled Commercial Banks
SCC	State Coordination Committee
SCM	State Chapter Meeting
SDM	Sub-Divisional Magistrates
SFB	Small Finance Bank
SHG	Self Help Group
SHM	Stakeholders Engagement
SIDBI	Small Industries Development Bank of India
SIT	State Initiative Team
SME	Small Medium Enterprises
SRO	Self-Regulatory Organisation
STPL	Short-term Personal Loans
TA	Technical Assistance
TAT	Turn Around Time
ToT	Training of Trainers
TPE	Third-Party Evaluations
TPP	Third-Party Products
TSP	Technical Support Providers
TWG	Technical Working Group
UAP	Udyam Assist Platform
UB	Unique Borrower
UCB	Urban Cooperative Bank
UIDAI	Unique Identification Authority of India
UL	Upper Layer
ULI	Unified Lending Interface
UPI	Unified Payments Interface
UPS	Unified Pension Scheme
UO	Umbrella Organisation
UR	Unemployment Rate
URP	Udyam Registration Portal
USD	US Dollar
UT	Union Territory
WAIR	Weighted Average Interest Rate
WALR	Weighted Average Lending Rate
WEF	World Economic Forum
WMO	World Meteorological Organisation
WPR	Worker Population Ratio
WTO	World Trade Organization
YoY	Year on Year

MESSAGE
FROM THE CHAIRPERSON

Over three decades, microfinance has transformed India's financial landscape by bringing formal credit to underserved households, enabling women's economic participation and supporting entrepreneurship. Today, the industry serves over 6.3 Cr women borrowers and touches nearly 30 Cr lives across 718 districts, with a portfolio of Rs 3.28 Lk Cr (as of June 2026). These are significant achievements. Yet, our success must ultimately be judged by whether access to finance has translated into lasting economic progress for the families we serve.

The past year has been among the most challenging for Indian microfinance. Portfolio stress, over-indebtedness, regional disruptions and tightening liquidity strained institutions and borrowers alike. The prolonged industry contraction also resulted in an estimated 1 Cr borrowers losing access to formal credit over the last two years. While external shocks contributed to these difficulties, they also exposed weaknesses in lending practices, growth strategies and assessments of household repayment capacity. Recognising these shortcomings is essential to restoring confidence and strengthening the sector.

The industry's collective response through tighter guardrails, stronger underwriting and greater customer protection is beginning to show results, with recovery under way. However, responsible lending cannot be a response reserved for periods of crisis. It must remain a permanent institutional commitment, particularly when the households we serve have limited financial buffers against health emergencies, climate events and livelihood disruptions.

This experience also calls for a broader definition of success. Portfolio growth, outreach and repayment rates remain important measures of institutional performance, but they do not fully capture the economic progress of borrowers. We must also look at improvements in household incomes, enterprise growth, asset creation and the ability of families to withstand financial shocks.

The MFIN-NCAER study provides encouraging evidence of the contribution of microfinance. A growing share of borrowers use loans for productive activities, many have established or expanded businesses, and women are increasingly contributing to household incomes. The comparison with the 2011 study also shows a substantial shift away from informal borrowing towards regulated credit. These findings reinforce the value of microfinance and the opportunity to deepen its contribution to household wellbeing.

Our ambition should not be to keep a woman dependent on microfinance loans throughout her life, but to help her build the income, assets and financial strength needed to make independent economic choices. Credit can support enterprise, but finance alone cannot create prosperity. Sustainable progress also requires market opportunities, productive employment and livelihood diversification. The future of microfinance must therefore be closely linked with India's broader development priorities, particularly women's economic participation and the growth of rural enterprises.

Technology offers important opportunities in this journey. Digital public infrastructure

and artificial intelligence can improve credit assessment, provide early warning signals, reduce operating costs and strengthen customer protection. Yet, the real measure of technology's success is whether it makes financial services more affordable, accessible and responsible. Microfinance has always drawn strength from its close relationship with borrowers. We must embrace technology without losing this people-centric approach.

As the industry's Self-Regulatory Organisation, MFIN has a responsibility to help lead this transition. Our priorities include consistent lending standards across institutions, reliable credit information, transparent pricing, responsible recovery practices and grievance-redressal mechanisms that borrowers can trust. Effective self-regulation requires consistent enforcement, measurable compliance and a willingness to address shortcomings within the industry.

Rebuilding the confidence of lenders, investors and development partners is equally important. Sustainable microfinance requires sound governance, reliable funding and constructive engagement with regulators. Stronger collaboration among financial institutions, policymakers, insurers, technology providers and livelihood organisations will be essential to supporting the long-term economic progress of low-income households.

As India works towards becoming a developed economy by 2047, microfinance must strengthen its role beyond the provision of credit. It must help build women-led enterprises, support asset creation and enable underserved households to participate more fully in economic growth. This is also consistent with our commitment to the Sustainable Development Goals, particularly poverty reduction, gender equality, decent work and reduced inequalities.

I thank the Reserve Bank of India, the Government of India, our member institutions, lending partners, investors and the MFIN Secretariat for their support during this challenging period. Above all, I acknowledge the millions of women whose enterprise, determination and trust remain the foundation of this industry.

The first phase of microfinance was largely about expanding access to formal credit. The next must focus on translating that access into sustainable livelihoods, financial wellbeing and greater economic resilience. This is both our responsibility and our opportunity for the future.

Warm regards,

Dibyajyoti Pattanaik
Chairperson – MFIN, 2026-27

PROLOGUE

It is indeed satisfying that what began as an effort to present a balanced picture of microfinance has, over the years, evolved into an authentic document on financial inclusion. In the current sixth edition, MFIN has attempted to broaden the coverage and, at the same time, tried to present a coherent picture of financial inclusion.

The report begins with a review of the Indian and global macroeconomic environment and an analysis of trends in banking sector credit flow. The key message is the unprecedented turbulence caused by tariffs, wars, AI and the possibility of El Niño. Sustaining growth momentum amidst such paradigm changes will require a structural reset of economic and social policy; ceteris paribus is no longer valid. Key areas requiring attention are the huge gaps in factor productivity across sectors, a culture of research and development and ease of doing business. Banking sector credit grew by 14.1% in 2025-26, with the credit-to-GDP ratio crossing 100%, but the composition in terms of regions and sectors remains similar.

Progress of financial inclusion can be seen either through various initiatives or through the only aggregate measure – RBI's FI Index. Through both the lens, the second chapter documents India's financial inclusion position. An uptick is seen across all the initiatives except in the number of rural BCs, which has fallen alarmingly over the past years. It is not crystal clear whether this points to a viability issue or an error in reporting; if it is due to viability, it requires attention.

As financial inclusion is ultimately a means to an end, its real measure lies in improving people's lives. The following chapter presents findings from two large-scale studies on microfinance. It is heartening that both research reports find a positive impact on people's lives. The NCAER study commissioned by MFIN [covering 10,342 borrowers across 10 states] found that reliance on informal sources has fallen to 1% and more than 75% of loans are used for income-generating purposes, the habit of saving has become ingrained and, importantly, 90% are satisfied with staff behaviour. This represents a huge step up from a similar study conducted in 2011. The second study analysed the impact of microcredit on multidimensional poverty and vulnerability using Consumer Pyramids Household Survey data from 130,000 households. It establishes that microcredit reduces multidimensional poverty and future vulnerability – and this is true across both MFI and SHG models, though the impacts vary between rural and urban areas. The point to be underscored is that the research report analysed multidimensional poverty, not just income poverty.

The next two chapters turn to the centrepiece – the MFI model – and delineate the policy and regulatory environment and performance during the year. 2025-26 was tough for the sector as, despite the implementation of the Guardrails imposed in 2024 and a noticeable improvement in credit quality, liquidity remained scarce and the Guarantee scheme came in the final month of the year. Much of the burden of the liquidity squeeze fell on smaller players. The industry portfolio shrank to Rs 3.25 Lk Cr in March 2026 from a high of Rs 4.33 Lk Cr in March 2024. Key policy issues which affected the sector during the year are the lack of robust KYC, overlap in lending to microfinance clients by other lenders without following the guardrails, gaps in reporting to CICs, state interventions vitiating the credit culture and several regions witnessing unfounded protests by non-state actors.

The report concludes by documenting MFIN's efforts to strengthen the sector as well as tackle the policy challenges. Readers will notice that, despite the small secretariat, MFIN's work spans a vast canvas of activities – surveillance and monitoring, capacity building of clients and staff, tackling field issues, directives and advisories, and policy work. It starts at the macro level with pre-Budget consultations with the Finance Minister and pre-MPC meetings with the Governor of the RBI and goes down to block-level meetings. During the year, the launch of the guarantee scheme, the constitution of the TWG on CIC reporting by the RBI and the mitigation of the impact of state-level incidents were the key achievements. New initiatives launched which merit attention relate to the launch of the Comprehensive Compliance Rating framework, Microfinance Awareness Programs for clients and continued cloud-based digitisation of data.

India's journey towards financial inclusion and building a more inclusive economy continued despite policy and operational challenges. Over the years, one thing which has stood out is that the sector is resilient and is committed to the goal of delivering financial services to the last mile. Impediments slow progress, but the sector adapts in myriad ways. MFIN has stood and will continue to stand like an anchor to integrate the efforts and hopes that the issues hurting the sector are addressed as a priority. The task ahead is enormous, and it requires mainstreaming microfinance in policy and regulatory discussions: As microfinance grows, Bharat grows.

"Challenges are what make life interesting and overcoming them is what makes life meaningful." – Joshua J. Marine

Warm regards,

Dr Alok Misra
CEO & Director, MFIN

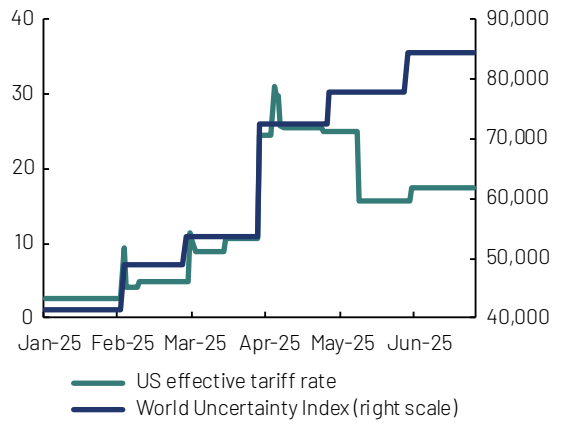
01 MACROECONOMIC ENVIRONMENT

1.1 Global economy during the year 2025-26

At the start of the year, two major events were affecting the world - prolonged Russia-Ukraine war and the onset of tariff war. A related critical change for the global order was trying to grapple with possible demise of multilateralism and rise of bilateral deals. Canadian Prime Minister in his speech at World Economic Forum (WEF) called it "a rupture, not a transition".[1] Amidst all these changes, a positive factor was also gathering pace in the form of AI.

In this background, the year started with focus on tariffs and the impact of Ukraine war seemed to have relegated to the background. As countries began negotiations on tariffs and there were daily announcements on new rates as well as roll backs, the uncertainty zoomed (**Figure 1.1**).[2]

Figure 1.1: World Uncertainty Index and tariffs



Source: IMF, Jul'25

On the inflation front, while US inflation inched up and so did the global headline inflation, core inflation remained below 2%. US equity markets showed sign of upsurge primarily driven by AI and commodity prices remained range bound.

Taking all these factors into account, the International Monetary Fund (IMF) in its World Economic Outlook Update in Jul'25 projected global growth to be 3.0% in 2025 and 3.1% in 2026, below the pre-pandemic historical average of 3.7%.

Mid-year 2025-26 – World adapts to tariffs, AI and gold prices boom

By Jan'26, conditions remained similar to the start of the financial year (FY). Global output projected as 3.0% in Jul'25 was revised upwards to 3.3% and the 2026 estimate was also maintained at the same level.

The upward movement of global output came on account of continued prevalence of conditions seen at the start of the year. On tariffs front, but for occasional flare ups like the semiconductor dispute between US and China, the situation was stable. Global financial conditions continued to spur growth through accommodative monetary policy. Much of the growth in advanced economies (AEs) came through AI, with market capitalisation of technology companies zooming ahead of other companies. While the world adapted to new economic realities mainly due to a sudden change of stance by

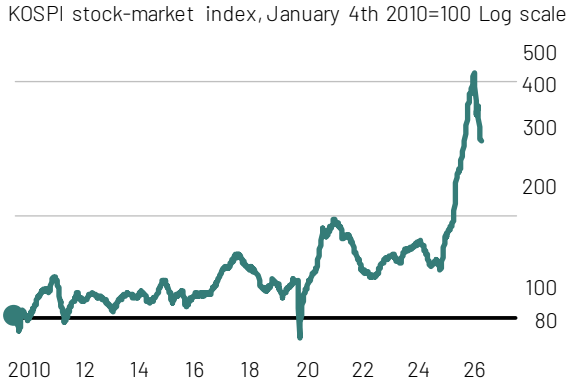
[1] WEF, Jan'26. "Davos 2026: Special address by Mark Carney, Prime Minister of Canada", 20th Jan'26

[2] IMF, 2025. "World Economic Outlook Update", Jul'25

the US, strong investment in information and technology sectors gave a positive boost in the form of exports of semiconductors and other equipment.

The spike in IT related exports is best visualized in the dramatic rise of South Korean stock market index KOSPI. KOSPI rose dramatically during the year riding on just two companies, Samsung Electronics and SK Hynix, which account for two-fifths of its market value (**Figure 1.2**). Riding the wave, though seen as bordering on an extreme hyperbole, the current President Lee Jae Myung ran his victorious campaign on the promise of "KOSPI 5,000".

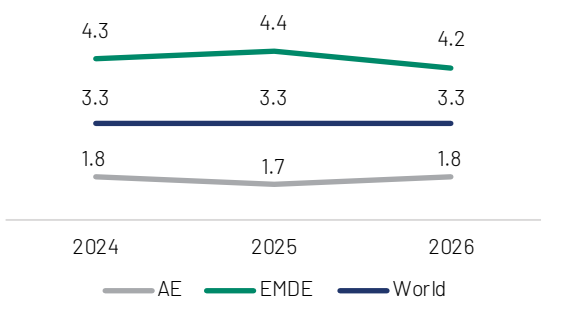
Figure 1.2: Movement of South Korea's stock market index



Source: LSEG Workspace, The Economist[3]

IMF in its Jan'26 forecast and estimates for 2025[4], taking into account the broad spectrum of forces – resilience to tariffs, AI boom, accommodative financial policies, predicted a rosier picture for 2026 based on better-than-expected performance in 2025 (**Figure 1.3**).

Figure 1.3: Global output projection



Source: IMF, Jan'26

Notably, while growth surpassed estimates in 2025 and the same trend was expected to continue in 2026, vulnerabilities in the form of concentration of few sectors in global output as well as continued accommodative financial sector policies were flagged by experts.

Simultaneously, as a consequence of US policies, another notable trend in the shape of sharp uptick in gold and silver prices was seen. Central banks across the world, particularly in emerging markets, started accumulating gold to diversify their reserves and reduce dependence on the US dollar (USD). This was probably the most important structural driver in gold prices, though other factors, like possibility of US rate cut which would reduce the opportunity cost of non-interest bearing gold and gold as a safe haven asset amidst global uncertainty, also played a part. Gold prices jumped 54% between Jan'25 and Dec'25, from USD 2,796 per ounce to USD 4,315.

End of the year 2025-26 – US-Iran war, oil shock and prospects of El Niño

The optimism and resilience of the global economy did not last as unanticipated risk factors emerged. The start of the US-Iran war, disruption of trade through the Strait of Hormuz and destruction of oil and gas facilities in the Middle East gave a raw shock to the global economy. At the onset of the war, it was being anticipated that the repercussions of energy prices will be transmitted through increased commodity prices, higher inflation and forced reversal of accommodative financial sector policies and lead to sharp decline in global output. On top of it, the impact of El Niño in various parts of the world was expected to accentuate the downturn.

By mid-2026, the worst anticipated did not materialize. Though the Strait of Hormuz effectively closed, oil prices after initial spike moderated (**Figure 1.4**). Peace talks interspersed with renewed attacks on energy installations and continued blockade of the

[3] The Economist, 2026. "Making Memories", 8th Aug'26

[4] IMF, 2026. "World Economic Outlook Update", Jan'26

strait of Hormuz still see occasional spikes, but the feared downside extremes did not materialize. At the time of writing the report, start of Sep'26, crude oil ex Dubai has again jumped to USD 114 per barrel, almost 50% up since the start of the war.

The downside of this could have had severe consequences for global output but for the continued upsurge of AI. Nothing captures the technology boom better than valuations commanded by tech companies – in Jun'26, SpaceX raised USD 75 billion and was valued at USD 1.77 trillion. Anthropic is planning an IPO with company valuation being pegged at USD 2 trillion. The enormity of these developments can be gauged by the fact that total Indian stock market capitalization is approximately USD 5 trillion.

Accounting for oil and energy shocks, global financial sector conditions continued to be accommodative despite inflation rearing its head and IMF warning about pile up of sovereign debt. Central bankers, caught between severe volatility and the need to maintain output, chose growth with occasional non-traditional measures to dampen inflation.

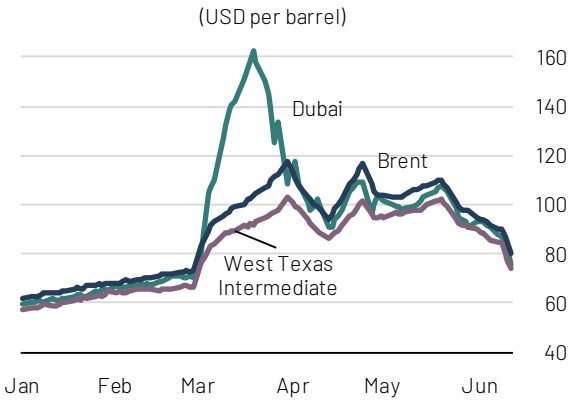
On top of this, the World Meteorological Organisation (WMO) in its statement has said that El Niño is firmly established and will intensify into a very strong event in the coming months, with big impacts on rainfall and temperature patterns and associated risks of flood, drought and extreme heat[6].

Faced with strong headwinds, IMF in its Jul'26 update lowered the global output projections for 2026 from 3.3% made in Jan' 26 to 3.0%. The lowering of growth is across AEs as well as Emerging Market and Developing Economies (EMDEs). Similarly, global inflation figures are also up from 4.1% in 2025 to 4.7% in 2026.

IMF's warning about increasing sovereign debt seems to be coming true with the narrowing spread between AEs like US and UK and developing countries like India on 10-year government bonds **(Figure 1.5**). The hardening of interest rates in AEs will lead to diversion of global capital towards them and away from EMDEs.

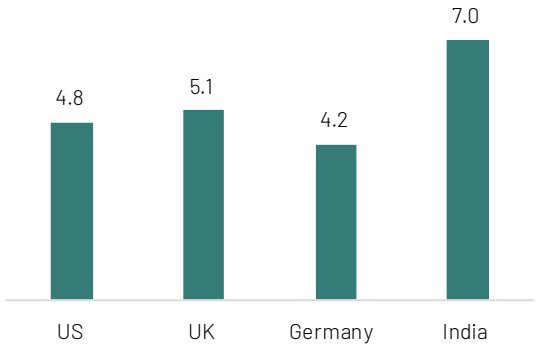
In order to stabilize the bond market, US announced USD 6 billion debt buyback operation but received lower-than-normal offers, showing investor reluctance to sell long-term bonds.

Figure 1.4: Oil prices in 2026



Source: The Economist[5]

Figure 1.5: Interest rate on 10-year Govt. Bonds



Source: The Economist[7]

[5] The Economist, 2026. "The New Abnormal", 20th Jun'26

[6] WMO, 2026. "El Niño set to become very strong, raising risks of extreme weather into 2027", 03rd Sep'26

[7] The Economist. Economic & financial indicators

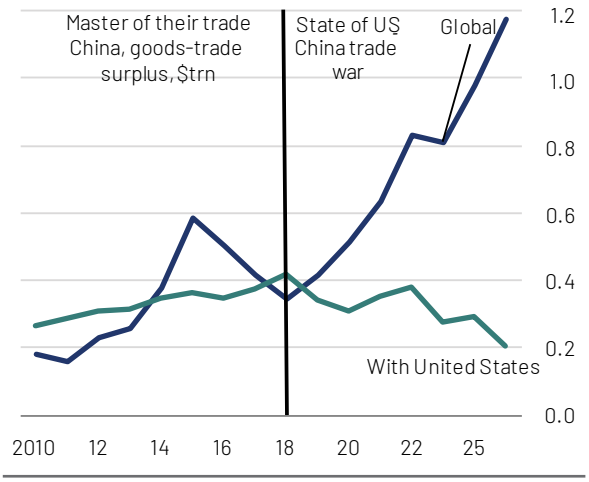
Summing up the year, it is amply clear that amidst so many headwinds – geo-political conflict, rising energy prices, El Niño and growing sovereign debt to spur growth and maintain stability, the only tailwind factor is AI. A lot depends on whether AI will live up to its promise or not.

A scan of the global economic and political developments markedly shows three things of importance to the future – a) Dominance of China, b) AI as the force changing production dynamics of global economic output, and c) Regional and bilateral grouping - old and new. The section ends with a brief delineation of these three mega trends.

Dragon taking the lead

China's dominance is tilting the global power balance and will have far reaching implications for the world, including India. The dominance is seen in traditional economy through its share in global output, led by manufacturing and consequent trade surplus as well as in the emerging technology. China accounts for nearly 20% of Global GDI in purchasing power parity (PPP) terms and 30% of global manufacturing. Mass scale manufacturing at lower prices has catapulted China with a huge trade surplus of USD 1.2 trillion (**Figure 1.6**).

Figure 1.6: China's goods trade surplus

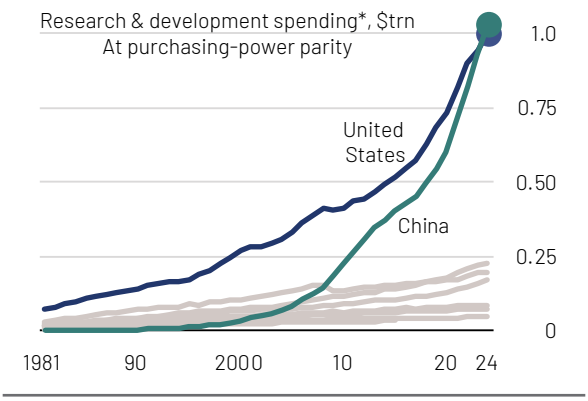


Source: The Economist[8]

While the manufacturing-led trade surplus of China is a huge success, it may not be sufficient for the future as the share of manufacturing jobs in all employment is steadily coming down - by 2026, manufacturing accounts for mere 12% of global jobs.

Not to be undone with modern economic changes, China has shown remarkable ability in AI and robot production, with availability of surplus energy and backed by research spending. It is well prepared for a tech world with its research and development (R&D) spending matching that of the US (**Figure 1.7**).

Figure 1.7: China's R&D spending over the years



*R&D spending, $trn, at purchasing-power parity (1981-2024).
Source: The Economist[9]

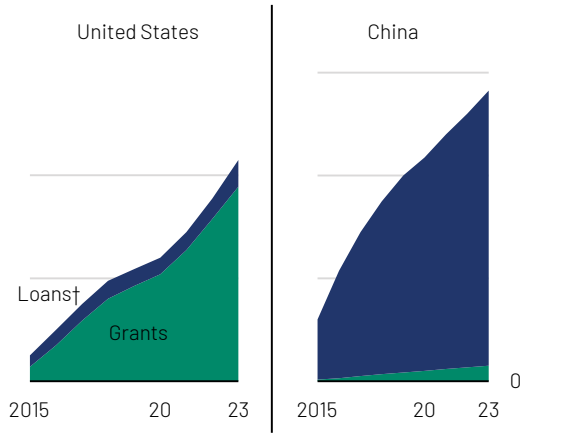
Placing importance on education and research has yielded rich results with around 15 Chinese universities in world's top 100 as against 35 in the US. Its leadership in robotics is evident from the fact that in 2024 China installed almost 3,00,000 industrial robots - more than half of what the world did in 2024.

As China becomes a dominant global power and US continues its Donroe policy focussing on national interests over global developmental priorities, the underdeveloped and developing worlds face difficult choices. Development aid is becoming scarce post closure of USAID and with funding limitations

[8] The Economist, 04th Jul'26
[9] The Economist, 09th May'26

of multilateral institutions. Replacement of it with Chinese financial support will come at a heavy price and may not be suited for grant-based initiatives like HIV prevention and climate change, as most of Chinese aid is a loan not a grant (**Figure 1.8).**

Figure 1.8: Cumulative official financial flows to developing countries (in billion USD*)



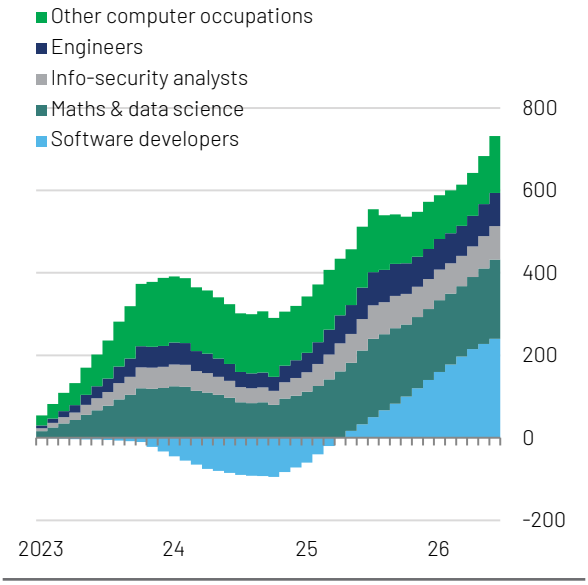
*2023 prices †Excludes short-term rollover facilities from China
Source: AidData, The Economist[10]

AI and jobs apocalypse?

As if the turbulence of geo-political wars and trade wars was not enough to raise uncertainty, AI has burst into the scene with alarming speed. Views on AI differ; ranging from one extreme promising an era of abundance, eradicating poverty and eliminating the need for humans to work, to the other end saying humans risk becoming labradors of AI, mass unemployment and even the possibility of human annihilation through rogue AI.

Among all these postulations, while most belong to the realm of guesstimate, the issue of mass unemployment is especially relevant as it is fuelling anxiety among Gen X as well as Gen Z. However, the data on this front coming from the US – the biggest AI player, seems reassuring. The Economist[11] states that AI has so far created around 1 million new jobs in America, which is five times of the roughly 2,00,000 lay-offs attributed to AI since mid-2023. The Economist (**Figure 1.9**) in its piece on the subject mentions that roughly 7,30,000 jobs above trend in recent years are in professions related to AI.

Figure 1.9: United States, additional AI-related white-collar jobs*, '000



Source: The Economist[12]

Thus, data from the AI leader as of now does not support the anxieties related to jobs being taken away; the policy debate has to shift to how to retrain existing workers and develop courses which meet the current need.

Critical issues other than loss of jobs come from other factors – governance of AI models and demand for power. Keeping aside the possibility of AI agents turning rogue, governance experts are worried about the control the tech giants propose over their behemoths. Alphabet and Meta showed the way by junking the sacred principle of corporate governance – one share, one vote. Space X has followed the same route with the shares of Elon Musk and insiders commanding ten times the voting power as compared to ordinary shares. Anthropic and OpenAI are

[10] The Economist, 09th May'26
[11] The Economist, 2026. "The jobs apocalypse is postponed. An AI jobs boom is here", 04th Sep'26
[12] The Economist, 05th Sep'26

expected to follow suit. Markets hungry for capitalization are also bending backwards; NASDAQ lowered its 3-months period of listed companies to be included in NASDAQ 100 to 15 days.

The scale of power and water needed for large scale data centres is huge. The Lawrence Berkeley National Laboratory, a US federal government funded research centre, estimates that data centres consumed 4.4% of America's electricity in 2023 and could account for between 9.5% and 15.3% by 2030. This has led to many states in the US imposing restrictions and many talking about a public tax on tech giants to compensate the common public. Faced with this, the AI evangelists have started talking of ODCs (Orbital Data Centres), which will derive power from space.

New global order

The waning future of multilateralism is no longer just a hypothetical risk; it is a rapid, structural transformation of the global order. The post-World War II framework, built on universal cooperation and binding international law, is systematically fragmenting under the pressure of aggressive geoeconomic protectionism, structural funding shortages and fierce major-power rivalries.

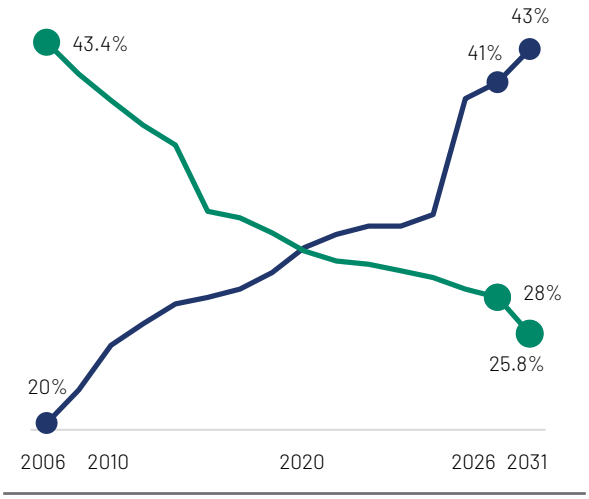
Rather than a total collapse into isolationism, the universal "rules-based" order is breaking down into decentralized, highly polarized and transactional frameworks. This has happened primarily due to highly transactional foreign policy followed by the US. Universal trade mechanisms are giving way to protectionist, strategic weaponization of tariffs, pushing the World Trade Organization (WTO) further toward irrelevance and selective adherence to global treaties. This is likely to lead to higher economic costs as well as slippages in global commitments on Millennium Development Goals (MDGs), especially climate change.

Much of the world has realised that aligning with one or the other global power is not a choice anymore and is trying to protect national interests by diversifying their strategic choices in energy, food, critical minerals and finance.

The world is seeing coexistence of a waning multilateral system, regional or economic blocs like BRICS and G7 as well as a rush of bilateral deals. As an example, India signed bilateral deals with the EU and New Zealand in 2025-26 and Canada, faced with US tariffs, is now looking aggressively at India and China for its exports.

Amidst this realignment of global trade, a key development is the shift in global gross domestic product (GDP) contribution. In the last 20 years (**Figure 1.10**), the 43% share in global GDP of G7 countries has been displaced by BRICS. A more granular analysis shows that BRICS' share mainly rides on China, with China accounting for nearly 50% of BRICS GDP.

Figure 1.10: BRICS doubles its global GDP share as G7 slips



Source: Reproduced from NDTV Profit, Sep'26[13]

[13] NDTV Profit, 2026. "BRICS: From Challenge To Collective Action - The Journey Through The Years", 11th Sep'26

Interesting times are ahead with two opposing forces at play; atavistic tendencies of nationalism versus borderless technology. Every stakeholder is playing their cards carefully, realizing there needs to be greater agility to respond to rapid changes. Macroeconomic environment is characterized by heightened ambiguity and structural shifts. Central banks are executing a delicate monetary balancing act to anchor inflation expectations without inducing slowdown. Countries are forging new alliances to cope with new VUCA [Volatile commodity pricing and complex supply chain] while capital and the power-hungry AI bandwagon is busy reshaping the future of humans.

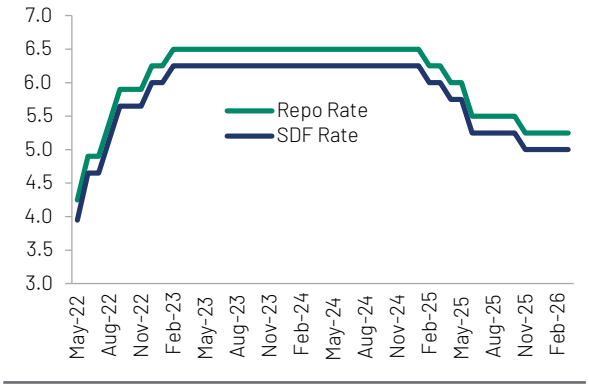
1.2 The Indian context

The Indian economy continued to demonstrate strong growth momentum through FY 2025-26, despite a global environment marked by geopolitical tensions, trade disruptions and divergent growth and inflation trends across major economies. Domestic economic activity remained resilient, supported by private consumption and capital formation. A largely favourable and well-distributed southwest monsoon made for favourable agricultural conditions that helped in easing food price pressure and reducing headline inflation. The financial sector was also supported by healthy bank and non-bank balance sheets, improved asset quality and adequate capital buffers.

The Union Budget for FY 2025-26 continued the government's focus on investment, infrastructure, manufacturing and employment, while providing income-tax relief under the new tax regime. The GST Council undertook significant rationalisation of the GST structure during the year, with the principal rates consolidated around 5% and 18% from Sep'25.[14] The year also witnessed a substantial revision of India's statistical framework, with the Ministry of Statistics & Programme Implementation (MoSPI) introducing new base years and methodologies for calculation of GDP, consumer price index (CPI) and Index of Industrial Production (IIP) to better reflect structural changes in the economy.[15]

With growth-inflation dynamics opening policy space, monetary conditions also eased during the year - the Monetary Policy Committee (MPC) reduced the policy repo rate by 100 basis points (bps) between Feb'25 and Dec'25 while maintaining a neutral stance since Jun'25 (**Figure 1.11**).

Figure 1.11: Movement in Policy Repo Rate



Source: World Bank, Apr'26[16]

The external environment became more challenging as changes in US trade policy introduced significant uncertainty for India's exports and external outlook. During FY 2025-26, the US progressively raised tariffs on Indian imports, with the effective tariff burden reaching 50% by Aug'25 after an additional 25% tariff was imposed in connection with

[14] PIB, 2025. "GST Reforms for a New Generation", 20th Sep'25

[15] PIB, 2025. "Recommendations of the 56th Meeting of the GST Council held at New Delhi, today", 3rd Sep'25

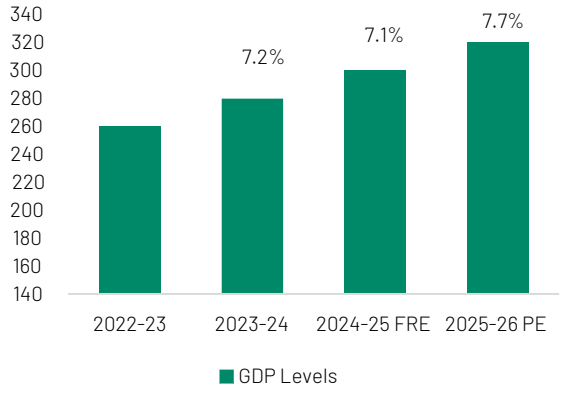
[16] World bank, 2026. "India Development Update", Apr'26

India's continued imports of Russian oil.[17] The higher tariffs increased the uncertainty around India's export outlook and put pressure on sectors mainly exposed to tariff, particularly labour-intensive and small-scale exporters. Overall exports have remained relatively resilient as Indian firms diversified towards alternative markets. Despite continued efforts towards fiscal consolidation during FY 2025-26, large portfolio outflows and currency depreciation created pressures during the year.[18]

1.2.1 GDP growth sustained – broad-based expansion strengthens the growth momentum

The Indian economy[19] continued to maintain a strong growth momentum in FY 2025-26, with both real and nominal indicators showing an improvement over the previous FY. Real GDP, as shown in **Figure 1.12**. is estimated to attain a level of Rs 323.12 Lk Cr in FY 2025-26, compared with Rs 299.89 Lk Cr in FY 2024-25. The growth rate of real GDP is estimated at 7.7%, higher than the 7.1% recorded in FY 2024-25.

Figure 1.12: Annual GDP (Rs Lk Cr) estimates and growth rates (%) at constant prices



Source: MoSPI, 05th Jun'26

In nominal terms, GDP is estimated to increase to Rs 346.36 Lk Cr in FY 2025-26, from Rs 318.07 Lk Cr in FY 2024-25, registering a growth rate of 8.9%. Similarly, Real GVA (**Table 1.1**) is estimated to rise to Rs 294.91 Lk Cr, from Rs 273.36 Lk Cr in the previous year, recording a growth rate of 7.9%, compared with 7.3% in FY 2024-25. Nominal GVA is estimated at Rs 314.87 Lk Cr, against Rs 288.54 Lk Cr in FY 2024-25, representing a growth of 9.1%.

Table 1.1: Sector-wise growth of real GVA

Sector	FY 23-24	FY 24-25	FY 25-26
Agriculture, Livestock, Forestry & Fishing	2.6	4.2	3.0
Mining & Quarrying	2.4	11.7	5.2
Manufacturing	12.7	9.3	10.7
Electricity, Gas, Water Supply & Other Utility Services	10.7	2.9	1.7
Construction	9.9	7.3	7.4
Trade, Hotels, Transport, Communication & Services related to Broadcasting, Storage	10.1	6.6	11.0
Financial, Real Estate, IT, Professional Services & Ownership of Dwelling	5.5	10.0	10.4
Public Administration, Defence & Other Services	6.8	5.0	5.0
Total GVA	**7.2**	**7.3**	**7.9**

Source: MoSPI, 05th Jun'26

[17] Reuters, 2025. "Trump order imposes additional 25% tariff on goods from India", 06th Aug'25

[18] RBI, 2026. "Annual Report 2025-26" ("RBI Annual Report, 2025-26")

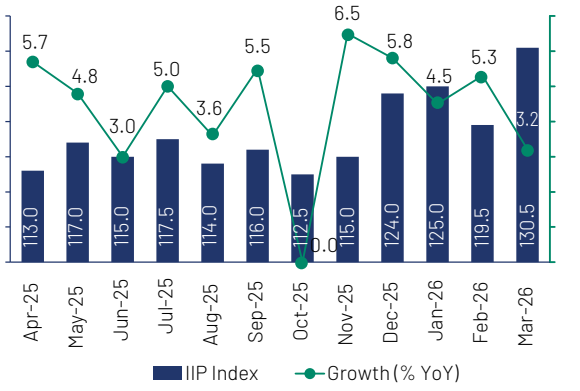
[19] This section has references from: MoSPI, 2026. Press note on provisional estimates of annual GDP for 2025-26, 05th Jun'26 ("MoSPI, 05th Jun'26")

The improvement in economic activity was supported by the secondary and tertiary sectors, which registered growth of 8.8% and 9.3%, respectively, at constant prices. The primary sector, meanwhile, recorded a more moderate growth of 3.2%, driven mainly by the performance of the agriculture and fishery sectors. Growth in real GVA remained broad-based in FY 2025-26, with manufacturing, trade, hotels, transport and communication, and financial, real estate and professional services recording double-digit growth. Construction also remained resilient, while agricultural growth moderated to 3.0%.

Industry & Manufacturing: Resilient Growth

Industrial activity[20], as measured by IIP, moderated during FY 2025-26, with overall IIP growth easing to 4.3% from 6.4% in FY 2024-25. The monthly movement in IIP during FY 2025-26 is shown in **Figure 1.13**.

Figure 1.13: All India Index of Industrial Production



Source: PIB, 01st Jun'26

Industrial activity remained uneven through the year, with monthly IIP growth fluctuating considerably, ranging from no growth in Oct'25 to 6.5% in Nov'25 before moderating towards the end of the year. The performance across the major components was mixed. Manufacturing, which carries the largest weight of 76.1% in the IIP, grew by 4.9%, compared with 6.3% in the previous year. Mining and quarrying, on the other hand, recorded an improvement, with growth rising to 3.7% from 2.8%, while growth in electricity and gas supply moderated sharply to 1.1% from 9.5% in FY 2024-25.

While manufacturing output growth as measured by IIP moderated during the year, manufacturing GVA recorded stronger growth. Real manufacturing GVA grew by 10.7% in FY 2025-26, compared with 9.3% in FY 2024-25. However, the manufacturing sector continued to face external trade risks, including heightened trade-policy uncertainty, global trade fragmentation and potential disruptions to export demand and imported inputs. Capacity utilisation in the manufacturing sector also remained above its long-run average during FY 2025-26. The Economic Survey 2025-26 reported manufacturing growth of 8.4% in H1 FY 2025-26, with capacity utilisation remaining above its long-run average during the period.[21]

The FY 2025-26 IIP series also marks a methodological update, with MoSPI revising the base year from 2011-12 to 2022-23 and expanding the coverage to include gas supply and water supply, sewerage and waste management, alongside the existing core sectors of mining, manufacturing and electricity. The revised series also provides greater disaggregation within mining and electricity, including separate indices for renewable and non-renewable electricity generation.

Private sector investment showed signs of recovery during FY 2025-26, with private sector net fixed asset growth rising to 11.5% in H1 2025-26, driven by telecommunications,

[20] This section has references from: PIB, 2026. "First Press Release of All India Index of Industrial Production of New Series with Base Year 2022-23", 01st Jun'26 ("PIB, 01st Jun'26"); RBI Annual Report, 2025-26

[21] GoI, 2026. "Economic Survey of India, 2025-26" ("Economic Survey 2025-26")

metals, construction and automobiles. The Production Linked Incentive (PLI) scheme also supported private sector investment, attracting actual investment of over Rs 2.2 Lk Cr by end-Dec'25. This investment was associated with incremental production/ sales of over Rs 20.4 Lk Cr and employment generation of over 14.4 Lk. PLI-supported sectors such as electronics, pharmaceuticals and telecom & networking products also recorded significant export growth.

Agriculture & allied activities

Growth in the agriculture, livestock, forestry & fishing sector[22] moderated to 3.0% in FY 2025-26, from a revised 4.2% in FY 2024-25, reflecting weather-related disruptions to the kharif crop. A favourable and well-distributed south-west monsoon subsequently replenished reservoir levels to an all-time high by Oct'25, supporting rabi and summer (zaid) crop output and cushioning the kharif-season shortfall. Food-grain production for FY 2025-26 grew by an estimated 5.3% over the previous year, aided by higher rice and wheat output.

Adequate procurement and buffer stocks also supported food security during the year. Public foodgrain stocks held by the Food Corporation of India (FCI) stood at more than four times the mandatory buffer norms at the end of Mar'26. Policy support to farmers continued through income support under PM-KISAN and crop-risk coverage under the Pradhan Mantri Fasal Bima Yojana (PMFBY), alongside measures aimed at improving agricultural productivity, infrastructure and market linkages.

Services

India's services sector remained the primary driver of growth, contributing around 69% of real GVA growth in FY 2025-26.[23] The tertiary sector's GVA grew by 9.3%, accelerating from 7.9% in FY 2024-25. Growth was led by trade, transport and hotels, while financial, real estate, IT and professional services grew by 10.4% during the year.

The contribution of major services segments to overall services growth remained broad-based in FY 2025-26, with business services and trade, logistics and communications making significant contributions.

The HSBC India Services PMI remained firmly in expansionary territory through FY 2025–26, touching a multi-year high around Aug'25 before easing to 57.5 in Mar'26, while remaining in expansionary territory.[24]

Global Capability Centres (GCCs) continued to expand in India during FY 2025–26, with their role increasingly shifting from traditional delivery functions towards higher-value activities, including product development, engineering, analytics and artificial intelligence. India had 2,117 GCCs employing around 2.36 million professionals and generating an estimated USD 98.4 billion in revenue as of FY 2025–26.[25]

The rapid adoption of artificial intelligence is also beginning to reshape employment in the technology sector. During FY 2025–26, TCS announced a reduction of around 12,200 employees, while technology companies globally, including Microsoft, also announced significant workforce reductions amid restructuring, cost pressures and increased adoption of AI and automation.[26] These developments cannot be attributed solely to AI, but they point to a potential shift in demand for routine and labour-intensive technology services. At Infosys, total employee strength nevertheless increased to 3.29 Lk in FY 2025–26, even as the company reported redeploying

[22] This section has references from: MoSPI, 05th Jun'26; RBI Annual Report, 2025-26

[23] Ibid

[24] HSBC, S&P Global, 2025, 2026. "India Services PMI", Sep'25 & Apr'26.

[25] NASSCOM-Zinnov, 2026. "The GCC Value Orbit: From Delivery Engine to Enterprise Nerve Centre", 06th May'26

[26] Reuters, 2025. Articles on job cuts by Microsoft, 02nd Jul'25 & TCS, 27th Jul'25

employees affected by productivity gains and increasing its focus on AI-related skills.[27] For India, the longer-term challenge will be to ensure that the workforce can transition towards higher-value, AI-enabled services through continuous reskilling.[28]

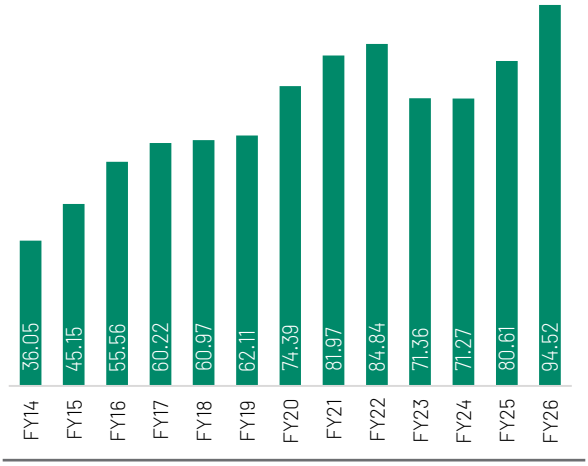
1.2.2 Demand Components – resilient domestic demand, but a widening trade deficit

On the expenditure side, growth in FY 2025-26 continued to be supported by strong domestic demand, with both private consumption and investment recording robust growth. Private Final Consumption Expenditure (PFCE) grew by 7.7% during the year, while Gross Fixed Capital Formation (GFCF) grew by 8.2% at constant 2022-23 prices. Government Final Consumption Expenditure (GFCE) grew by 5.5% during the year.[29]

Private consumption remained resilient during FY 2025-26, supported by low inflation, improving real purchasing power and strengthening domestic demand. Strong agricultural performance supported rural incomes and consumption, while lower food inflation further strengthened rural purchasing power. At the same time, tax rationalisation supported disposable incomes and urban demand. These factors were reflected in high-frequency consumption indicators, with rural FMCG volume sales growing by 8.4% in Q1 and 7.7% in Q2, compared with 4.6% and 5.6%, respectively, in urban areas. Stronger two-wheeler and tractor sales during the year further pointed to sustained rural consumption.

Investment also strengthened during the year, with GFCF growth reaching 8.2% in FY 2025-26, compared with 7.3% in FY 2024-25. Public capital expenditure continued to support the investment cycle, with Central Government capital expenditure rising by 28% year-on-year (YoY) during Apr-Nov'25, reflecting the continued emphasis on infrastructure and asset creation. At the same time, private investment activity showed signs of revival, with private corporate investment announcements rising to Rs 14.6 Lk Cr in H1 FY 2025-26, compared with Rs 7.9 Lk Cr in H1 FY 2024-25. The trend in gross FDI inflows is shown in **Figure 1.14**.

Figure 1.14: Gross FDI inflow (USD billion)



Source: IBEF, 2026

Foreign investment flows presented a mixed picture during FY 2025-26. Gross FDI inflows increased to USD 94.5 billion from USD 80.6 billion in FY 2024-25, the highest level in the period, as shown in the chart above.[30] However, net FDI inflows stood at USD 7.7 billion in FY 2025–26, an improvement from USD 1.0 billion in the previous year, as higher repatriation and disinvestment and outward FDI continued to weigh on net inflows. At the same time, foreign portfolio investment recorded a net outflow of USD 16.5 billion during FY 2025–26, compared with an inflow of USD 3.3 billion in the previous year, adding pressure to overall capital flows.

[27] Infosys, 2026. "Integrated Annual Report, 2025-26"

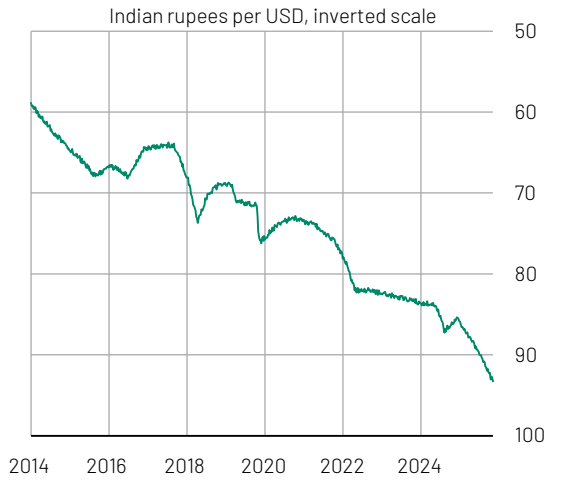
[28] WEF, 2025. "The Future of Jobs Report 2025", 07th Jan'25

[29] This section has references from: MoSPI, 05th Jun'26; Economic Survey 2025-26; RBI Annual Report, 2025-26

[30] India Brand Equity Foundation (IBEF), 2026. Foreign Direct Investment, Sep'26. Accessed on 20th Sep'26

The external sector provided an additional source of support to economic activity. Exports of goods and services grew by 6.3% during FY 2025–26, while imports increased by 5.6% at constant prices. Merchandise trade deficit widened substantially in FY 2025-26 to USD 333.2 billion from USD 283.5 billion in FY 2024-25.[31] This widening deficit reflected sustained domestic demand and high import bill from crude oil, gold, electronics and capital inputs. Strong services exports could partially offset the merchandise deficit, reaching around USD 421 billion during the year, and continued to provide an important source of external earnings.[32] However, the rapid adoption of artificial intelligence is likely to pose a longer-term challenge to India's services export model by altering demand for some routine and labour-intensive technology and business-process services.

Figure 1.15: Long-term movement of the INR against the USD



Source: LSEG Workspace, The Economist[33]

The INR continued its longer-term depreciation against the USD during FY 2025-26, weakening by 9.9% during the year, with depreciation pressures intensifying towards the end of the FY. The longer-term movement of the INR against the USD is illustrated in **Figure 1.15**.

The RBI continued to intervene in the foreign exchange market to address periods of excessive volatility. During Apr-Dec'25, foreign exchange reserves declined by USD 30.8 billion on a balance-of-payments basis as net capital flows fell short of financing the current account deficit. However, reserves subsequently recovered to USD 691.1 billion by end-Mar'26, equivalent to around 11 months of import cover, providing a substantial external buffer.

1.2.3 Inflation eases sharply – food prices drove disinflation but supply-side shocks creep in

Inflation[34] moderated significantly during FY 2025-26, with headline CPI inflation averaging 2.1%, compared with 4.6% in FY 2024-25. The moderation was particularly pronounced during the first half of the year, with headline inflation declining from 3.16% in Apr'25 to 1.54% in Sep'25 and reaching 0.25% in Oct'25, the lowest reading recorded in the CPI (2012=100) series.[35] The decline was driven primarily by a sharp moderation in food prices, supported by favourable agricultural conditions, higher production, improved supplies and a favourable base effect.

The decline in headline inflation was largely driven by the sharp moderation in food inflation, which moved into negative territory during the latter part of 2025 while core inflation remained comparatively stable. The divergence between food and core inflation highlights the important role of food prices in driving the overall decline in consumer inflation.

[31] PIB, 2026. Press release on exports in FY 2025-26, 15th Apr'26

[32] NITI Aayog, 2026. "Trade Watch Quarterly", Jun'26

[33] The Economist, 2026. "The politics of the rupee", 11th Apr'26

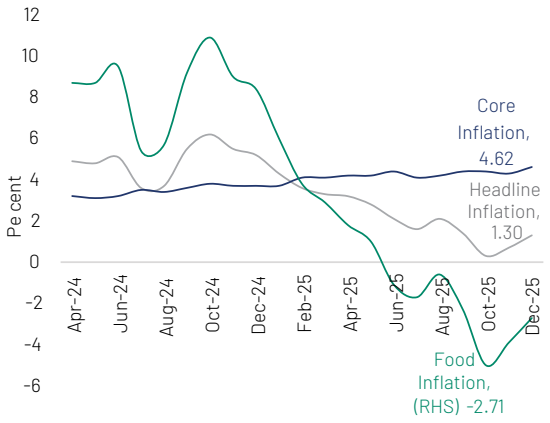
[34] This section has references from: RBI Annual Report, 2025-26; Economic Survey 2025-26

[35] PIB, 2025. Press release on CPI numbers (May'25, Oct'25, Nov'25)

Food inflation was a major contributor to the disinflationary trend. Consumer food price inflation remained negative for seven consecutive months and stood at -2.71% in Dec'25, while headline CPI inflation was 1.33%.[36] The monthly movement in headline, core and food inflation is shown in **Figure 1.16**. The decline in food prices reflected improved availability of several food items, supported by favourable agricultural conditions and higher production. Given the significant weight of food in household consumption, the moderation in food prices also helped ease household price pressures and support real purchasing power.

Core inflation remained relatively contained, although it increased towards the latter part of 2025, largely reflecting a sharp rise in precious-metal prices, particularly gold and silver. Prices of both metals reached lifetime highs amid heightened global uncertainty and strong safe-haven demand. Excluding precious metals, underlying inflation pressures remained subdued.

Figure 1.16: Monthly CPI Inflation - Headline, Core & Food



Source: Economic Survey 2025-26

Wholesale price inflation also moderated during FY 2025-26, with WPI inflation declining to 0.40% from 1.74% in FY 2024-25. The moderation was driven primarily by lower inflation in primary articles and fuel and power, while manufactured-product inflation increased to 2.16%.[37] Inflation dynamics reflected a combination of domestic supply conditions and external factors. Favourable weather, higher agricultural output and improved availability eased food-price pressures, while global energy and fertiliser prices remained potential sources of cost pressure. Government interventions, including buffer-stock operations and market releases, also helped moderate prices. WPI inflation across major groups is presented in **Table 1.2**.

Table 1.2: WPI Inflation by major groups

Sector	FY 2024-25	FY 2025-26
All Commodities	1.74%	0.40%
Primary Articles	5.93%	-2.19%
Fuel & Power	-2.05%	-2.90%
Manufactured Products	0.90%	2.16%

Source: Government of India (GoI)l press release, 15th Jun'26

Towards the end of the FY, headline inflation began to firm, rising from 2.74% in Jan'26 to 3.21% in Feb'26 and 3.40% in Mar'26 under the revised CPI series with base year 2024=100.[38]

The moderation in inflation provided greater space for monetary easing during FY 2025-26. The Reserve Bank of India (RBI) reduced the policy repo rate by a cumulative 100 basis points during the year, while also reducing the Cash Reserve Ratio by 100 basis points. The easing of food and headline inflation, together with relatively contained underlying price pressures, provided a more supportive environment for domestic economic activity.

[36] PIB, 2026. "First Press Release of Consumer Price Index on Base 2024=100", 12th Feb'26

[37] GoI,2026. "Press release on new series of Wholesale Price Index and Producer Price Indices with base year 2022-23", 15th Jun'26 ("GoI press release, 15th Jun'26")

[38] PIB, 2026. Press release on CPI numbers (Feb'26, Mar'26)

1.2.4 Employment improves – labour market shows strong numbers but structural challenges prevalent

India's labour market[39] remained broadly stable during 2025, with labour-force participation, employment and unemployment indicators showing limited changes from the previous year. However, comparability with earlier years should be interpreted with caution, as the PLFS adopted a revised sampling design and estimation procedure from Jan'25. For persons aged 15 years and above, the Labour Force Participation Rate (LFPR) stood at 59.3%, while the Worker Population Ratio (WPR) stood at 57.4%, both broadly unchanged from 2024. The Unemployment Rate (UR) stood at 3.1%, with the male unemployment rate declining marginally, while the female rate remained unchanged. Rural and urban labour-market indicators for 2022–2025 are presented in **Table 1.3**. LFPR stood at 62.8% in rural areas, compared with 52.2% in urban areas, while unemployment was 2.4% in rural areas against 4.8% in urban areas.

Table 1.3: Rural and urban labour market indicators

Indicator	2022	2023	2024	2025
LFPR – Rural	58.5	63.4	62.9	62.8
LFPR – Urban	50.0	51.4	52.2	52.2
WPR – Rural	56.9	61.9	61.4	61.2
WPR – Urban	47.0	48.8	49.6	49.7
Unemployment Rate – Rural	2.8	2.4	2.5	2.4
Unemployment Rate – Urban	5.9	5.2	5.0	4.8

Source: PLFS 2025

Note: From Jan'25, PLFS adopted a revised sampling design and estimation procedure. MoSPI advises caution in comparing 2025 annual estimates with earlier PLFS estimates.

Female labour-force participation continued its longer-term upward trend, reaching 40.0% in 2025, compared with 23.3% in 2017-18. However, the increase in female participation needs to be viewed alongside the nature of employment: self-employment accounted for 64.2% of female employment in 2025. Women continue to shoulder a substantially greater share of household and caregiving responsibilities.

The composition of employment also showed a gradual shift towards regular wage and salaried employment. The share of self-employed workers declined from 57.5% in 2024 to 56.2% in 2025, while regular wage/salaried employment increased from 22.4% to 23.6%; casual labour remained broadly stable at 20.2%. Agriculture continued to account for the largest share of employment, although its share declined from 44.8% to 43.0%, while the shares of workers engaged in manufacturing and other services increased. However, conversations about structural gaps that India faces, involving its educated youth and industry's absorption of the labour vis-à-vis low rate of creation of quality jobs have become deeper.

MGNREGA continued to serve as an important source of rural wage employment during FY 2025–26, although demand for the scheme declined, with 183.77 Cr person-days generated up to Dec'25, compared with 389.09 Cr at the pandemic peak in FY 2020–21. The scheme was allocated Rs 86,000 Cr in the Union Budget 2025–26. From 01st Jul'26, the VB-G RAM G Act, 2025 replaced MGNREGA and increased the statutory employment guarantee from 100 to 125 days per rural household.[40]

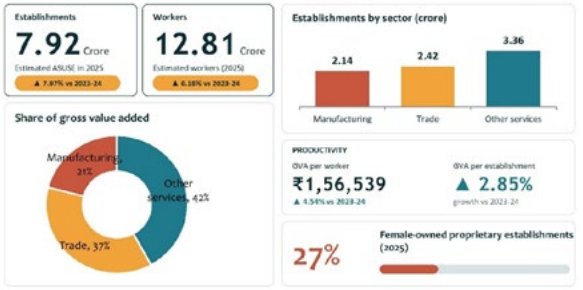
[39] This section has references from: MoSPI, Mar'26. "Periodic Labour Force Survey (PLFS) Annual Report, Jan-Dec'25" ("PLFS 2025"); Economic Survey 2025-26

[40] PIB, 2026. Press release on VB-G RAM G Act, 30th Jun'26.

1.2.5 Informal economy expands – employment rises, productivity remains a key concern

The unincorporated non-agricultural sector remained an important source of employment and livelihoods, with ASUSE 2025 covering Jan-Dec'25.[41] The sector comprised 7.92 Cr establishments and employed 12.81 Cr people, with the rural workforce accounting for about 6 Cr workers. Key indicators of the unincorporated non-agricultural sector are summarised in **Figure 1.17**. Working owners constituted around 60% of employment, highlighting the importance of self-employment and small-scale entrepreneurship.

Figure 1.17: Key indicators of the unincorporated non-agricultural sector



Source: ASUSE 2025

Of the total establishments, 2.14 Cr were engaged in manufacturing, 2.42 Cr in trade and 3.36 Cr in other services. These activities accounted for 21%, 37% and 42%, respectively, of the sector's GVA, highlighting the significant contribution of trade and services to economic activity. GVA per worker stood at Rs 1,56,539, indicating an improvement in measured labour productivity, while employment and GVA also recorded growth.

Women-owned proprietary establishments accounted for 27% of total proprietary establishments, highlighting the role of the unincorporated sector in supporting women's entrepreneurship.

The continued expansion of unincorporated enterprises remained significant for rural and urban livelihoods, particularly through self-employment and small-scale businesses. Their substantial presence across manufacturing, trade and services underscores their importance in generating employment, supporting incomes and contributing to local economic activity. The implementation of the four Labour Codes in Nov'25 was significant for the unorganised sector, including gig and platform workers, by bringing them within a formal social-security framework.

1.2.6 Poverty and consumption – strong gains in living standards, but inequality remains relevant

Household consumption remained an important indicator of living standards and domestic demand. The latest Household Consumption Expenditure Survey (HCES), covering 2023–24, estimated average monthly per capita consumption expenditure (MPCE), including the imputed value of goods received free through social welfare programmes, at Rs 4,247 in rural areas and Rs 7,078 in urban areas. The urban–rural gap in MPCE narrowed further, with urban MPCE exceeding rural MPCE by 66.7% in 2023–24, compared with 68.9% in 2022–23 and 83.9% in 2011–12.[42]

The latest World Bank estimates provide a more updated assessment of monetary poverty, based on the 2023–24 HCES and revised international poverty lines. At the revised extreme-poverty threshold of USD 3

[41] This section has references from: MoSPI, Mar'26. "Fact Sheet - Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2025" ("ASUSE 2025"); Economic Survey 2025-26

[42] This section has references from: MoSPI, 2025. "Survey on Household Consumption Expenditure: 2023-24"; World Bank, 2026. "India Development Update", Apr'26

per person per day in 2021 PPP terms, India's poverty rate declined from 27.1% in 2011–12 to 2.6% in 2023–24. At the USD 4.20 per person per day lower-middle-income poverty line, the poverty rate declined from 57.7% to 16.1% over the same period (**Table 1.4**). In 2023–24, poverty at the USD 4.20 threshold was 19.3% in rural areas and 8.6% in urban areas, while extreme poverty stood at 3.1% and 1.4%, respectively.[43]

Table 1.4: Poverty Rates in India under Revised International Poverty Lines, 2011-12 and 2023-24 (%)

Poverty line	2011–12	2023–24
USD 3.00 per day – Extreme poverty	27.1%	2.6%
USD 4.20 per day – Lower-middle-income poverty	57.7%	16.1%

Source: World Bank, Apr'26

Consumption inequality also declined in 2023–24. The Gini coefficient of consumption expenditure fell from 0.266 to 0.237 in rural areas and from 0.314 to 0.284 in urban areas between 2022–23 and 2023–24. The decline was also accompanied by stronger growth in consumption among lower expenditure groups, with average MPCE for the bottom 5% increasing by 22% in rural areas and 19% in urban areas between the two surveys.

However, consumption-based inequality does not capture the entire distribution of economic resources. The World Bank notes that household surveys can under-represent high-income households and therefore complements consumption-based measures with labour-market data. Based on PLFS data, the earnings Gini was 0.43 in 2023–24, while median monthly earnings among the top 10% of earners were around 17 times those of the bottom 10%. This provides a broader perspective on inequality than consumption expenditure alone.

Macroeconomic outlook and risks

The Indian economy enters FY 2026-27 with strong domestic foundations. Growth during FY 2025-26 was supported by resilient private consumption, investment and broad-based sectoral activity, while moderating inflation and accommodative monetary conditions provided additional support to domestic demand. Private consumption is likely to remain an important driver of growth, supported by improving rural demand and purchasing power. Public capital expenditure and infrastructure investment are expected to sustain the investment cycle, while improving private investment intentions, healthier corporate balance sheets and policy support for manufacturing could strengthen capital formation. Services are likely to remain an important source of growth, supported by domestic demand and India's position in global services trade. The increasing adoption of artificial intelligence also presents both opportunities for productivity and new services, and risks of disruption to employment and existing business models.

The outlook for rural demand will remain closely linked to agricultural conditions and food prices. The improvement in agricultural output during FY 2025-26, together with the sharp moderation in food inflation, supported rural purchasing power. However, adverse weather conditions, including El Niño and other recurring climate events, could affect food supplies, rural incomes and inflation. The persistence of inflation will therefore remain important for sustaining household demand.

The external environment presents a more uncertain picture. Global trade fragmentation, changing tariff policies and geopolitical tensions could weigh on merchandise exports, investment and business confidence. While India's large domestic market and strong services exports provide some resilience, prolonged weakness in global demand or renewed trade restrictions could affect

[43] World Bank, 2026. "Poverty and Equity Brief", Oct'26

export-oriented industries, particularly labour-intensive sectors. The World Bank has highlighted trade diversification, energy diversification and India's macroeconomic buffers as important sources of resilience against external shocks.[44]

Energy prices represent a further risk. India remains highly dependent on imported crude oil, making the economy sensitive to geopolitical disruptions and sharp movements in global energy prices. Higher oil prices can increase import costs, put pressure on the current account and exchange rate, and feed into domestic inflation. The Asian Development Bank (ADB) has similarly identified higher energy prices, trade uncertainty and tighter global financial conditions as key risks to the regional outlook.[45]

The substantial portfolio outflows and rupee depreciation recorded during FY 2025-26 demonstrate the sensitivity of capital flows to changes in global investor sentiment. Capital flows and foreign-exchange reserves have shown some improvement in the early months of FY 2026-27, although the recovery remains tentative.

The Economic Survey 2025-26 projects real GDP growth of 6.8–7.2% in FY 2026-27. International forecasts available at the beginning of the FY were somewhat lower, with the World Bank projecting 6.6%, the IMF 6.5% and ADB 6.9%. These projections point to continued domestic growth momentum, while highlighting the uncertainty arising from global trade, geopolitical developments, energy prices and financial conditions. With inflationary pressures rising in FY 2026-27, the RBI's monetary policy stance will remain important. The scope for further growth-supportive reductions in the repo rate may be more limited as the RBI balances the need to support growth with its inflation objective.

1.3 Banking sector credit flow – credit and deposits regain momentum

The total outstanding credit of Scheduled Commercial Banks (SCBs)[46] stood at Rs 214.3 Lk Cr as on 31st Mar'26, registering a YoY growth of 14.1%, compared with 11.1% as on 31st Mar'25, indicating a revival in credit flow. FY 2024-25 had witnessed a moderation in credit growth amid tighter regulatory measures, including higher risk weights on certain exposures, alongside a slowdown in deposit mobilisation. FY 2025-26 saw an easing of these constraints, with the restoration of risk weights on bank exposures to Non-Banking Financial Companies (NBFCs) and a recovery in deposit growth to 13.7%, from 10.3% in the previous year. While the longer-term shift in household savings towards capital-market instruments appears to have continued, the increased volatility in global financial markets arising from geopolitical tensions and tariff uncertainties, together with fluctuations in domestic equity markets and the changing interest-rate environment, may have encouraged a relatively greater preference for traditional bank deposits, particularly term deposits.

RBI data show that term deposits emerged as one of the main instruments of deposit mobilisation during FY 2025-26. The changing interest-rate environment also influenced the composition of deposits, with savers showing a greater preference for term deposits over relatively lower-yielding savings balances. Term deposits grew by 15.5% YoY during FY 2025-26, compared with 10.1% growth in savings deposits. Consequently, the share of term deposits in total deposits increased from 60.6% as on 31st Mar'25 to 61.6% as on 31st Mar'26.

[44] World Bank, 2026. "India Development Update", Apr'26

[45] ADB, 2026. "Asian Development Outlook", Apr'26.

[46] RBI, DBIE. "Basic Statistical Return-1 on credit by SCBs (BSR-1)", "Basic Statistical Return-2 on deposits with SCBs (BSR-2)". Accessed on 11th Aug'26

The combination of stronger deposit mobilisation and improved credit demand provided banks with a more supportive funding environment for credit expansion during FY 2025-26. **Table 1.5** shows the credit outstanding & deposit balances of SCBs in India, over the last 10 years.

Monetary policy transmission

Another factor supporting credit recovery on a macroeconomic level was the repo rate reduction by the RBI from 6.25% in Feb'25 to 5.25% at the end of Mar'26. This set of rate cuts, aimed at promoting credit flow and economic activity, gradually started transmitting to lending and deposit rates in the economy during the said FY, as per the RBI's Monetary Policy Report of Apr'26.[47] Weighted average lending rate (WALR) is one of the measures commonly used to assess monetary policy transmission, i.e., pass-through of rate changes into the economy. Between Feb'25 and Mar'26, the WALR on fresh rupee denominated loans fell by 89 bps and that on outstanding rupee loans fell by 87 bps, against a cumulative reduction of 125 bps made in repo rate during the same period. The fresh loan WALR in Mar'26 stood at 8.4%.[48]

Table 1.5: Credit & deposits of SCBs
(in Rs Lk Cr)

Indicator	2016	2021	2026
Credit O/s	75.2	110.8	214.3
Deposits	96.0	154.4	266.5
CD Ratio	78.4%	71.7%	80.4%

Source: RBI, DBIE. BSR-1 and BSR-2 data

The central bank's report also provides insights into sectoral and bank share of credit. It shows the degree to which the transmission of rate cuts is attributable to two factors - a) change in interest rates and b) change in composition of loan mix across various sectors. Lending rates in all sectors were found to have declined with the eventual pass-through of repo rate cuts.

With regards to type of lending entity, the pace of this transmission is naturally faster for those that use an external benchmark-based lending rate (EBLR) for extending a significant portion of their credit compared to a marginal cost of funds-based lending rate (MCLR) - a function of internal costs and benchmarks. Since it is the private banks (PVB) that lend largely based on EBLR and the public sector banks (PSBs) on MCLR, the latter exhibited slower transmission of reduction in repo rate. Still, the overall share of loans linked to EBLR was seen to have increased during this period while that of MCLR-based loans declined. Banks, particularly, reduced the effect of rate cut transmissions by increasing their spreads of repo-linked EBLR loans. NBFCs, which play a pivotal role in last-mile credit delivery, showed a much slower reduction owing to their liability composition and riskier profile of borrowers.

1.3.1 Credit deepening and deployment

a) Credit-to-GDP: Crosses 100% in Dec'25

India's credit-to-GDP ratio has strengthened significantly in recent years, indicating a deepening of credit relative to the size of the economy. **Table 1.6** shows that the credit-to-GDP gap[49] has narrowed sharply over the last few years. According to the latest Bank for International Settlements (BIS) data[50], credit to the private non-financial sector increased from 93.2% of GDP in Mar'23 to 96.0% in Mar'25 and further to 102.3% by Dec'25. Over the same period, the estimated long-term trend declined from 104.5% to 100.6%.

[47] RBI, 2026. "Monetary Policy Report", Apr'26

[48] India Macro Indicators. WALR on Fresh Rupee Loans

[49] The credit-to-GDP gap is the difference between the actual credit-to-GDP ratio and its estimated long-term trend

[50] BIS data. Accessed on 11th Aug'26

Table 1.6: Credit to GDP gap

Quarter ended	Actual Credit-to-GDP (%)	Trend (%)	Gap (pp)
Mar-22	95.4	106.8	-11.5
Mar-23	93.2	104.5	-11.3
Mar-24	94.4	102.5	-8.1
Mar-25	96.0	101.0	-5.0
Dec-25	**102.3**	**100.6**	**1.7**

Source: BIS data

The movement indicates that the period of credit remaining substantially below its estimated long-term trend has come to an end, with the latest data showing actual credit-to-GDP marginally above the trend. The shift is noteworthy as it reflects a sustained strengthening in credit relative to economic output rather than a one-year movement alone. As highlighted in the previous year's Micro Matters 2024-25, the narrowing credit-to-GDP gap pointed towards a favourable credit cycle in the near term. The latest data suggest that this anticipated strengthening in credit conditions is now materialising. Between Mar'22 and Dec'25, the credit-to-GDP gap improved by 13.2 percentage points, moving from -11.5 percentage points to +1.7 percentage points.

The positive credit-to-GDP gap, indicates that actual credit to the private non-financial sector has moved from being substantially below its estimated long-term trend to marginally above it. The trend therefore points to significant credit deepening in recent years, while the positive movement of the gap also warrants monitoring of the pace, composition and quality of credit growth.

b) Credit-deposit dynamics – stronger deployment of incremental deposits

The relationship between incremental credit and incremental deposits provides a useful measure of the flow of bank intermediation. It indicates how much additional credit is generated for every Rs 100 of additional deposits mobilised during the year. As shown in **Table 1.7**, in FY 2025-26, SCBs mobilised Rs 32.0 Lk Cr of incremental deposits and expanded credit by Rs 26.5 Lk Cr. Thus, for every Rs 100 of additional deposits, around Rs 82.7 was converted into additional credit. This was marginally lower than Rs 85.2 in FY 2024-25, but significantly higher than the ratio observed in FY 2021-22.

Table 1.7: Incremental credit to deposits

FY	Incremental bank credit (Rs Lk Cr)	Incremental bank deposit (Rs Lk Cr)	Incremental credit to deposit ratio
2021-22	11.8	15.7	75.4%
2022-23	19.4	17.3	111.9%
2023-24	27.2	25.1	108.1%
2024-25	18.7	22.0	85.2%
2025-26	26.5	32.0	82.7%

Source: RBI, DBIE. BSR-1 and BSR-2 data; MFIN analysis

The five-year trend shows three distinct phases. During FY 2022-23 and FY 2023-24, incremental credit exceeded incremental deposits, with the ratio reaching 111.9% and 108.1%, respectively. This indicated that credit expansion was outpacing fresh deposit mobilisation, with banks drawing on other sources of funding and liquidity to support the growth in credit. In FY 2024-25, the ratio fell sharply to 85.2%, as credit growth moderated while deposit mobilisation remained relatively stronger. This coincided with the tightening of regulatory measures, including higher risk weights on certain exposures, as well as RBI's message to banks having high CD ratio to bring it down.[51]

[51] Moneycontrol, 2024. "Why is banks' CD ratio worrying the banking regulator", 18th Jan'24

FY 2025-26 witnessed a significant recovery in the absolute flow of credit. Incremental bank credit increased by around 41%, from Rs 18.7 Lk Cr in FY 2024-25 to Rs 26.5 Lk Cr in FY 2025-26, while incremental deposits grew by around 46%, from Rs 22.0 Lk Cr to Rs 32.0 Lk Cr during the same period. Consequently, the incremental credit-to-deposit ratio declined marginally to 82.7%. The lower ratio should therefore not be interpreted as weaker credit deployment. Rather, it reflects the fact that deposit mobilisation grew faster than credit expansion during FY 2025-26, providing banks with a stronger and more comfortable funding base for credit growth.

The overall picture is therefore one of an easing of the deposit constraint observed in FY 2024-25. While the incremental credit-to-deposit ratio remains below 100%, the strong growth in both deposits and credit suggests a better alignment between the two sides of the banking system's balance sheet.

1.3.2 Sectoral credit flow – broad-based revival, but services & personal loans rule the roost

As shown in **Table 1.8**, total credit in the economy has grown by 14.3% over the last five years and 11.4% over the last ten. In the last year, growth in overall outstanding non-food credit by SCBs was 15.9%, recovering from 12.0% in FY 2024-25. The revival in bank credit during FY 2025-26 was broad-based with some variations in the pace and composition of growth across major sectors. The highest growth since 2021 has been seen in personal loans (18.2%) whereas Industry has lagged with a 5-year CAGR (9.3%) below the overall average. In FY 2025-26, services saw the highest YoY growth of 19.0%, followed by personal loans at 16.2%, agri & allied activities at 15.6% and industry at 15.0%.

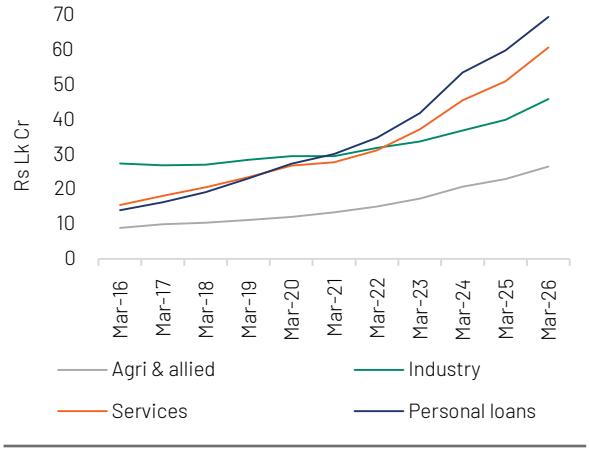
Table 1.8: CAGR of credit flow to various sectors

Sector	CAGR (2016 to 2026)	CAGR (2021 to 2026)
Agri & allied	11.6%	14.7%
Industry	5.3%	9.3%
Services	14.7%	17.0%
Personal loans	17.4%	18.2%
Overall	**11.4%**	**14.3%**

Source: RBI, DBIE. BSR-1 data; MFIN analysis

The broad structure of credit in the economy has remained relatively stable. The composition of outstanding bank credit continues to be led by personal loans and services as on 31 Mar'26 – personal loans accounted for 34.3% of outstanding credit, followed by services at 30.0%, industry at 22.7% and agriculture and allied activities at 13.1%. The share of services (30.0%) increased slightly from 29.4% and that of personal loans saw only a marginal decline from 34.4%. **Figure 1.18** shows the magnitude of bank credit in the major sectors from FY 2016 to 2026. Industry has seen a consistent decline in the share in total credit outstanding from more than 41.7% in 2016 to only 22.7% in 2026. This has also coincided with the gradual channelling of bank credit away from industry and towards retail and consumer loans over the last decade. However, at the end of Mar'26, a good annual growth of 15.0% was seen in credit to industry, a more favourable rate than 8.2% in the previous year.

Figure 1.18: Sectoral credit growth



Source: RBI, DBIE. BSR-1 data; MFIN analysis

Table 1.9: Distribution of incremental credit

Sector	FY 2023-24	FY 2024-25	FY 2025-26
Agri & allied	12.2%	9.6%	13.2%
Industry	13.6%	19.7%	19.4%
Services	29.6%	30.3%	30.9%
Personal	42.1%	36.2%	28.4%
Others	2.5%	4.2%	8.3%

Source: RBI, DBIE. BSR-1 data; MFIN analysis

The total incremental credit deployed during FY 2025-26 was Rs 26.48 Lk Cr and the four major sectors together accounted for around Rs 24.29 Lk Cr (91.7%) of additional credit during the year. Services and personal loans together contributed to approximately 60% of this incremental credit, with the remaining going into industry (19.4%) and agriculture and allied activities (13.2%). More importantly, there were some changes in the distribution of incremental credit during FY 2025-26 as shown in **Table 1.9**.

Compared to FY 2024-25, the share of personal loans in incremental credit declined from 36.2% to 28.4% in FY 2025-26. Also, the share of incremental credit to agri. & allied activities increased from 9.6% to 13.2% during the same period. A good monsoon, sustained demand and formalisation of credit in rural India seem to be backing these numbers. The government's push towards increasing institutional credit flow to the agriculture sector through enhanced ground level credit target, PM-Dhan Dhaanya Yojana and raising collateral-free agricultural loan limit likely further contributed to this phenomenon.[52] Together, these suggest that even though personal loans continued to account for the largest share of outstanding bank credit, the recovery in credit during FY 2026 was more evenly distributed across productive sectors.

Credit growth accelerated in the services sector, with outstanding credit rising from Rs 50.93 Lk Cr in Mar'25 to Rs 60.61 Lk Cr as of Mar'26, an increase of 19.0%. While improvement was seen across the service sub-sectors, credit to NBFCs emerged as a particularly important driver. It increased by 26.6% during FY 2025-26, a sharp recovery against the backdrop of the regulatory tightening imposed by the RBI in FY 2024-25. The central bank's restoration of risk weights on bank exposures to NBFCs from Apr'25 onwards reduced the additional capital burden on banks and eased the funding constraints that had impacted lending to NBFCs. In addition to the strong annual growth, credit to NBFCs continued to hold the largest share of credit extended within the services sector (34.1%), followed by 22.7% credit to trade.

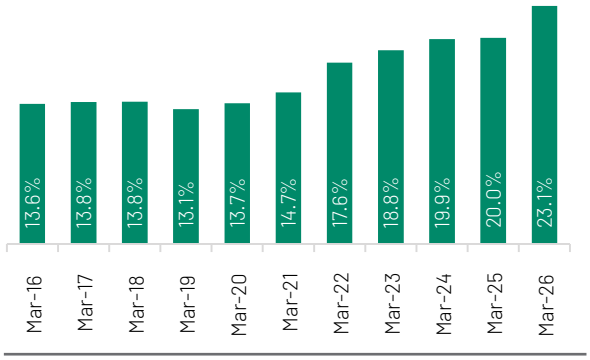
Within personal loans, gold loans rallied sharply, backed by a surge in gold prices. Between Mar'25 and Mar'26, bank credit against gold jewellery more than doubled from Rs 2.06 Lk Cr to Rs 4.61 Lk Cr – a YoY increase of almost 124%. This followed a similar doubling of outstanding credit against gold jewellery from Rs 0.93 Lk Cr at the end of Mar'24 to Rs 2.06 Lk Cr as of Mar'25. The sharp rise in gold prices increased the value of gold held by borrowers, allowing them to

[52] PIB, 2026. "Government Boosts Credit Flow to Agriculture Sector through Targeted Policy Measures", 10th Mar'26

now raise larger amounts against the same amount of the precious metal held. This was also reflected in a rise in the average gold-loan ticket size, which increased YoY by 39.0% to Rs 1.96 Lk in FY 2025-26.[53] The surge was not confined to banks, with gold loans across NBFCs also recording strong growth during the year. Share of gold loans in total personal loans outstanding consequently increased from 3.5% in FY 2025 to 6.6% in FY 2026.

On the positive side, allocation of credit to micro and small (MSE) industry grew further this year, constituting 23.1% of total credit to industry (**Figure 1.19**), compared to 20.0% last year. The annual increase in credit to micro and small industry was also at a promising 32.7% during FY 2025-26, compared with 8.9% in the previous year and an average of less than 13.0% over the last three years, marking a sharp recovery in formal credit to smaller enterprises. The formal enterprise base widened from 0.79 Cr in FY 2022 to 7.83 Cr at the end of FY 2026, as per the Udyam Registration Portal (URP).[54] Additionally, this growth in credit to micro & small industry (MSE) in the last year was also higher than that in credit to industry as a sector overall. Enhancements were made in credit guarantee support to MSEs through the CGTMSE by way of increased guarantee ceiling (from Rs 5 Cr to Rs 10 Cr), reduction in the annual guarantee fees and special enhancements in the scheme for women-led enterprises.[55] These together point towards a strengthening environment for formal credit access to smaller enterprises. It is pertinent to mention that the Micro, Small and Medium Enterprises (MSMEs) sector is vulnerable to effects of the geopolitical conflict in West Asia. However, the RBI reports the situation as currently "contained" and the overall gross non-performing asset (GNPA) ratio showing improvement.[56]

Figure 1.19: Credit to micro & small as % of industrial credit



Source: RBI, DBIE. BSR-1 data; MFIN analysis

1.3.3 Suppliers of credit

The broad-based credit flow recovery in FY 2025-26 reflected across all types of banks – Small Finance Banks (SFBs) led with a YoY growth of 22.2%, followed by PSBs at 15.4%. The contribution of SFBs in total outstanding credit has grown from 0.4% at the end of FY 2017-18 to 1.6% in FY 2025-26. Given its relatively small share in total credit in FY 2017-18, the 5-year CAGR for SFBs was also the highest among SCBs at 24.7%. Majority of the outstanding credit in the economy extended by SCBs continues to be with PSBs (52.9%) and the remaining largely with PVBs (39.4%). Over time, credit holding has been shifting gradually from PSBs to PVBs – from 63.2% and 29.3% with PSBs and PVBs respectively in Mar'18 to 52.9% and 39.4% with PSBs and PVBs in Mar'26. A comparison of contribution to the credit flow by various types of banks between FY 2017-18 and FY 2025-26 is provided in **Figure 1.20**.

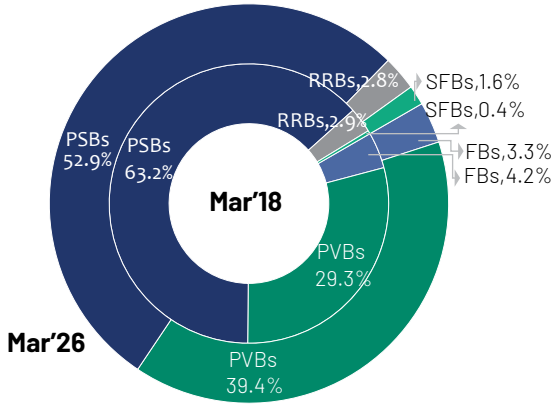
[53] Mint, 2026. "Gold loans surge in India", 05th Jul'26

[54] PIB, 2026. Press release on enterprises registered on URP, 30th Mar'26

[55] PIB, 2026. Press release on CGS for MSEs, 23rd Jul'26

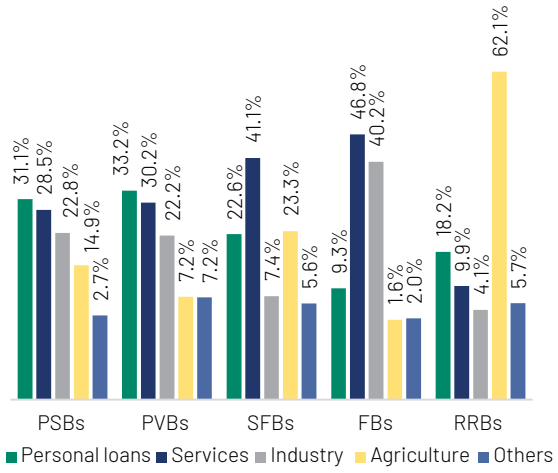
[56] RBI, 2026. "Financial Stability Report", Jun'26

Figure 1.20: Contribution to the credit flow by various banks



Source: RBI, DBIE. BSR-1 data; MFIN analysis

Figure 1.21: Share of credit outstanding of SCBs by sector



Source: RBI, DBIE. BSR-1 data; MFIN analysis

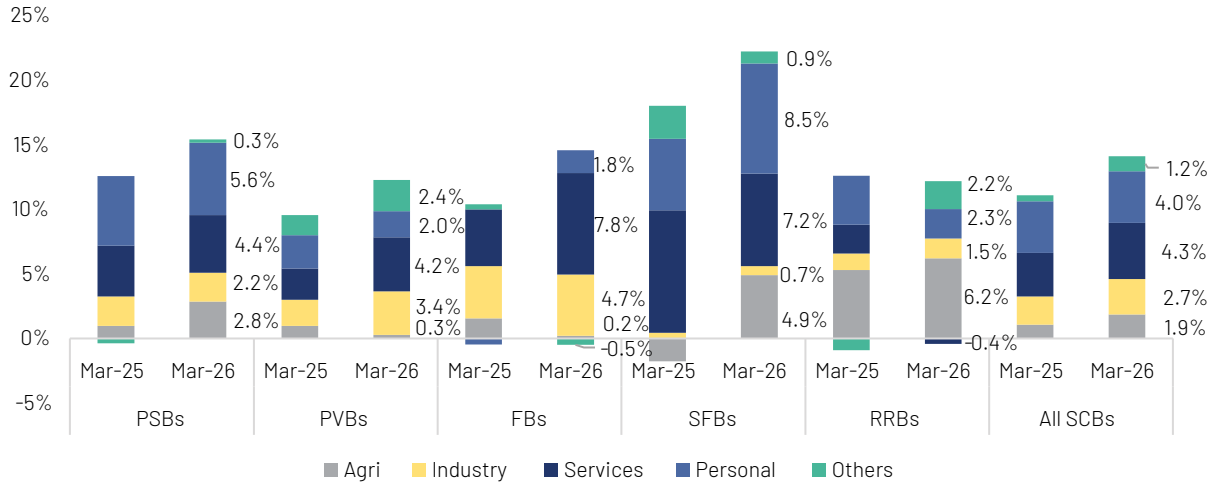
The broad sectors of the economy - agriculture, industry, services and personal loans, continued to rely primarily on PSBs for credit, followed by private sector banks. With regards to channelling of loans by different types of SCBs in India, the two dominant suppliers of credit - public and private sector banks, had similar sectoral allocation at the end of FY 2025-26. Majority of their lending was in the personal loans category, followed by services and industry. **Figure 1.21** shows the distribution of outstanding credit of each type of SCB across economic sectors as of Mar'26. Compared to PSBs and PVBs, SFBs held a considerably high share of credit in agriculture (23.3%), stemming from the origins of their lending in rural India, to farmers and small businesses.[57]

A high share of credit from Foreign Banks (FB) (40.2%) was focussed on industry while only 9.3% of their outstanding credit was tied up in personal loans - the category with the largest amount of credit overall. This is indicative of how FBs have not broken deep into the retail credit sector in India likely due to regulatory restrictions and domestic competition. Regional Rural Banks (RRBs), as a specialised banking entity naturally had the highest share of its credit in the agricultural sector. So overall at the end of FY 2025-26, while personal loans and services stand out as sectors into which most of the economy's credit is funnelled, credit from RRBs remains strongly oriented towards agriculture and that of FBs towards industry.

Figure 1.22 shows the contribution of select sectors in the growth of credit for various banks in FY 2025-26. Services and personal loans continued as the leading contributors of credit growth in the year ending Mar'26. Between these two sectors however, personal loans share in growth across SCBs remained at 4.0% at the end of FY 2025-26, as it was in FY 2024-25. This ties back to the observed phenomenon of sustained credit levels in personal loans with the simultaneous channelling of funds to more productive sectors. In case of PVBs, the reduced contribution of personal loans in its credit growth that was observed between FY 2023-24 and FY 2024-25 was sustained in FY 2025-26 – from 14.5% share in FY 2023-24 to just 2.0% share in FY 2025-26. Another noticeable change that came about was in the contribution of agriculture in the credit growth shown by SFBs, as it increased from -1.8% of SFBs' in FY 2024-25 to as much as 4.9% in FY 2025-26.

[57] PIB, 2026. "Strengthening Rural Credit for Inclusive Growth in India", 16th Jul'26

Figure 1.22: Contribution of select sectors to credit growth

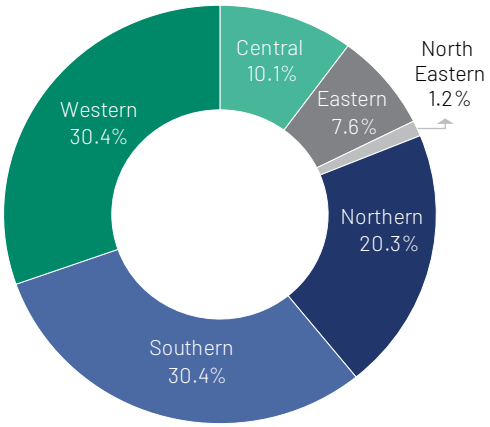


Source: RBI, DBIE. BSR-1 data; MFIN analysis

1.3.4 Regional distribution of credit – southern & western states continue to lead

Regionally, the distribution of credit in the country did not witness changes in FY 2025-26. The largest share of credit continued to be held by south India, followed very closely by the west **(Figure 1.23)**. Together the south and west hold approximately 61% of the overall credit. Similarly, credit in the north-east continues to account for less than 1.3% of the total credit.

Figure 1.23: Regional share of banking credit as of Mar'26



Source: RBI, DBIE. BSR-1 data; MFIN analysis

As discussed above during FY 2025-26, bank credit grew at a higher pace of 14.5% YoY as compared to deposits growth at 11.5%, with all-India average CD ratio of 80.4%. It is important to note that for the largest regional holder of credit - south India, the CD ratio was more than 100%. Robust economic activity in southern states and their consequentially high credit appetite explain the higher level of lending in south India. On the other hand, the CD ratio was the lowest in eastern states at 52.9% and north-eastern states at 59.2%. The CD ratio in northern and western states matched the India average. **Table 1.10** shows the regional CD ratios over the last three FYs.

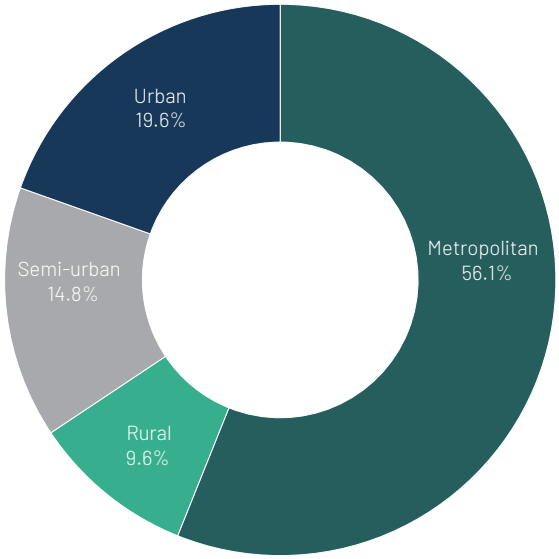
Table 1.10: Regional CD ratios

Region	FY 2023-24	FY 2024-25	FY 2025-26
Central	60.1%	61.7%	61.5%
Eastern	50.5%	51.7%	52.9%
North Eastern	55.1%	58.0%	59.2%
Northern	80.5%	80.0%	80.6%
Southern	100.0%	99.9%	100.4%
Western	84.5%	85.1%	84.2%

Source: RBI, DBIE. BSR-1 and BSR-2 data; MFIN analysis

Among population groups, metropolitan areas held the largest share of credit at 56.1%. Urban areas followed close with a share of 19.6%. The distribution of credit across these population groups is shown in **Figure 1.24**. Here as well, the overall ranking of groups by share of credit has remained the same over the last decade – metropolitan, followed by urban, semi-urban and rural. Individually, though, the share in total credit held by metropolitan areas has been very gradually reducing over the last ten years, from over 61% in Mar'16 to close to 56% in Mar'26. At the same time, shares held by semi-urban and urban have been inching up since 2016, with that of rural India fluctuating around 9.5% given it is the most vulnerable and reactive to events affecting the economy.

Figure 1.24: Share of banking credit by population group as of Mar'25



Source: RBI, DBIE. BSR-1 data; MFIN analysis

In conclusion, FY 2025-26 marked a clear revival in bank credit after the moderation seen in the previous year. Credit growth strengthened along with recovery observed in deposit mobilisation, easing the funding constraints faced by banks in FY 2024-25. The credit-to-GDP gap also moved above its long-term trend, indicating that the credit boost anticipated in the previous edition of our report has begun materialising, although the pace and quality of this growth needs monitoring. The recovery was broad-based across sectors, with services recording the fastest growth, while agriculture and industry also saw a marked acceleration. Although personal loans remained the largest component of outstanding credit, their share in incremental credit declined, while agriculture and other productive sectors gained shares. The sharp rebound in bank credit to NBFCs, strong growth in MSE credit and the surge in gold lending were among the prominent developments during the year.

On the supply side, PSBs continued to account for the largest share of bank credit, although PVBs have steadily increased their presence over time. Different bank categories also retained distinct sectoral orientations, while regional concentration of credit remained pronounced. Overall, FY 2025-26 points to a stronger and more broad-based credit environment, with the key challenge ahead being to sustain credit momentum in the face of likely uptick in inflation and consequent rate hike.

02 FINANCIAL INCLUSION - PROGRESS, NEW DEVELOPMENTS AND EMERGING CHALLENGES

Financial inclusion continues to be a cornerstone of India's development agenda, extending well beyond the opening of bank accounts to the broader goal of affordable, accessible and actively used financial services across savings, credit, payments, insurance and pension. This is why it is increasingly recognised as a critical enabler of equitable and sustainable economic development.

The Committee on Financial Inclusion chaired by Dr. C. Rangarajan58 in 2006 defined it as the process of ensuring access to financial services and timely and adequate credit at an affordable cost for vulnerable groups, particularly weaker sections and low-income households. Similarly, the World Bank views financial inclusion as access to useful and affordable financial products and services, covering payments, savings, credit and insurance that meet the needs of individuals and businesses and are delivered responsibly and sustainably.

Dr. Raghuram Rajan in a speech as RBI Governor in 2016[59], explicitly defined financial inclusion going beyond just 'Access'. He described financial inclusion as: (a) the broadening of financial services to those people and enterprises who do not have access to financial services sector; (b) the deepening of financial services for those who have minimal financial services; and (c) greater financial literacy and consumer protection so that those who are offered financial products can make appropriate choices.

In this chapter, we map financial inclusion through this broader lens, going beyond access to examine the usage and affordability through various parameters of financial services and their translation into meaningful financial participation. The chapter assesses progress and emerging gaps across various channels, while also considering financial literacy and customer protection.

The focus on financial inclusion is also reflected in the Union Budget 2026-27, which proposed the setting up of a "High Level Committee on Banking for Viksit Bharat"[60] to comprehensively review the banking sector and align it with India's next phase of growth. Importantly, the Committee's mandate extends beyond strengthening the financial sector to safeguarding financial stability, financial inclusion and consumer protection.

Beyond channel-specific developments, few policy developments and financial inclusion measures over the past year merit attention for the financial inclusion agenda as a whole. This chapter takes stock of both of them and examines what has changed since the last edition of this report along with the new initiatives undertaken.

[58] Then chairman of the Economic Advisory Council to the Prime Minister

[59] Speech by Dr. Raghuram Rajan, 2016. "The changing paradigm for financial inclusion", 18th Jul'16

[60] PIB, 2026. Press release on banking for Viksit Bharat, 01st Feb'26

2.1 Policy developments and financial inclusion measures

2.1.1 National Strategy for Financial Inclusion – from access to well-being

The National Strategy for Financial Inclusion (NSFI) 2025-30[61], released by the RBI, builds on the NSFI 2019–24 and marks a shift towards a more outcome-oriented approach to financial inclusion. Its central vision is to foster an inclusive financial ecosystem that enhances the financial well-being of individuals and businesses. The strategy is anchored around "Panch Jyoti", comprising five key objectives as shown in **Box 2.1.**

Box 2.1: Panch Jyoti to drive Financial Inclusion

- Availability of equitable and affordable financial services to all sections of society.
- Gender-sensitive financial inclusion, with a specific focus on women-led inclusion.
- Synergy between livelihood and skill development and financial services, enabling financial inclusion to support sustainable livelihoods.
- Financial education and capability, aimed at promoting responsible financial behaviour, discipline and informed decision-making.
- Strengthening customer protection, ensuring that inclusion is accompanied by fair, transparent and responsible delivery of financial services.

To translate these objectives into measurable outcomes, NSFI 2025–30 sets out 47 specific action points for implementation by various stakeholders. The strategy includes several ambitious targets, including reaching 1 billion unique users in the digital payment ecosystem by Dec'29 and ensuring at least one fixed-point banking outlet in every revenue centre. It aims to increase the participation of women BCs to at least 30%, thereby combining stronger last-mile infrastructure with a gender-sensitive approach to financial inclusion. The developments so far under NSFI are summarised in **Box 2.2**.

Box 2.2: Developments under NSFI 2019-24

During the implementation of the NSFI 2019–24, the country achieved near-saturation in bank account ownership, while banking access within a 5 km radius was extended to 99.9% of identified villages. The number of banking outlets increased to 15.98 Lk, while the Financial Inclusion Index improved from 49.9 in 2019 to 64.2 in 2024.

However, the experience of NSFI 2019–24 also highlighted that physical access alone does not necessarily translate into effective financial inclusion. On the supply side, challenges included a high proportion of inactive Business Correspondents (BCs) and the absence of standardised services across BC outlets, affecting the quality and consistency of last-mile delivery. On the demand side, information asymmetry, complex digital interfaces and continued preference for cash, constrained the effective usage of formal financial services.

Technology and digital public infrastructure are important pillars of the strategy. Initiatives such as the Unified Lending Interface (ULI) and programmable Central Bank Digital Currency (CBDC) are expected to facilitate more seamless, targeted and efficient delivery of financial services, particularly credit to the underserved segments.

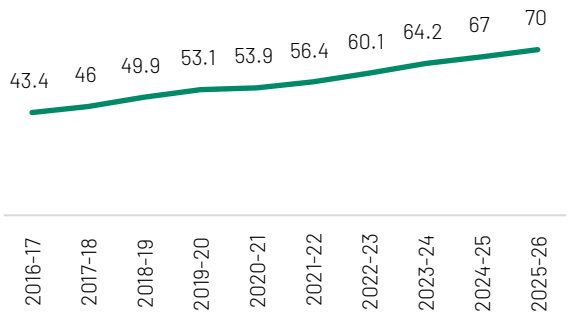
[61] RBI, 2025. "National Strategy for Financial Inclusion 2025-30" ("NSFI 2025-30")

2.1.2 RBI's Financial Inclusion Index – positive trend, but the challenge of limited visibility into underlying data continues

The Financial Inclusion Index (FI-Index) is RBI's composite measure of inclusion, built on three parameters – Access (35%), Usage (45%) and Quality (20%), captured through 97 indicators spanning banking, investment, insurance, postal and pension services, on a scale of 0 (complete exclusion) to 100 (full inclusion). The details of the index have been covered in the previous editions of this report.

The FI-Index has continued its steady upward trajectory **(Figure 2.1)**, from 43.4 in Mar'17 to 67.0 in Mar'25, and further to 70.0 in Mar'26, a 4.48% Y-o-Y increase driven primarily by improvements in the 'Usage' dimension.[62] The composite reading is now presented as evidence of deepening credit, insurance, pension and digital-payment usage rather than 'Access' alone. However, if 'usage' is driving the rise in the index as indicated, the key question is what kind of usage? Is it just referring to digital payments or any other parameters are included? In absence of the granular data for the year, it is difficult to have answers for these questions which was also highlighted in earlier editions of this report. RBI continues to withhold granular data on the Access, Usage and Quality sub-indices, limiting independent assessment of regions, gender or rural/urban segments.

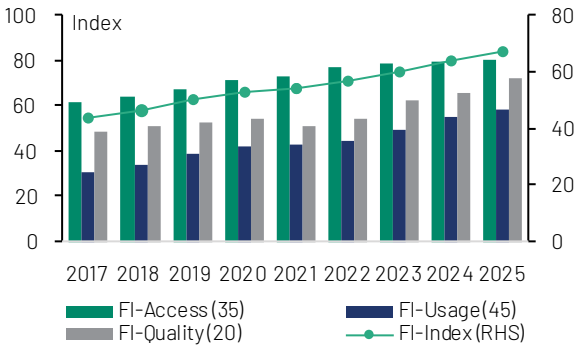
Figure 2.1: RBI's Composite FI-Index



Source: RBI Press Releases on FI-Index

Figures 2.2a & b shows the breakdown of the broad level parameters till 2025 which have contributed to the final FI-Index composite score. The 'Quality' dimension, comprising financial literacy, consumer protection and inequality in distribution of infrastructure, also remains inherently harder to standardise and audit.

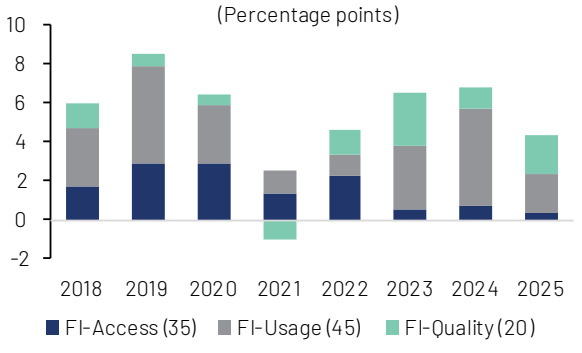
Figure 2.2a: FI-Index and Sub-Indices (end-March)



Note: Figures in parentheses indicate weights in % in FI-Index.
Source: RBI Annual Report, 2025-26

As per RBI's Annual Report, 2025-26,[63] a revised framework for computation of the FI-Index would be put in place, alongside focus on implementation of action points envisaged under NSFI 2025-30.

Figure 2.2b: Contribution of Sub-Indices to the Growth of FI-Index (end-March)



Notes: 1. Figures in parentheses indicate weights in per cent in FI-Index; 2. Negative contribution by FI-Quality during 2021 was due to reduced financial literacy activities.
Source: RBI

[62] RBI, 2026. "Financial Inclusion Index for Mar'26", 16th Jul'26
[63] RBI Annual Report, 2025-26

2.2
Access and savings for low-income segment

2.2.1 Banking outreach

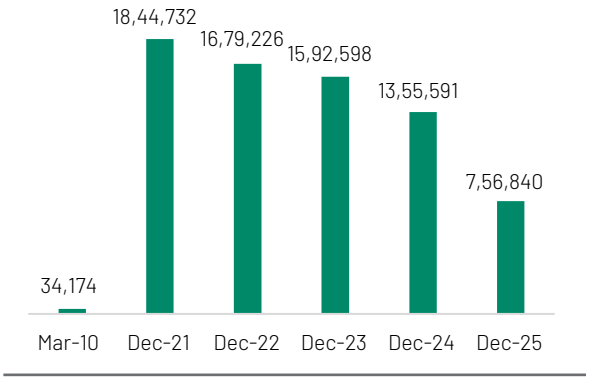
Banking outreach is analysed through Basic Savings Bank Deposit Accounts (BSBDA) and Pradhan Mantri-Jan Dhan Yojana (PMJDY) from a financial inclusion perspective, as these represent two key channels for extending basic banking services and account ownership, particularly among low-income and underserved segments of the population.

Rise in BSBDA but BCs shrinking

BSBDAs continue to be the base layer of formal banking access, offering deposit, withdrawal and remittance facilities without minimum-balance requirements. **Table 2.1** shows the multi-year trend of progress of BSBDA accounts. While both, number of BSBDA accounts and amount have seen an increase, the BCs have seen a decline, particularly in rural geography falling from over 18.4 Lk in Dec'21 to 13.6 Lk in Dec'24 and at just 7.56 Lk in Dec'25 (**Figure 2.3**).

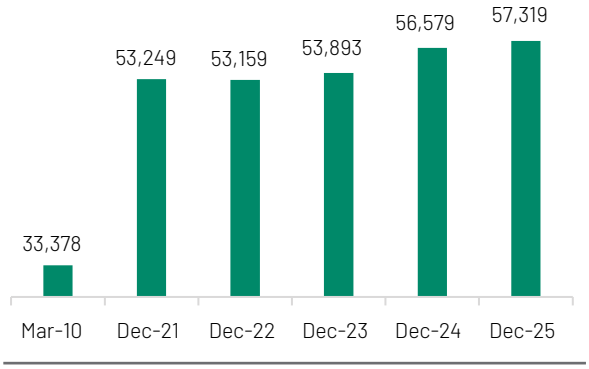
In contrast, village bank branches increased from 56,579 in Dec'24 to 57,319 in Dec'25, reversing years of near stagnation **(Figure 2.4).**

Figure 2.3: Banking outlets in villages-BCs



Source: RBI Annual Report, 2025-26

Figure 2.4: Banking outlets in villages-Branches



Source: RBI Annual Report, 2025-26

These trends highlight a paradox in India's financial inclusion journey: while BSBDA accounts and balances between Dec'21 and 2025 grew by around 10% and 62%, respectively, total banking outlets in villages declined by nearly 57%, largely due to the contraction in the BC network. While the increase in rural branches provides some offset, it does not fully compensate for the decline in last-mile access points.

This raises concerns about whether account ownership is translating into regular and convenient usage, particularly for customers dependent on assisted banking services. The sustainability and viability of the BC model therefore warrant greater attention to ensure

Table 2.1: Progress under BSBD accounts

Particulars	Mar-10	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
BSBDA (No. in Lk)	735	6,631	6,786	7,054	7,201	7,304
BSBDA (Rs Cr)	5,500	2,13,646	2,40,430	2,72,186	3,04,715	3,45,477
Banking Outlets in Villages -Total	67,552	18,97,981	17,32,385	16,46,491	14,12,170	8,14,159

Source: RBI Annual Report, 2025-26

that expanding account ownership is matched by reliable last-mile access and usage.

To enhance usage, revised guidelines on BSBDA were issued on 04th Dec'25 (effective 01st Apr'26) enhancing benefits in a BSBD account mentioning the following additional facilities to be provided free of charge, without any requirement of minimum balance[64]:

- Cheque book with minimum twenty-five cheque leaves per year;
- Internet and mobile banking facility; and
- Passbook or monthly statement of account in lieu of passbook, either in print or by e-mail

The revised BSBDA guidelines signal a clear shift in policy focus from merely expanding account ownership to encouraging greater usage and functionality.

2.2.2 Banking outreach: PMJDY – expanding reach, usage needs attention

PMJDY, launched in Aug'14 as a national mission for financial inclusion, remains the anchor of India's basic savings bank account architecture. Accounts opened under PMJDY are primarily structured as BSBDA-type accounts, but they come bundled with specific government program benefits. As of 1st Jul'26, the scheme had crossed 58.63 Cr accounts[65], with total deposits exceeding Rs 3,08,334 Cr (**Table 2.2**).

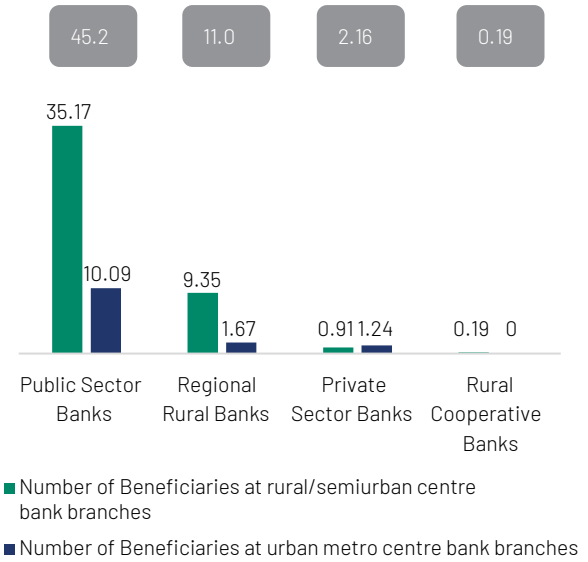
Table 2.2: Progress under PMJDY (1st Jul'26)

Total accounts	Deposits in ACs (Rs)	RuPay Cards issued
58.63 Cr	3,08,334 Cr	40.82 Cr

Source: PIB, 21st Jul'26

Bank wise PMJDY outreach is shown in **Figure 2.5**, led by PSBs with 77.2% of the accounts followed by RRBs with 18.8% and PVBs with 3.67%. Outreach in rural/semi urban areas is about 78.8% of total accounts.

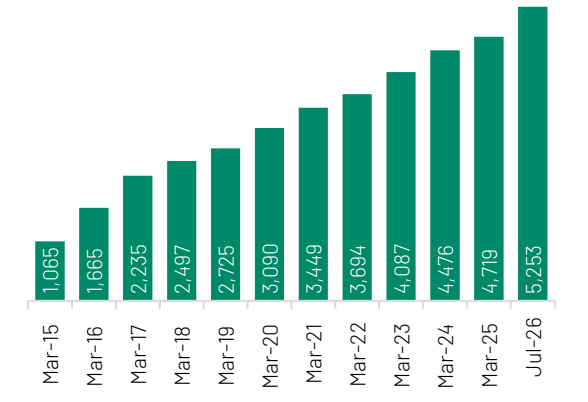
Figure 2.5: PMJDY across types of banks (in Cr)



Source: PMJDY Progress Report. Accessed on 08th Oct'26

The deposit per account gradually increased to Rs 5,253 in Jul'26 (**Figure 2.6**). Out of these, 32.68 Cr (55.74%) JanDhan accounts belong to women and about 45.62 Cr (77.80%) PMJDY accounts have been opened in rural and semi-urban areas.

Figure 2.6: Deposit per Account (Rs)



Source: PMJDY website. Accessed on 08th Oct'26

[64] RBI Annual Report, 2025-26

[65] PIB, 2026. Press release on financial inclusion, 21st Jul'26

However, more than half of the country's overall PMJDY beneficiaries are concentrated in just five states, Uttar Pradesh (17.8%), Bihar (11.9%), West Bengal (9.7%), Madhya Pradesh (8.1%) and Rajasthan (6.6%)[66]. The concentration is largely reflective of the population of these states along with the demographic profile of the account holders, historically lower levels of banking penetration in these regions and the greater focus of PMJDY on extending financial access to underserved regions. Among the public sector banks, 26.7% of PMJDY accounts are held by the State Bank of India followed by other nationalised banks[67].

While there has been a rapid growth in the number of accounts and deposits per account have also been increasing steadily indicating enhancement in the 'access', account dormancy and limited usage remain areas of concern. Around 23% of accounts were reported as dormant as of Sep'25[68]. More recent data indicates that the challenge persists. As on 12th Aug'26, over 15.3 Cr (~26%) of more than 59 Cr Jan Dhan accounts were inoperative, while 5.72 Cr (~10%) had zero balances[69]. Further, many accounts continue to be used primarily as channels for receiving government benefits only, raising questions around their active and broader usage for savings, payments and other financial services.

In addition to account dormancy, other challenges are also faced by PMJDY beneficiaries, as per the study undertaken by Mini et al. (2025), published in the International Journal of Agriculture Extension and Social Development.[70] Limited understanding of the full benefits of the scheme, such as insurance coverage, overdraft facility, and usage of the RuPay card along with lack of awareness of the banking terms and procedures, especially among rural and less-educated populations, hinders effective use of PMJDY accounts.

The above challenges clearly point out to the fact, that while PMJDY provides an entry point into the formal financial system, but just having a bank account does not automatically ensure access to timely and affordable credit. The next stage of financial inclusion therefore requires stronger linkages between basic accounts, suitable formal credit products and usage. The key challenge is therefore to move from "account opening" to meaningful and sustained usage, including savings, digital payments, insurance, pension and formal credit. The banking outreach of India is summarised in **Box 2.3**.

Box 2.3: Banking Outreach in India

- Village bank branches offering BSBDAs as of Dec'25: **57,319**
- BCs as of Dec'25: **7.56 Lk**
- PMJDY accounts as of 1st Jul'26: **58.63 Cr** (equivalent to ~56% of India's adult population)

The scale of banking outreach is also reflected in Global Findex 2025, which reports that nearly 90% of adults in India have an account with a bank or similar financial institution. PMJDY and BSBDA have been specifically designed to expand access to basic banking services among unbanked and underserved segments, highlighting the extensive banking infrastructure underpinning India's high level of financial account access.

[66] The Hindu Business Line, 2026. "Five States home to more than half of Jan Dhan beneficiaries", 08th Aug'26

[67] PMJDY website as on 1st Jul'26

[68] MFIN, 2025. "Micro Matters: Macro View FY 2024-25"

[69] The Hindu, 2026. "Every fourth Jan Dhan account inoperative", 06th Sep'26

[70] Mini, Goyal, M., Dhingra, A., & Gahalawat, S., 2025. Bridging the financial divide: A critical analysis of the Pradhan Mantri Jan Dhan Yojana. International Journal of Agriculture Extension and Social Development, Vol 8, Issue 7

2.2.3 Credit coverage

For Financial Inclusion perspective, credit penetration can be analysed through Small Borrowal Accounts, Pradhan Mantri Mudra Yojana and microfinance - delivered through self-help groups (SHGs) and joint liability groups (JLGs).

a) Small Borrowal Accounts – downward trajectory

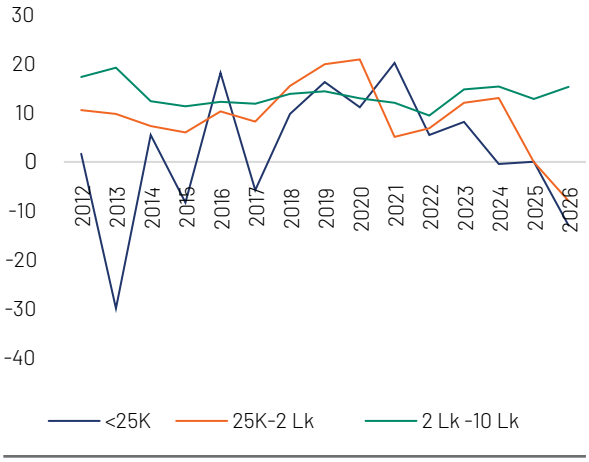
Small-value bank loans with amounts below Rs 25,000 and between Rs 25,000 and Rs 2 Lk, tracked as small borrowal accounts (SBAs), continue to serve as a useful indicator of bank-led financial inclusion, particularly in assessing the reach of formal credit among small borrowers. It is important to note, however, that there can be significant overlap between small-value bank accounts and microfinance lending, given the similarity in borrower profiles and ticket sizes.

However, the data on the bank loans with credit amount in Rs 2 Lk – Rs 10 Lk segment indicates a distinct trend. Mapping this data with the data on the SBA indicates an increasingly pronounced shift away from lower-ticket credit towards larger loan sizes.

Figure 2.7 illustrates the annual growth trend in the number of small-value loan accounts and loans between Rs 2 Lk to Rs 10 Lk. In FY 2026, the number of accounts below Rs 25,000 declined sharply by 13%, while accounts in the Rs 25,000 - Rs 2 Lk segment also contracted by 8%. In contrast, the Rs 2 Lk - Rs 10 Lk segment recorded robust growth of 15.3%. The divergent trajectory indicates a changing composition of small-value credit, with lending increasingly moving towards the upper end of the loan-size spectrum.

A similar, and even sharper, trend is visible in terms of the value of loans outstanding. The amount outstanding in the below Rs 25,000 category declined by around 26% in FY 2026, significantly sharper than the 12% decline recorded in the previous year. Similarly, the amount outstanding in the Rs 25,000 - Rs 2 Lk segment also contracted by 5% as against the Rs 2 Lk - Rs 10 Lk segment which saw an uptick of 16% in FY 2026. The steep contraction suggests that very small-ticket bank credit is becoming progressively less significant, both in volume and value terms, and larger-ticket loans are gaining prominence.

Figure 2.7: Annual percent growth in accounts of various categories of small loans by SCBs



Source: RBI, DBIE. BSR-1 data

The divergence between the distribution of accounts and loan value further reinforces this trend. While 71% of loan accounts are concentrated in the less than Rs 2 Lk segment, they account for only 28% of the total loan value. In contrast, the Rs 2 Lk - Rs 10 Lk segment constitutes only 29% of accounts but contributes as much as 72% of the total value.

The trend may reflect rising credit needs and progression of borrowers to larger loan sizes, the sustained contraction in the smallest-ticket segments also warrants attention from a financial inclusion perspective, particularly regarding the continued availability of formal credit for borrowers with very small financing requirements considering that the personal loans (housing, consumer durables, vehicles, education, personal credit cards and others) form the major chunk of the SBA loans (up to Rs 2 Lk).

b) Pradhan Mantri Mudra Yojana: 'Kishore' on upswing and NPAs in focus

The Pradhan Mantri Mudra Yojana (PMMY) facilitates seamless access to collateral-free institutional credit up to Rs 20 Lk for non-corporate and non-farm income-generating activities. In the last 11 years, over Rs 40.07 Lk Cr[71] through 57.79 Cr loans have been disbursed under PMMY, strengthening the credit ecosystem for small and micro enterprises. Two-third of the loans have been sanctioned to women entrepreneurs and approximately one-fifth of all the loans were extended to first-time entrepreneurs.

On the occasion of the 11th successful year of PMMY, Union Minister for Finance & Corporate Affairs Smt. Nirmala Sitharaman said, "In the last decade, India witnessed a silent transformation where crores of ordinary citizens stepped into entrepreneurship with newfound confidence and agency. At its heart lies an initiative launched on 08th Apr'15, by the Prime Minister, the PMMY, which, by design, focused on "funding the unfunded". Eleven years later, the scheme has been instrumental in reshaping the credit landscape for MSMEs and countless individual entrepreneurs in the country. These were those entrepreneurs who were hitherto excluded from the formal banking system. With this initiative, entrepreneurship has become truly democratised by removing the entry barriers to credit.

To meet diverse funding needs across different stages of business growth, MUDRA had introduced four products:

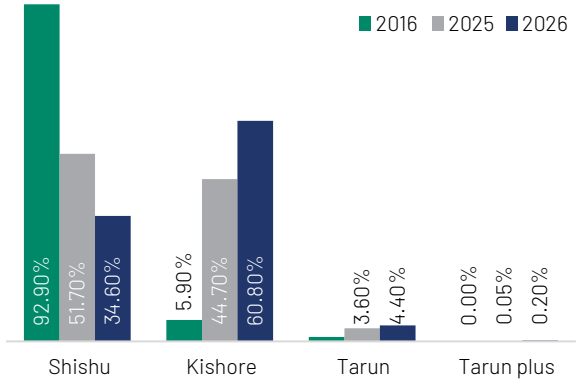
- Shishu – for very small businesses/start-ups, covering loans up to Rs 50,000
- Kishore – for enterprises in need of larger working capital loans of Rs 50,000 up to Rs 5 Lk
- Tarun – for established businesses requiring expansion funds from Rs 5 Lk up to Rs 10 Lk and
- Tarun Plus – for entrepreneurs graduating from Tarun and eligible for higher credit up to Rs 20 Lk.

These categories serve as a graduation ladder, enabling micro units to scale up systematically while ensuring financial inclusion and entrepreneurial growth. The funding support from MUDRA are of two types:[72]

- Micro Credit Scheme (MCS) for loans up to 1 Lk financed through Microfinance Institutions (MFIs).
- Refinance Scheme for Commercial Banks / Regional Rural Banks/ Small Finance Banks / NBFCs.

In line with the trend observed in the loan composition of the SBAs, where the movement of the loans is towards the higher ticket size loans, the PMMY accounts also reflects a significant shift from Shishu towards higher-ticket loan categories. The share of Shishu accounts declined sharply from 92.9% in 2016 to 34.6% in 2026, while Kishore accounts increased from 5.9% to 60.8% over the same period (**Figure 2.8**). The combined share of Tarun and Tarun Plus also rose gradually, indicating a growing focus on supporting more established micro-enterprises and businesses with higher credit requirements.

Figure 2.8: Scheme wise share in PMMY number of accounts



Source: MUDRA website. Accessed on 08th Oct'26

[71] PIB, 2026. Press release on PMMY, 08th Apr'26

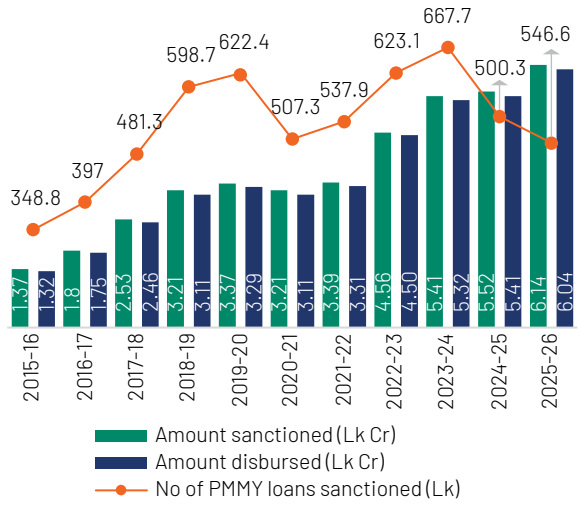
[72] MUDRA website

The state wise data highlights a strong concentration of PMMY activity in a few major states. Bihar and Uttar Pradesh together account for nearly 26% of total accounts, while Uttar Pradesh leads in sanctioned and disbursed amounts with 11.88% and 11.89%, respectively for the year. West Bengal, Maharashtra and Tamil Nadu also represent significant shares, collectively underscoring the concentration of credit flows in these states.

Kishore loans represent the core driver of PMMY credit expansion, contributing over 57.5% of total disbursements and 60.8% of account volume. Shishu loans act as the key entry point for new micro-entrepreneurs, accounting for 34.6% of total loan volume. Disbursement efficiency across products consistently remains 95–99% of sanctioned capital.

In FY 2025-26, a total of 5 Cr PMMY loans were sanctioned, representing an 8.5% decline from the previous year (**Figure 2.9**), which is in continuation of 18% decline in 2025 from 2024. However with the increasing ticket sizes and shift towards the Kishore and Tarun categories, the total sanctioned amount increased and stood at Rs 6.14 Lk Cr with disbursements of Rs 6.04 Lk Cr, reflecting a YoY growth of 11.2%, increasing from a 2% growth in the previous year.

Figure 2.9: Status of PMMY loans over the years



Source: MUDRA Website

Private commercial banks dominate PMMY in terms of outreach, accounting for 32.8% of total loan accounts and nearly 28.7% of disbursements. MFIs are the second-largest contributor by number of accounts at 27.3%, but account for only 13.9% of disbursements, indicating their focus on smaller-ticket loans. In contrast, PSBs account for just 9.9% of accounts but 23.4% of disbursements, reflecting significantly higher average loan sizes. Overall, the data highlights the complementary roles of different lender categories, MFIs and SFBs driving wider outreach, while commercial banks account for a larger share of credit value.

Despite its impressive outreach, credit quality remains an important challenge under PMMY. As per a Ministry of Finance reply in the Rajya Sabha, the NPA ratio of PMMY loans of SCBs stood at 9.81% of outstanding loans as of Mar'25, substantially higher than the NPA ratio of 3.60% for the overall MSME portfolio. The relatively higher NPA ratio may be because of various factors, including the relatively higher ticket sizes in certain PMMY segments, the borrower and business risk profile and unsecured nature of such loans. As of Mar'26, Shishu loans accounted for maximum of cumulative PMMY loans by number, while Tarun accounted for only 2%, indicating that converting widespread access to micro-credit into larger, growth-oriented enterprise financing remains an important next step.

c) JLG-MFI Model – On growth path after a difficult phase

The JLG-based microfinance sector has been through a turbulent stretch over the last two years. Portfolio contracted from Rs 4,33,697 Cr in Mar'24 to Rs 3,75,030 Cr in Mar'25, a decline of about 13.5%, primarily due to heat-wave disruption, incitement of borrowers by non-state actors, and state-level intervention in few states. The contraction continued through much of FY 2025-26 and by Mar'26, the industry's gross loan portfolio had fallen to Rs 3.25 Lk Cr, down 13.3% YoY **(Table 2.3).**

Table 2.3: Overall status of portfolio, unique borrowers and loan accounts

Type of entity	31-Mar-25				31-Mar-26			
	No. of entities	Unique Borrowers (Cr)	Active loan ACs (Cr)	Portfolio O/s (Rs Cr)	No. of entities	Unique Borrowers (Cr)	Active loan ACs (Cr)	Portfolio O/s (Rs Cr)
NBFC-MFIs	93	3.7	5.3	1,47,566	86	3.2	4.3	1,43,586
Banks	17	3.2	4.5	1,22,826	17	2.3	3.1	86,033
SFB	10	1.9	2.1	59,252	10	1.4	1.6	51,238
NBFC	92	1.2	1.2	42,129	96	0.9	1.0	40,013
Others		0.1	0.1	3,256		0.2	0.2	4,304
Total	**212**	**7.8**	**13.3**	**3,75,030**	**209**	**6.4**	**10.1**	**3,25,174**

Source: MFIN Micrometer

Q4 FY 2025-26 (as on 31st Mar'26) data reported the industry's first sequential portfolio growth in seven quarters, a quarter on quarter (QoQ) uptick of over 3.5% from Rs 3.14 Lk Cr as of Dec'25, supported by quarterly disbursements of Rs 77,524 Cr, the highest in seven quarters. Asset quality improved sharply as Portfolio at Risk (PAR) (31–180 days) fell to 2.0% in Mar'26, down from 6.3% a year earlier, broadly back to Mar'24 levels. Funding conditions also eased, with NBFC-MFIs raising Rs 77,870 Cr in debt during FY 2025-26, up 30.9% over FY 2024-25, of which banks contributed 77.4%.

Further there has been gradual growth in GLP in the first quarter of FY 26-27 with GLP reaching Rs 3.28 Lk Cr as of Jun'26. Details pertaining to this section have been covered in Chapter 5 of this edition.

d) SHG-Bank Linkage Programme – Lakhpati Didi raises the bar, but measuring income accurately will remain critical

The SHG-Bank Linkage Programme (SBLP) has undergone a significant transformation from its original savings-led, community-based credit model. While savings and access to bank credit remain central, the SHG ecosystem today has a broader focus on livelihoods, enterprise creation and enhancement of household incomes. This transition has been driven largely by the expansion of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), which has increasingly positioned SHGs as an important platform for women's economic empowerment and rural financial inclusion.

The Lakhpati Didi initiative (explained in **Box 2.4**) marks a further progression in this journey, shifting the focus from financial access to sustainable income generation. With the ambition being raised under Lakhpati Didi 2.0, the emphasis is increasingly on translating SHG membership and financial linkages into viable livelihoods and measurable economic outcomes[73].

Box 2.4: Lakhpati Didi initiative

A Lakhpati Didi is an SHG member whose annual household income is at least Rs 1 Lk, sustained over multiple livelihood cycles. As of Jul'26, DAY-NRLM had mobilised 10.08 Cr rural households into around 92 Lk SHGs, with more than 3.46 Cr SHG members enabled as Lakhpati Didis, up from 1.48 Cr in Jun'25. The Government has set a target of creating 6 Cr Lakhpati Didis in the Union budget of 2026-27, introducing interest-free loans of up to Rs 5 Lk along with community-owned 'SHE-Marts' for market access making the initiative a major pillar of women-led rural economic development.

[73] PIB, 2026. "Action plan under Lakhpati Didi initiative", 28th Jul'26

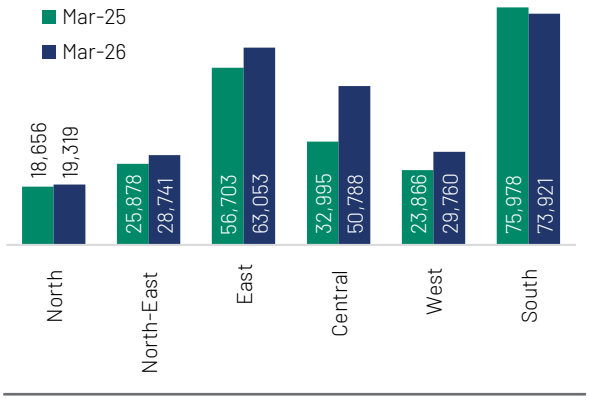
The identification of Lakhpati Didis is linked to a structured income-tracking mechanism rather than a one-time assessment. Household livelihood and income data are captured through the Digital Aajeevika Register[74], maintained at the Village Organisation level and updated every six months, aligned with crop harvesting and/or completion of business cycles. The assessment captures income from multiple sources including agriculture and allied activities, enterprises, wages, salaries, and remittances wherein net income is considered for agriculture and enterprise activities. Livelihood e-CRPs/ Data Entry Sakhis collect the information, which is entered into the NRLM management information system (MIS) and monitored at the district level. The framework also provides for periodic third-party evaluation to assess data authenticity.

Analysis of SBLP, however, remains complicated by differences between data reported by DAY-NRLM and National Bank for Agriculture and Rural Development (NABARD). For consistency with earlier editions, this report primarily relies on NABARD data.

SHG Savings – Increase in number of savings groups in 2025-26

As per the NABARD data (31st Mar'26)[75], 145.62 Lk SHGs were savings-linked with banks with aggregate savings of Rs 79,669 Cr, reflecting an impressive coverage of 17.5 Cr group members[76]. Of these, 83.24 Lk SHGs (about 59.16%) were also credit-linked, with loans outstanding of Rs 3.33 Lk Cr with an average of Rs 4.00 Lk per SHG. While all India average shows per group savings of Rs 54,707, the regional skew accurately captures the trend (**Figure 2.10**). South has the highest average savings per SHG at about Rs 73,921, followed by East at Rs 63,053. The North in comparison has the lowest at Rs 19,319 per SHG. Interestingly, an average SHG in the South holds nearly 3.8 times the savings of an SHG in the North.

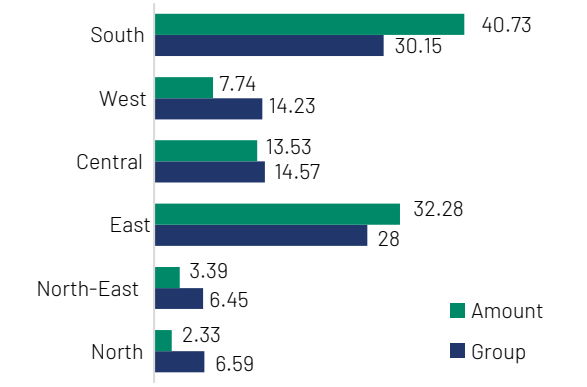
Figure 2.10: Avg Savings Per SHG (Rs)



Source: NABARD report, 2026

The Southern and Eastern regions together continue to dominate the landscape, accounting for roughly 73% of total SHG savings. It is however to be noted that only Bihar from the eastern region contributes majorly to this data. Central Region however shows a steep uptick, contributing to 13.53% of total SHG savings from 9.41% last year, without much change in the number of SHGs YoY (14.2% in 2025 to 14.5% on 2026) as shown in **Figure 2.11**.

Figure 2.11: Region wise share (%) in savings as of Mar'26



Source: NABARD report, 2026

[74] Lakhpati Didi website

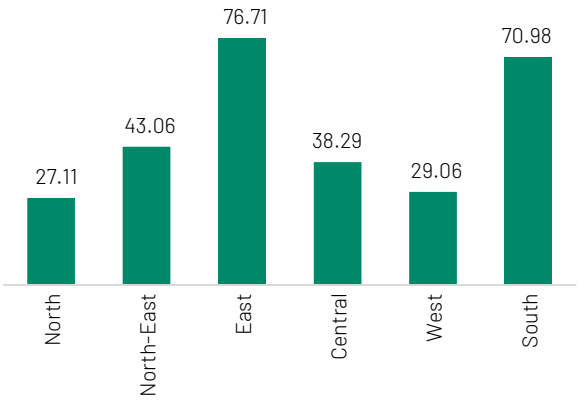
[75] NABARD, 2026. "Status of Microfinance in India 2025-26" ("NABARD report, 2026")

[76] Considering a group size of 12 in an SHG

Credit linked savings – reduction from last year

Another important indicator is the extent to which existing SHGs have been able to access formal credit. At an All-India level, of the 145.6 Lk SHGs, only 83.24 Lk, or around 57%, are credit-linked (as against 59% for the last FY), indicating that a sizeable proportion of SHGs with savings accounts have not yet accessed bank credit. The regional pattern of credit linkage also remains highly uneven, with a pronounced concentration in the Southern and Eastern regions (**Figure 2.12**). The Northern region has the lowest credit linkage at 27.11%, implying that nearly 73% of SHGs formed are yet to receive credit support. While credit linkage has moderated in the Eastern and Southern regions to 77% and 71%, respectively, from 83% and 73% in the corresponding period last year, these regions continue to record substantially higher levels of credit linkage than the Northern region.

Figure 2.12: Per cent of SHGs credit linked



Source: NABARD report, 2026

In short, it can be summarised that the Southern and Eastern regions account for nearly 60% of all SHGs and 73% of total SHG savings, with a majority of SHGs in these regions also receiving bank credit. This stands in stark contrast to the relatively limited credit linkage observed in the other regions (**Table 2.4**).

Table 2.4: Region-wise loans outstanding with SHGs (31st Mar'26)

Regions	No. of SHGs (Lk)	Amount outstanding (Rs '000 Cr)	Average loan O/s per SHG (Rs Lk)
North	2.6	4.7	1.8
North-East	4.0	11.6	2.9
East	31.3	93.6	3.0
Central	8.1	14.1	1.7
West	6.0	15.9	2.6
South	31.2	193.1	6.2
Total	**83.2**	**333.1**	**4.0**

Source: NABARD report, 2026

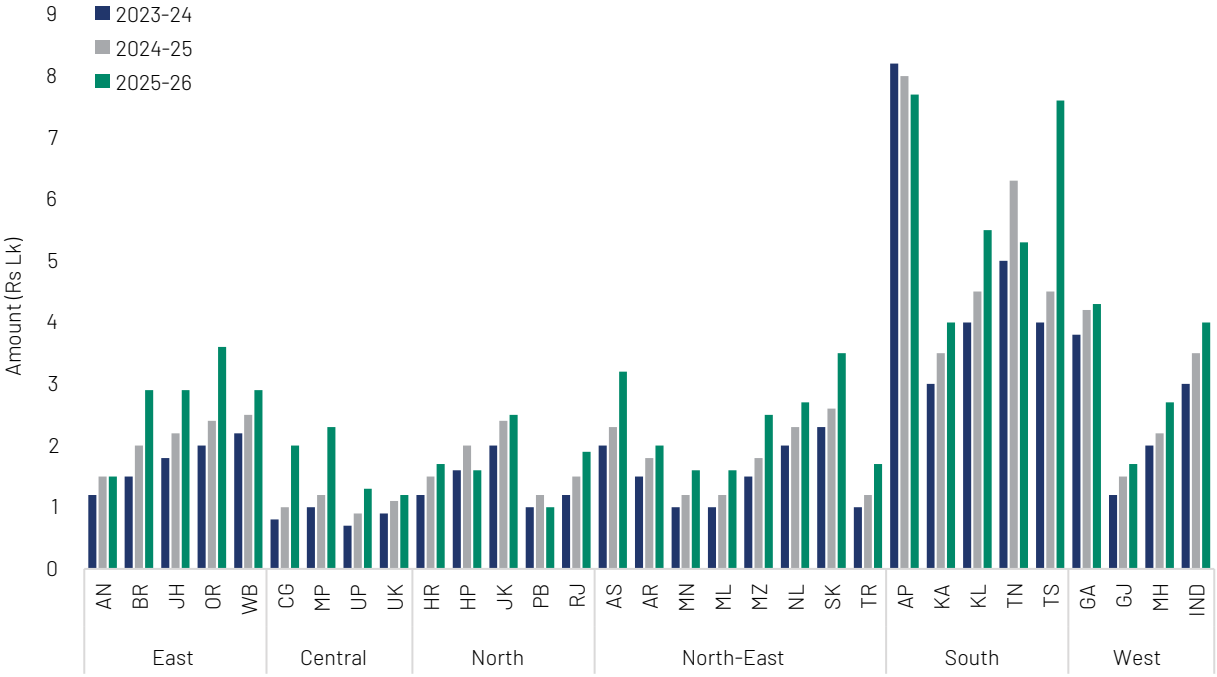
Credit flow to the 83.24 Lk credit-linked SHGs can be assessed through credit per SHG and the credit-to-savings ratio, across regions and over time. While much of the analysis focuses on credit per SHG, the relationship between savings and credit is equally important, as the savings-first approach is a core tenet of the original SBLP framework.

Credit per SHG; Rs 4 Lk at All India level or Rs 33,300 per member[77]

Andhra Pradesh and Telangana stand out as strong performers, with average loan outstanding exceeding Rs 7.6 Lk per SHG, reflecting deeper credit linkage. In comparison, Bihar, despite being a dominant State in the SHG-BLP across several other parameters, has a considerably lower average loan outstanding of around Rs 2.9 Lk per SHG **(Figure 2.13)**.

[77] Considering a group size of 12 in an SHG

Figure 2.13: State wise average loan per SHG



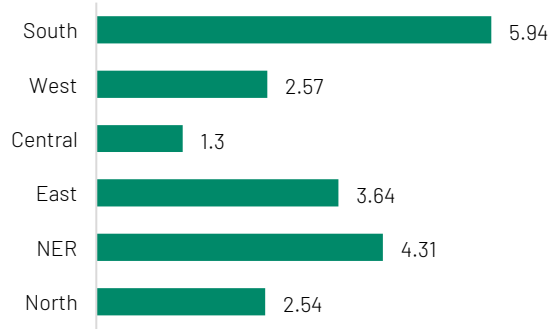
Source: NABARD report, 2026

At an All-India level, average credit outstanding is around Rs 4 Lk per SHG. Translating this into member-level exposure, however, remains difficult as SHG-BLP data does not capture the actual distribution of credit among individual members. This data gap also creates underwriting challenges for other lenders, including MFIs, as credit bureaus do not provide member-level SHG exposure.

Ratio of credit to savings – Rs 1 Saved, Rs 4.18 Borrowed but the regional divide persists

At the All-India level, the credit-to-savings ratio stood at 4.18 as of 31st Mar'26, implying that SHGs received Rs 4.18 in credit for every rupee saved, broadly in line with NABARD's earlier 1:4 norm. However, significant regional disparities persist, with the ratio ranging from 5.94 in the South to just 1.3 in the Central region. Notably, the Northeast maintains a healthy ratio of around 4 times the savings (**Figure 2.14**).

Figure 2.14: Credit to Saving ratio across regions



Source: NABARD report, 2026

The credit coverage across various types of sources and models is summarised in **Box 2.5**.

Box 2.5: Credit coverage

- The trend of SBAs reflects rising credit needs and progression of borrowers to larger loan sizes
- PMMY: 5 Cr loans sanctioned in FY 2025-26, amounting to Rs 6.14 Lk Cr.
- JLG-based Microfinance: 6.4 Cr unique borrowers, with a portfolio of Rs 3.25 Lk Cr as of Mar'26.
- SHG-Bank Linkage: 83.24 Lk credit-linked SHGs, with Rs 3.33 Lk Cr in loans outstanding as of Mar'26.

While there is significant overlap across these channels and the figures cannot be aggregated to estimate unique borrowers, their individual scale demonstrates the extensive reach of formal credit among small borrowers, low-income households and micro-enterprises.

2.3 Digital ecosystem

The digital ecosystem has emerged as a critical pillar of financial inclusion, expanding the reach and ease of access to financial services while enabling faster, lower-cost and more convenient transactions.

2.3.1 Digital payments – UPI continues to be the king

India's digital payments ecosystem has continued to expand rapidly, reflecting a shift from access to increasingly frequent use of formal financial services. According to the Government's DigiDhan Dashboard,[78] India recorded 23,834 Cr digital payment transactions in FY 2024-25, increasing to 27,880 Cr in FY 2025-26 (17% YoY increase) across payment modes including Unified Payments Interface (UPI), cards, Immediate Payment Service (IMPS), Aadhaar Enabled Payment System (AePS), National Electronic Funds Transfer (NEFT) and other payment channels. Alongside the increase in overall transaction volumes, the composition of digital payments has also changed significantly, with UPI emerging as the predominant mode of payment. Its rapid adoption, particularly for frequent and small-value transactions, reflects a growing preference among households and businesses for instant, interoperable and convenient account-to-account payments. This shift illustrates how digital payments are moving beyond financial access to become embedded in everyday economic activity, signalling a deeper and more active use of formal financial services.

UPI's share in number of digital transactions increased from just 4.4% in 2017-18 to around 85% in 2025-26, while the share of earlier modes such as debit cards, prepaid payment instruments (PPIs) and NEFT declined substantially **(Figure 2.15)**.

UPI transaction volumes grew from around 2 Cr in FY 2016-17 to over 24,162 Cr in FY 2025-26, an approximately 12,000-fold increase, while transaction value rose from Rs 0.07 Lk Cr to around Rs 314 Lk Cr[79]. In FY 2025-26 alone, UPI volumes grew by 30%, underscoring its emergence as the predominant mode for everyday digital payments. **Table 2.5** highlights key milestones in the evolution of UPI.

UPI has also gained international acceptance, with its reach extending to 11 countries. Its growing global significance is reflected in its share of around 49% of global real-time payment transaction volume in 2024[80], a development also highlighted by the IMF in its Jun'25 report, Growing Retail Digital Payments: The Value of Interoperability.[81]

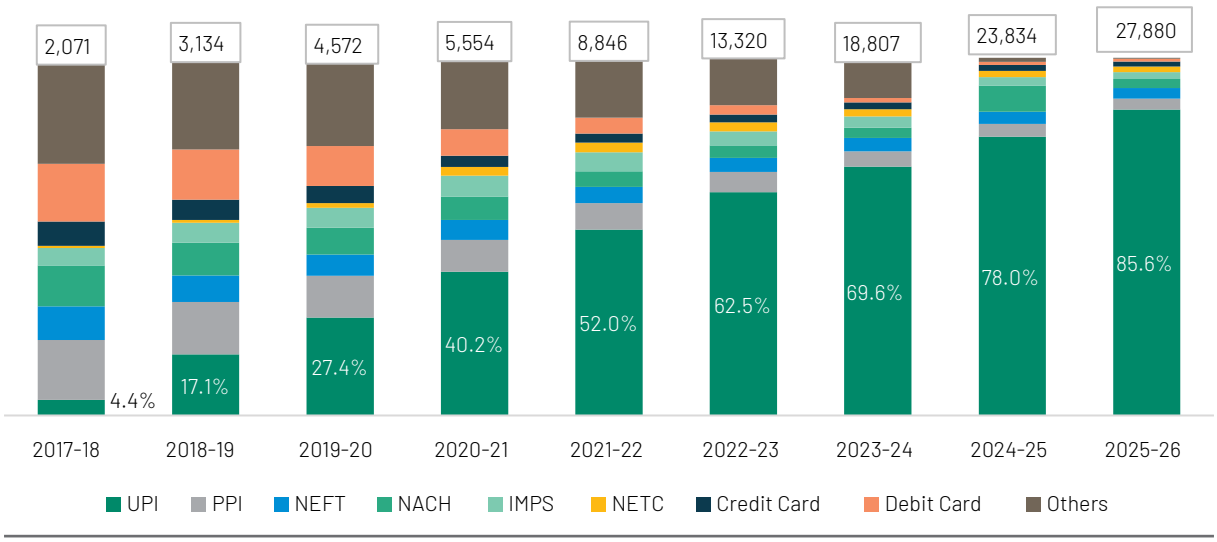
[78] DigiDhan Dashboard

[79] PIB, 2026. "UPI: Transforming India's payment landscape", 24th Aug'26

[80] PIB, 2026. Press release on 10 years of UPI, 30th Apr'26

[81] IMF, 2025

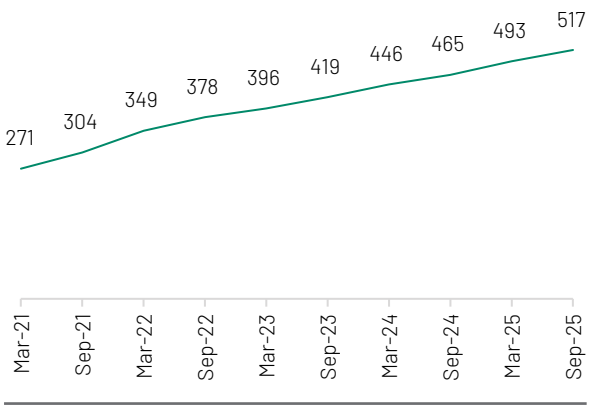
Figure 2.15: Digital payments transactions (Volume in % and amount in Rs Cr) (Distribution of different modes)



Source: Digidhan Dashboard

For Sep'25, the RBI-Digital Payments Index (DPI) stood at 516.76 reflecting continued growth in digital payment adoption, infrastructure, and performance across the country (**Figure 2.16**). The RBI has developed the DPI to measure the extent of digitisation of payments across the country. The index is published semi-annually and is based on Mar'18 as the base period. Concerns regarding the DPI sub-index data not being fully disclosed or available in granular form, limiting independent verification continue to exist.

Figure 2.16: RBI's Digital Payment Index



Source: RBI Annual Report, 2025-26

The scale and frequency of digital payments indicate that it has increasingly becoming part of everyday financial behaviour, representing an important progression in financial inclusion from merely owning a bank account to actively using formal financial infrastructure for routine transactions.

2.3.2 Fintech and digital lending - expanding access amidst emerging customer protection challenges

The expansion of digital infrastructure is also reshaping the credit landscape, with FinTechs, digital lending platforms and public digital infrastructure increasingly complementing the traditional branch-based lending. FinTechs have widened the use of technology across the credit lifecycle from customer acquisition and digital know Your customer (KYC) to alternative-data-based underwriting, loan servicing and repayments. This has helped in reducing the transaction costs and improve the speed and reach of credit, particularly for small borrowers and MSMEs.

Table 2.5: Evolution of UPI

Year	Milestones
2016	UPI was launched on a pilot basis in Apr'16 with 21 member banks. In Aug'16, it was rolled out to the public as participating banks made their UPI-enabled mobile applications available on the Google Play Store. The Bharat Interface for Money (BHIM) application was launched in Dec'16 to enable digital payments using UPI. It allows users to make direct bank-to-bank transactions through mobile devices.
2017	Dynamic QR, a retail merchant platform enabling UPI payments via dynamic Quick Response (QR) codes was launched, which dynamically included transaction specifics like payee info and exact totals, removing manual amount entry.
2018	UPI 2.0 was introduced with enhanced features to make digital payments simpler, more secure and seamless. Other features like Invoice in the Inbox for transparency, Signed Intent and QR for security, UPI Mandates for recurring payments and Overdraft account linking allowing users to make UPI transactions using their overdraft accounts were launched.
2019	SEBI allowed retail individual investors to use UPI as an alternative payment mechanism when applying for IPOs through designated intermediaries. UPI crossed the milestone of one billion transactions in a month in Oct'19, reflecting rapid nationwide adoption.
2020-22	UPI AutoPay was launched to support recurring e-mandates. Feature phone users were brought into the digital payments' ecosystem through the launch of UPI 123PAY. UPI Lite was introduced to enable low-value transactions in a faster and PIN-less manner. The integration of credit cards with UPI further expanded digital payment options for users. It also expanded internationally with its launch in Bhutan, marking its first cross-border deployment.
2023	Credit Line on UPI was introduced, allowing pre-sanctioned bank credit lines to be linked as a funding account. UPI accounted for ~70% of India's digital payment transactions during FY 2023-24.
2024	UPI Circle was introduced, enabling primary users to authorise secondary users with predefined transaction limits on the primary user's bank account. RBI enhanced the UPI transaction limit for tax payments from Rs 1 Lk to Rs 5 Lk per transaction. The per-transaction limit for UPI 123Pay was raised to Rs 10,000, expanding its range of use cases. The UPI Lite wallet limit was increased to Rs 5,000, with the per-transaction limit raised to Rs 1,000.
2025	On-device authentication for UPI was introduced, enabling payments through smartphone fingerprint or face unlock. Aadhaar-based Face Authentication simplified UPI PIN onboarding, especially for first-time users, senior citizens and those without easy access to cards.
2026	UPI continued its rapid expansion in 2026, processing 2,451 Cr transactions worth Rs 29.82 Lk Cr in Aug'26, with 752 banks live on the platform. In a significant policy development, an MDR framework was introduced for specified merchant transactions above Rs 2,000, while P2P transactions and around 96% of merchant transactions continue to remain free.[82]

[82] PIB, 2026. Press release on UPI remaining free, 15th Sep'26

Public platforms such as the ULI and Jan Samarth Portal further support this transition. ULI seeks to enable frictionless, consent-based flow of digital information from multiple data sources to lenders, thereby reducing information asymmetry and facilitating quicker credit assessment, while Jan Samarth provides a common digital platform through which individuals and businesses can assess eligibility and access various government-linked credit schemes.

The ULI platform has scaled up considerably over the past year. As of 31st Aug'26,[83] 136 lenders were live on ULI with 143 services from 63 service providers. This represents a significant expansion from Mar'25, when the platform had 44 lenders accessing 60 services. During Jul'26 alone, ULI processed 2.07 Cr application programming interface (API) requests, indicating that the platform is increasingly transitioning from a pilot infrastructure to an operational digital credit ecosystem.

Along with ULI, the Jan Samarth Portal launched by the Department of Financial Services (DFS) in Jun'22, is a national digital platform aimed at expanding access to credit linked Government schemes and streamlining the delivery of institutional credit. As of 01st Jun'26, around 54.10 Lk applications involving Rs 3.01 Lk Cr had been processed through the Jan Samarth portal, with banks providing digital approvals to 49.55 Lk beneficiaries amounting to Rs 2.76 Lk Cr. The portal has also expanded its lender network, with around 250 lenders onboarded and services available in eight languages. These developments position Jan Samarth as an important digital financial inclusion initiative, helping bridge the gap between government-sponsored credit schemes and underserved borrowers, while reducing information, access and procedural barriers to formal credit.

However, the rapid expansion of digital lending has also brought a range of consumer-protection, conduct and regulatory challenges. These include inadequate transparency around the identity of lenders and Lending Service Providers (LSPs), high or inadequately disclosed charges, aggressive recovery practices, misuse of personal data and mobile-phone permissions, mis-selling, proliferation of unauthorised lending apps and the risk of borrowers accumulating multiple loans because of the speed and ease with which digital credit can be accessed.

RBI's evolving digital lending framework seeks to address several of these concerns through requirements relating to Key Fact Statements, direct flow of funds between borrowers and REs, disclosure of LSPs, borrower consent and data privacy, grievance redressal and greater accountability of REs for their digital lending arrangements. Recognising the risks associated with unauthorised lending applications, RBI also operationalised a Digital Lending Apps (DLA) Directory from 01st Jul'25[84], containing details of DLAs reported by REs and enabling customers to verify whether an app claims an association with a regulated lender.

Going forward, the challenge is therefore not merely to make formal credit faster and more accessible through technology, but to ensure that the same principles of responsible lending apply irrespective of the channel through which credit is delivered. Greater alignment between digital lending and microfinance reporting, including appropriate capture of household income and borrower obligations, would be important to prevent regulatory arbitrage and ensure that convenience and speed do not come at the cost of responsible lending, borrower protection and financial stability at the household level.

A further concern worth mentioning is potential regulatory arbitrage, where digital lenders extend small-ticket unsecured loans to the same low-income borrowers served by microfinance institutions without adequately capturing or reporting household income. Such loans may consequently not be identified

[83] Reserve Bank Innovation Hub website

[84] PIB, 2026. Press release on measures against fraudulent loan apps, 17th Mar'26

as microfinance and could remain outside applicable safeguards on household income assessment and repayment obligations, while also limiting visibility of borrowers' overall indebtedness across microfinance and digital lending channels.

2.4 Investment and protection architecture

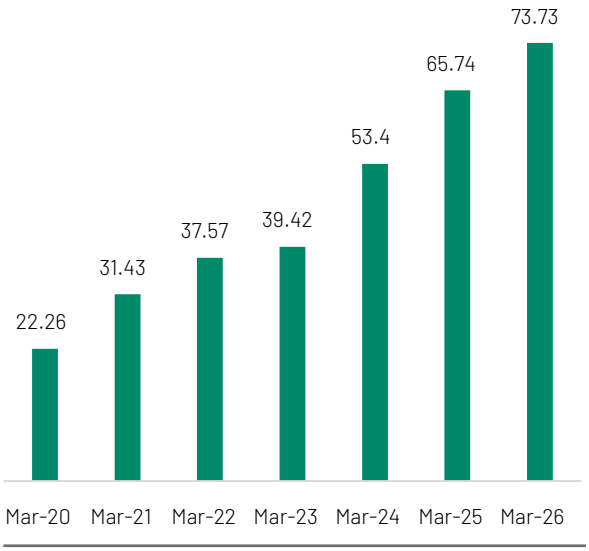
Beyond access to banking and credit, financial inclusion also encompasses the ability of households to save and invest for long-term goals and protect themselves against financial risks. Mutual funds, insurance and pension products therefore form an important part of the financial inclusion architecture, reflecting the progression from basic financial access towards financial security, resilience and wealth creation.

2.4.1 An upward trajectory with mutual funds AUM reaching 21% of GDP and 30% of bank deposits

Mutual Funds (MFs) are an increasingly important component of financial inclusion, providing households with an opportunity to participate in capital markets through professionally managed and diversified investment products without requiring large investible surpluses or direct market expertise. The growth of systematic investment plans (SIPs), digital onboarding and expanding distribution channels has lowered entry barriers and widened access to market-linked investments.

The mutual fund industry has continued its rapid expansion, with Asset Under Management (AUM) rising to Rs 82.22 Lk Cr by Jun'26, from Rs 73.73 Lk Cr as of Mar'26 **(Figure 2.17**) which was itself a 12.15% YoY increase over Mar'25. The increase in AUM was mainly due to net inflows of Rs 7.36 Lk Cr in fiscal 2026, with the number of folios rising to an all-time high at the end of Mar'26. As of Mar'26, Mumbai, New Delhi, Bengaluru, Pune and Kolkata collectively accounted for over half (57.69%) of the country's mutual fund AUM. Mumbai comprised 28.97% share, followed by New Delhi (15.48%), Bengaluru (5.92%), Pune (3.97%) and Kolkata (3.35%). This distribution is consistent with the previous year's trend.

Figure 2.17: Mutual Fund AUM (Rs Lk Cr)



Source: Association of Mutual Funds in India (AMFI) website

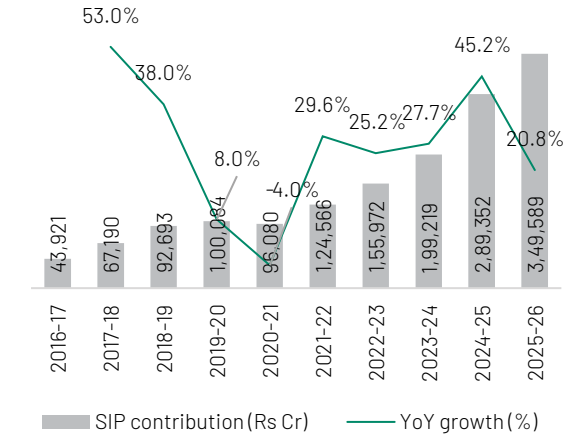
The ratio of MF AUM to GDP crossed 21% in Mar'26[85], an all-time high. Yet, India's MF penetration (MF AUM-to-GDP ratio) is significantly lower than that of many developed economies. This indicates considerable scope for growth of the domestic MF industry.

The data indicates that the participation remains concentrated among relatively affluent and financially aware segments, while rural and lower-income households continue to face barriers such as limited awareness, irregular incomes, risk aversion and inadequate access to trusted financial advice. The financial inclusion challenge, therefore, is not only to expand access to mutual fund products, but also to strengthen financial literacy, last-mile distribution and investor protection so that a wider section of households can participate in formal, diversified and long-term wealth creation.

[85] AMFI, 2026. "AMFI Annual Report Fiscal 2026"

SIP contributions remained a key driver of mutual fund AUM growth. SIPs are further anchored by minimum investments as low as Rs 250 under 'Chhoti SIP', increasingly positioned as a natural next step in the inclusion ladder above PMJDY and basic digital payments. The number of contributing SIP accounts increased from 8.11 Cr in Mar'25 to 9.72 Cr by Mar'26, representing a net addition of 1.61 Cr active accounts. During FY 2025-26, SIP contributions reached Rs 3,49,589 Cr (**Figure 2.18**), underlining the growing role of systematic and regular investing in deepening retail participation in the mutual fund industry. The momentum continued in FY 2026-27, with contributing SIP accounts crossing the 10 Cr mark and monthly SIP contributions reaching a record Rs 32,297 Cr in Aug'26[86]. SIP assets stood at Rs 18.62 Lk Cr, accounting for around 21% of the mutual fund industry's AUM. The trend reflects the growing preference of retail investors for regular, market-linked investments and the increasing role of SIPs in deepening household participation in financial markets.

Figure 2.18: SIP contribution and growth



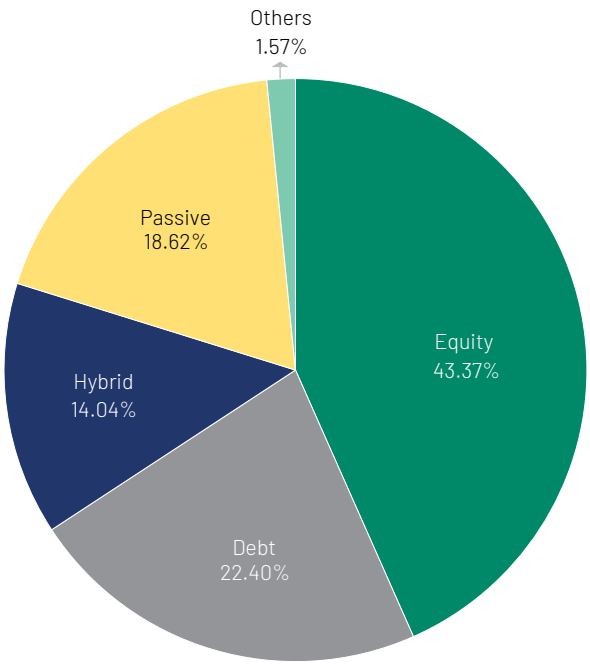
Source: AMFI website

A key highlight of this growth story has been the increasing scale of mutual funds relative to bank deposits. By Mar'26, the mutual fund industry's AUM had reached approximately Rs 73.7 Lk Cr, equivalent to about 29-30% of aggregate bank deposits, underscoring the growing importance of market-linked financial products in India's household savings portfolio. While bank deposits and fixed deposits continue to remain the preferred avenue for risk-averse savers, the rapid expansion of mutual fund investments, particularly through equity-oriented schemes and SIPs points to a gradual diversification of household savings towards market-linked assets.

The evolving equity orientation is also evident in the flow of household financial savings. Between FY 2011-12 and FY 2024-25, gross financial savings increased substantially, accompanied by a notable reallocation across instruments. The share of equity and mutual funds in annual household financial savings increased from ~2% in FY 2011-12 to over 15.2% in FY 2024-25[87].

Equity-oriented schemes continued to dominate the mutual fund industry in FY 2025-26, accounting for 43.3% of total assets, or Rs 31.98 Lk Cr (**Figure 2.19**). Debt funds were the second-largest category with a 22.4% share, while passive funds accounted for a significant 18.6% (Rs 13.73 Lk Cr).

Figure 2.19: Category wise break up (FY 2025-26)



Source: AMFI Annual Report Fiscal 2026

[86] AMFI website. "Total amount collected through SIP during Aug'26 was Rs 32,297 Cr". Accessed on 08th Oct'26

[87] Economic Survey 2025-26. "Chapter 3: Monetary management and financial intermediation - refining the regulatory touch"

2.4.2 Insurance – a growing market, but penetration remains modest

Insurance is a key component of financial inclusion as it protects low-income and vulnerable households against financial shocks arising from illness, accidents, crop losses, natural disasters or death. By reducing the risk of households falling back into poverty and protecting their assets and livelihoods, insurance strengthens their overall financial resilience and security. India's insurance sector remains the world's 10th largest by premium and is projected to be among the fastest growing within the G20 over the next five years, yet penetration, the ratio of premiums to GDP has been essentially flat for three consecutive years.

Insurance penetration and density are the two metrics often used to assess the level of development of the insurance sector in a country. While insurance penetration is measured as the percentage of insurance premiums to GDP, insurance density is calculated as the ratio of premium to population (per capita premium).

During FY 2024-25, the industry collected Rs 11.93 Lk Cr in premiums, issued 41.84 Cr policies, paid Rs 8.35 Lk Cr in claims, and managed assets of Rs 74.43 Lk Cr. Yet, the scale of the market masks an important challenge.

Insurance penetration in India stood at 3.7% of GDP in FY 2024-25 (**Figure 2.20**), below the level of 4% recorded in FY 2022-23, comprising 2.7% for life insurance and 1.0% for non-life insurance, while insurance density was only USD 97 per capita (**Figure 2.21**),[88] still well below the global average of roughly USD 943.

Figure 2.20: Insurance Penetration (premiums as % of GDP)

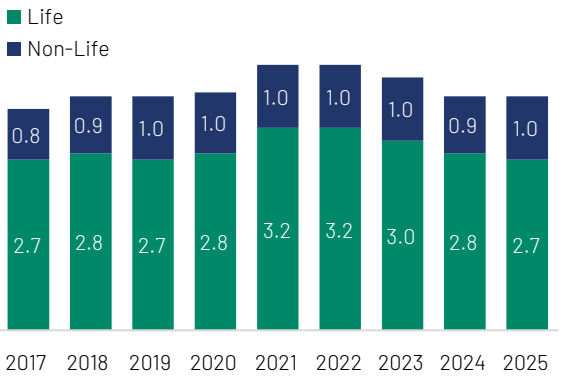
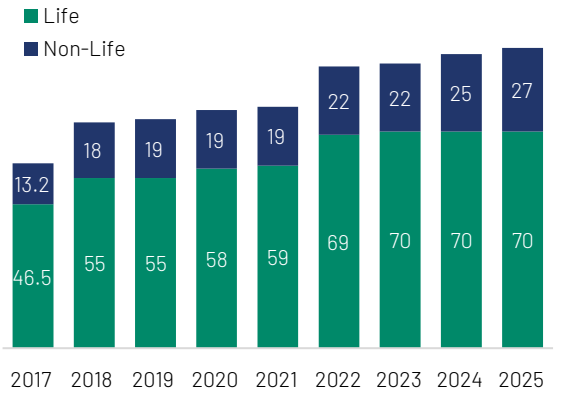


Figure 2.21: Insurance Density (premiums Per Capita) (USD)



Source: IRDAI Annual Report 2024-25

Global insurance penetration is substantially higher than India's, particularly in non-life insurance segment (**Table 2.6**). Comparable international data for 2023-24 show overall penetration of around 7.3% globally, compared with 3.7% in India. The US and China remain, respectively, the first and second largest insurance markets in the world. The UK retained its ranking at third place in 2024, followed by Japan and France. Among other top 10 markets, Canada and Italy climbed one place higher in their ranking, overtaking South Korea. The comparison with

[88] Insurance Regulatory and Development Authority of India (IRDAI), 2025. "Annual Report 2024-25"

selected emerging economies also indicates substantial headroom for expansion. The IMF has also noted that India's insurance penetration remains below advanced East Asian markets, indicating considerable potential for further deepening.

Table 2.6: Comparison with other countries

Country	Insurance penetration (%)	Insurance density (USD per capita)
India	3.7	97
Brazil	4.0	352
China	3.9	489
Malaysia	5.0	592
Singapore	9.2	7,563
World	**~7.0**	**943**

Source: IRDAI Annual Report 2024-25

Note: International figures are based on the latest comparable Swiss Re/IMF datasets and may refer to 2023 or 2023-24 depending on the country.

Public schemes have significantly expanded the insurance safety net

- During FY 2024-25, IRDAI undertook several policy and regulatory measures to strengthen and develop the insurance market in alignment with the vision of "Insurance for All by 2047".
- In order to enhance clarity and ease of understanding for policyholders, IRDAI has issued the Master Circular on Protection of Policyholders' Interest, 2024.
- Bima-ASBA (Bima Applications Supported by Blocked Amounts): Under this facility called the "Bima Applications Supported by Blocked Amount (Bima - ASBA)" transfer of money from the prospect to the insurer happens only when insurance policy is issued. Insurers are mandated to offer Bima - ASBA facility to its prospects for life and health insurance policies.

Government flagship insurance schemes

Government-supported insurance schemes have played an important role in bringing basic risk protection to low-income and previously uninsured households. The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY), launched in 2015, demonstrate how the banking network and automatic premium collection can be used to distribute simple and affordable insurance products at scale. As of Mar'26, PMJJBY had around 27.16 Cr enrolments (against 23.46 Cr in Mar'25) while PMSBY had 57.57 Cr enrolments (against 50.78 Cr in Mar'25).

These schemes demonstrate the potential of combining simple product design, low premiums and existing financial infrastructure to improve insurance access. However, enrolment alone does not necessarily imply adequate or continuous protection. Ensuring renewals, awareness among policyholders and nominees, and timely claim settlement remains critical to translating nominal coverage into meaningful financial security.

India's insurance sector stands at an important inflection point. While the country has emerged as a large and rapidly growing insurance market, the challenge is to translate this growth into broader and more meaningful risk protection. Low insurance penetration and density, particularly among low-income and vulnerable households, highlight the significant protection gap that remains. For these households, insurance is not merely a financial product, but an important mechanism for protecting consumption, livelihoods and productive assets against shocks such as illness, accidents, death, crop losses and natural disasters.

Union Budget 2026-27 proposed raising the FDI limit in insurance to 100%, aimed at drawing fresh capital and distribution capacity into the sector, while IRDAI's "Insurance for

All by 2047" vision continues to be pursued through the Bima Sugam unified digital marketplace and accessibility standards for persons with disabilities. Whether the FDI liberalisation translates into deeper penetration, as opposed to consolidation among existing large insurers, is likely to be a key theme for the next edition of this report.

2.4.3 Pension – NPS Steady; APY's best-ever year but faces an adequacy problem

The National Pension System (NPS) was introduced by the GoI vide notification dated 22nd Dec'03, to replace the defined benefit pension system by defined contribution pension scheme in order to provide old age income security in a fiscally sustainable manner and to channelize small savings into productive sectors of the economy through prudential investments.

It was made mandatory for all new recruits to the Government service (except armed forces) with effect from 1st Jan'04 and has also been rolled out for all citizens with effect from 1st May'09, on voluntary basis. NPS has been adopted by most State Governments and most of the Central and State autonomous bodies. Subsequently, the Pension Fund Regulatory and Development Authority (PFRDA) Act, 2013 was passed.

The Unified Pension Scheme (UPS) was introduced as an option under the NPS for Central Government employees via a notification dated 24th Jan'25, designed to provide assured, inflation-indexed, and adequate retirement benefits within the existing NPS architecture (**Table 2.7**). As a result of extensive outreach and publicity initiatives, over 1.22 Lk Central Government employees opted for UPS until 30th Nov'25.

Table 2.7: Status of NPS as on 30th Nov'25

Sector	No. of subscribers (Lk)	AUM (Rs Cr)
Central govt.	28.01	4,31,005
State govt.	74.58	8,14,339
Corporate	25.97	2,62,915
All Citizen Model	46.65	80,041
NPS Vatsalya	1.59	219
NPS Lite (discontinued)	33.50	6,387
Total	**210.30**	**15,94,906**

Source: DFS Annual Report FY 2025-26

Atal Pension Yojana

The Atal Pension Yojana (APY) recorded its strongest year since launch: gross enrolments crossed 9 Cr by Apr'26[89], with over 1.35 Cr subscribers and AUM exceeding Rs 54,000 Cr[90], marking the highest-ever enrolments recorded in a single FY since the inception of the scheme.

The scheme is open to all Indian citizens between the age of 18 and 40 years, except those who are or have been income taxpayers. APY is designed to provide a *'Sampurna Suraksha Kavach'* (Complete Security Shield) by ensuring the following triple benefits: First, a guaranteed monthly pension ranging from Rs 1,000 to Rs 5,000 for subscribers after attaining 60 years of age; Second, same pension continues to the spouse after the subscriber's demise and third, the return of the corpus accumulated till the age of 60, to the nominee after the death of both.

[89] PIB, 2026. Press release on APY, 22nd Apr'26

[90] PFRDA, 2026. Press release on APY Annual Felicitation Programme of FY 2025-26, 22nd May'26

Shri S. Ramann, Chairperson, PFRDA, during APY's Annual Felicitation Programme on 20th May'26 at New Delhi highlighted the significant rise in enrolments among the 18–25 age group, reflecting increasing awareness among youth regarding long-term financial security, and emphasised the need to further strengthen subscriber engagement and pension awareness across the country.

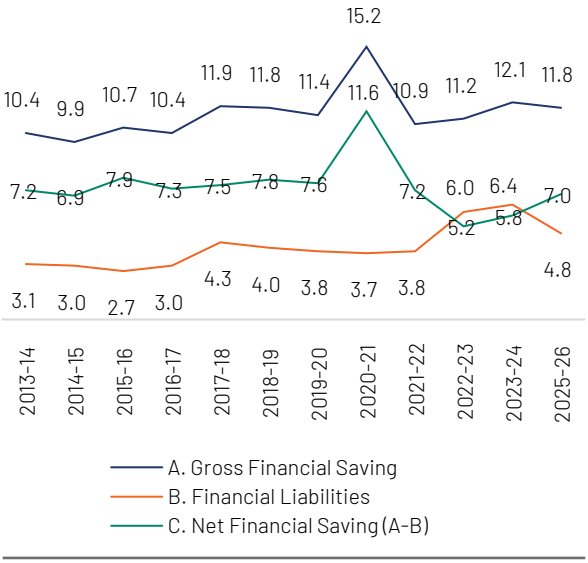
The scheme's structural challenge, however, is adequacy rather than reach. As of Nov'25, 86.91% of APY subscribers were enrolled in the minimum Rs 1,000 per-month pension slab only. The launch of NPS Vatsalya for minors in Sep'24 and the introduction of the Balanced Life Cycle Fund have expanded the product suite. NPS Vatsalya, however, remains at a relatively early stage of adoption compared with the scale of APY.

2.5 Is financial inclusion reshaping the households financial assets and liabilities

While account ownership and outreach are key indicators of financial inclusion, the real measure lies in the ability to access and actively use the savings held in those accounts. Household savings can broadly be classified into financial savings, such as bank deposits, retirement funds, and investments in mutual funds and equities, and physical assets like land, real estate, and precious metals.

Gross household financial savings declined sharply from 15.2% of Gross National Disposable Income (GNDI) in 2020-21 to 11.8% in 2025-26. However, net household financial savings increased to 7.0% of GNDI in 2025-26, due to contraction in household financial liabilities to 4.8% of GNDI. Thus, the improvement in net financial savings was driven primarily by lower accumulation of financial liabilities despite a minor decrease in gross financial savings. Instrument wise, household financial savings are dominated by deposits, followed by provident and pension funds and insurance pointing to a household financial portfolio that remains largely anchored in traditional savings instruments. (**Figure 2.22**).

Figure 2.22: Financial Saving of HH Sector



Source: RBI Annual Report 2025-26

The moderation in financial liabilities suggests that households are taking on new debt at a slower pace, which may help contain further accumulation of household debt. However, this does not necessarily mean that the existing stock of household debt or the associated debt-servicing burden has declined.

In the data of 2025-26, it is pertinent to note that the data from 2022-23 onwards is updated as per the revised base year 2022-23. Hence, the data of Gross Financial saving, Financial Liabilities and Net Financial Saving provided in the RBI's Annual report for 2025-26 varies from the data provided in the annual report till last year. It is also worth mentioning that in the RBI's annual report of 2025-26, percentages of the individual components of Gross financial savings (Currency, Deposits etc.) are not mentioned since 2022-23 as indicated in the **Table 2.8**.

Table 2.8: Financial saving of HH Sector (per cent of Gross National Disposable Income - GNDI)

Item	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2025-26
A. Gross fin. Saving	10.4	9.9	10.7	10.4	11.9	11.8	11.4	15.2	10.9	11.2	12.1	11.8
1. Currency	0.9	1.0	1.4	-2.1	2.8	1.4	1.4	1.9	1.1	-	-	-
2. Deposits	5.8	4.8	4.6	6.3	3.0	4.2	4.3	6.2	3.5	-	-	-
3. Shares & debentures	0.2	0.2	0.2	1.1	1.0	0.9	0.5	0.5	0.9	-	-	-
4. Claims on Govt.	0.2	0.0	0.5	0.7	0.9	1.1	1.3	1.3	1.1	-	-	-
5. Insurance Funds	1.8	2.4	1.9	2.3	2.0	2.0	1.7	2.8	2.0	-	-	-
6. PF & pension funds	1.5	1.5	2.1	2.1	2.1	2.1	2.2	2.5	2.3	-	-	-
B. Financial liabilities	3.1	3.0	2.7	3.0	4.3	4.0	3.8	3.7	3.8	6.0	6.4	4.8
C. Net fin. saving (A-B)	7.2	6.9	7.9	7.3	7.5	7.8	7.6	11.6	7.2	5.2	5.8	7.0

Source: RBI Annual Report, 2025-26

2.5.1 Barriers to greater participation

Expanding access to financial services does not automatically translate into deeper financial participation. Gaps in financial literacy and awareness, limited understanding of products, digital capability and concerns around fraud and customer protection can constrain households from engaging confidently with formal finance. Recognising these barriers, the RBI has continued to emphasise financial education through initiatives such as Financial Literacy Week (FLW), aimed at improving awareness and enabling informed financial decisions. Emphasizing on steps to increase 'Quality' further strengthens the financial inclusion architecture.

2.5.2 Way forward - from access to meaningful financial inclusion

India's financial inclusion journey has entered a distinctly different phase. The expansion of bank accounts, digital infrastructure and formal financial channels has created a scale of access that would have been difficult to envisage a decade ago. The RBI's FI-Index reaching 70.0 in Mar'26, the continued expansion of PMJDY, growing pension enrolment, rapid adoption of digital payments and increasing participation of households in market-linked savings all point towards a progressively broader and deeper financial ecosystem.

However, the developments examined in this chapter also underline that access can no longer be the principal measure of financial inclusion. PMJDY has crossed 59 Cr accounts, yet dormancy and limited usage remain a concern. Similarly, the sharp contraction in the rural BC network raises questions around the availability of assisted financial services at the last mile. Financial awareness also remains uneven across income and education groups despite near-universal bank-account ownership.

Credit presents an equally mixed picture. The SHG ecosystem has achieved enormous scale and is increasingly being linked with livelihood creation through initiatives such as Lakhpati Didi, while the JLG-microfinance sector is now emerging from a difficult period with improving asset quality. At the same time, regional disparities in SHG credit linkage,

stress within parts of the small-borrower ecosystem and the changing composition of small-value credit demonstrate that aggregate expansion does not necessarily imply uniform access to appropriate credit. The next stage must therefore focus not simply on more credit, but on adequate, affordable and responsible credit that supports income generation and borrower resilience.

Technology is likely to be one of the strongest enablers of this transition. Digital payments have already transformed transaction behaviour, while platforms such as ULI and Jan Samarth can reduce information and procedural barriers to formal credit. The rapid growth of fintech and digital lending can further expand access through faster, lower-cost and more customised credit delivery. However, it also creates new consumer-protection and regulatory challenges. Of particular concern is the potential overlap between digital credit and microfinance, where fintech-enabled loans may reach the same low-income households without adequate assessment or reporting of household income and overall repayment obligations. Greater digitisation therefore needs to be accompanied by stronger financial literacy, cyber awareness, responsible lending practices, appropriate credit-information reporting and safeguards against over-indebtedness, inappropriate or fraudulent financial products and coercive recovery practices.

The widening of financial inclusion beyond banking is another important development. The rapid growth of SIPs and mutual funds, together with greater participation in insurance and pension products discussed in the chapter, indicates that the inclusion agenda is gradually expanding from transactions and borrowing towards savings, investment and risk protection. Yet significant geographic and socio-economic gaps remain; for example, more than half of mutual-fund AUM continues to be concentrated in five major cities.

Going forward, India's financial inclusion agenda will need to be judged increasingly by the new NSFI outcomes. The next frontier is not simply bringing people into the formal financial system, but ensuring that they can participate in it actively, safely and productively. This transition, from access to meaningful usage, and ultimately to financial wellbeing will define the next phase of India's financial inclusion journey.

03 IMPACT OF MICROFINANCE – FINDINGS FROM TWO LARGE-SCALE EMPIRICAL STUDIES

Microfinance has grown significantly in India over the last two decades and has become an important source of formal credit for low-income households, particularly women. As its reach has expanded, the discussion on microfinance has also moved beyond access to outcomes. It is equally important to understand how borrowers use these loans, whether they support livelihoods and income-generating activities, how borrowers experience the lending process, and whether access to microfinance contributes to improvements in their overall wellbeing.

This chapter looks at these questions using findings from two large-scale empirical studies. The first is NCAER's study conducted in FY 2024-25, "Assessing the Effectiveness of Regulated Small Borrowing in India"[91], based on a survey of 10,342 borrowers across 10 states. NCAER had undertaken a similar study in 2011.[92] Although the two studies did not survey the same households, their broad comparability provides an opportunity to examine how small borrowing has changed over fourteen years. The comparison covers important aspects such as sources and cost of borrowing, use of loans, lending and repayment practices, savings, insurance and use of digital financial services.

The second study, undertaken by researchers and published in the Journal of Economic Modelling,[93] examines the impact of microcredit on multidimensional poverty (MDP) and vulnerability to future poverty. Using household data over multiple years and different statistical approaches, the study looks beyond access to credit to assess whether microcredit is associated with improvements in household wellbeing.

The two studies therefore provide different but complementary perspectives. The NCAER studies show how small borrowing and borrowers' engagement with formal finance have changed over time, while the other study by Maharana and Shaw (2026) examines the impact of microcredit on poverty and vulnerability. The chapter brings these findings together and, in the final section, considers what they tell us about the contribution of microfinance to the broader progress of financial inclusion in India.

3.1 The changing landscape of microfinance – evidence from the NCAER studies

The two NCAER studies (2011 and 2025) provide a basis for examining how the landscape of small borrowing in India has changed over the intervening period. These fourteen years saw a significant expansion of formal credit to low-income households, along with major changes in the regulatory and financial ecosystem within which microfinance operates. Two regulatory developments were particularly important:

[91] NCAER, 2026. "Assessing the Effectiveness of Regulated Small Borrowing in India" ("NCAER study 2026")

[92] NCAER, 2011. "Assessing the Effectiveness of Small Borrowing in India"

[93] Maharana, R., & Shaw, T. S., 2026. "Impact of microcredit on multidimensional poverty and vulnerability in India". Economic Modelling, Vol 163.

- RBI Master Directions of 2011, which formally created the NBFC-MFI category
- RBI Master Directions of 2022, which shifted the regulatory approach from an entity-based framework to an activity-based framework, bringing all lenders extending credit to low-income households under a unified framework.

Several other developments supported this evolution:

- Development of a specialised credit bureau for microfinance, which enabled lenders to assess borrowers' existing loans and repayment history and strengthened credit-underwriting, paving the way to better credit discipline and repayment performance.
- Expansion of basic banking and identity infrastructure, including Jan Dhan accounts and Aadhaar-based KYC, which made it easier to bring low-income households into the formal financial system.
- Changes in Priority Sector Lending (PSL) norms, which supported the flow of bank funding to NBFC-MFIs and helped in expanding the outreach.
- Recognition of MFIN as a Self-Regulatory Organisation (SRO), which strengthened industry standards through a common code of conduct, responsible-lending practices and greater data transparency.

As more regulated entities (REs) entered or expanded their microfinance operations, low-income households gained greater access to formal credit. The sector also evolved in terms of loan sizes, lending and repayment practices, use of credit and borrowers' engagement with other formal financial services. Against this background, this section uses the two NCAER studies to examine how small borrowing changed between 2011 and 2025, and what these changes tell us about the evolution of microfinance and the experience of its borrowers.

3.1.1 The evidence base – two studies, fourteen years apart

The evolution of microfinance over this period can be examined through the two NCAER studies conducted fourteen years apart. The 2011 study was undertaken against the backdrop of the Andhra Pradesh microfinance crisis (A.P. crisis) and captured the experience of small borrowers from low-income households across key areas such as sources of credit, loan features and costs, use of loans, multiple borrowing and savings behaviour. The NCAER study (2025) builds on the earlier exercise, with wider coverage and a more structured geographical, institutional and thematic scope. It examines borrower profiles, awareness of microfinance and insurance products, use and cost of credit, borrowers' interactions with regulated lenders, repayment practices and digital adoption.

The two studies are not longitudinal surveys and do not track the same households over time. There are also differences in their sampling and respondent selection. Nevertheless, they provide a reasonable basis for comparison as both draw largely from the same broad socio-economic group – low-income households using small-value credit. **Table 3.1** compares some of the key characteristics of respondents in the two studies. Despite differences in study design, the respondents are broadly similar in terms of age, education and rural-urban distribution. Both studies also focus on low-income borrowing households, with income levels that are broadly comparable after allowing for the change in incomes and prices over the fourteen-year period.

3.1.2 Formal sector dominates small borrowing

One of the most prominent changes captured across the two NCAER studies is the formalisation of small borrowing. Over the fourteen years between the two studies, low-income borrowers have moved increasingly towards regulated sources of credit, while the

Table 3.1: Comparison of sample respondents in NCAER 2011 and 2025 studies

Dimension	2011	2025
Sample size	10,188	10,342
Respondent selection	Heads of low-income households or other earning units, who had outstanding loans from any source of micro-credit	Microfinance borrowers of 19 REs (4 banks, 3 NBFCs, 9 NBFC-MFIs & 3 SFBs), having loans from the parent REs & any other source (formal, SHGs, or informal – moneylenders, friends, relatives)
Gender	Overall, 45% women respondents but ~89% borrowers of MFIs/ SHGs were women	Predominantly women by design
Average age	39	37
Education level	Majority illiterate/ below primary education (55.9% in rural & 42% in urban)	46% uneducated / primary
Income	Low-income households - Av. income of Rs 71,852 p.a. in rural and Rs 1,06,606 p.a. in urban	Annual HH income ≤ Rs 3 Lk (RBI definition); Av. HH income of Rs 3.1 Lk p.a.
Rural-urban split	~70% rural ~ 30% urban	67.5% rural 32.5% urban

formal lending ecosystem itself has become broader and more developed. This change is visible not only in the source of borrowing, but also in the nature of borrower-lender relationships, loan terms and costs, and borrowers' connection with the wider banking system.

The evidence points to four important features of this formalisation:

- Formal credit has become the primary source of small borrowing, with regulated lenders replacing moneylenders and other informal sources for the credit needs of low-income households.
- The formal microfinance market has become broader and more established. Small borrowers can now access credit from a diverse set of regulated institutions and longer borrower-lender relationships indicate that formal credit has become a regular source of finance rather than an occasional alternative.
- Formalisation has improved the terms and transparency of borrowing. Regulated lending provides borrowers with clearly defined loan terms and repayment schedules, transparent pricing and substantially lower costs than those reported for informal credit.
- Microfinance has helped connect low-income borrowers with the wider formal financial system. The shift to bank-account-based loan disbursement, helped bring borrowers into the banking system and created a platform for their use of other formal financial services.

The qualitative evidence gathered in the 2025 study reinforces the shift towards formal credit. During focus group discussions (FGDs), borrowers reported that moneylenders continue to operate in their communities but the availability of credit from REs has reduced the need to depend on them for routine borrowing. Borrowers also cited the very high

cost of moneylender loans as an important reason for avoiding them. Among the small proportion of respondents who continued to borrow informally, such loans were used mainly for urgent requirements such as marriages, social obligations or unexpected household expenses. Informal credit has therefore not disappeared, but its role among the borrowers covered by the study has become much more limited. As per responses to the 2025 survey, only 1% of microfinance borrowers reported taking loan from informal sources in addition to their respective formal credit. This is a steep drop from the 2011 study when informal sources constituted 46% of the loans reported by surveyed respondents.

The formal lending ecosystem has also become considerably more diverse. Small-ticket credit is no longer provided only by specialised microfinance institutions. The 2025 NCAER study itself covers borrowers of 19 REs – 4 banks, 3 NBFCs, 3 SFBs and 9 NBFC-MFIs – reflecting the range of institutions now engaged in microfinance. The regulatory shift towards an activity-based framework has further brought microfinance lending by different types of REs under a common regulatory framework.

Alongside this expansion in providers, the size and nature of borrowing have also changed. The average microfinance loan increased from around Rs 12,000 – Rs 20,000 in 2011 to Rs 51,222 in 2025, although loan sizes vary across types of lenders and geographies. Further, 54.3% of borrowers had been associated with their parent RE for more than a year. Larger loan sizes and continuing relationships with lenders show that formal microfinance has become an established source of credit for many low-income households rather than a one-time borrowing arrangement.

The cost and structure of borrowing have also become more transparent and standardised. In 2025, the average interest rate reported by borrowers was 23.9% per annum on a reducing-balance basis, with relatively small variations across states and types of REs. The weighted-average APR for REs was 27.3%. Almost all borrowers also reported receiving their loans without paying commissions to agents, indicating that direct transaction costs associated with obtaining formal microfinance loans were limited. In contrast, the qualitative assessment in the 2025 study estimated the APR charged by moneylenders at between 97% and 178% p.a.. The difference in pricing, together with clearly defined loan amounts, repayment schedules and other loan terms, is an important part of the transition from informal to regulated credit.

Formalisation of microfinance has also contributed to bringing borrowers into the banking system. As microfinance moved from cash disbursement towards transfer of loans directly into borrowers' bank accounts, having an individual bank account became necessary for accessing formal microfinance credit. In the earlier years, MFIs also supported borrowers in opening bank accounts, particularly where access to banking was limited. The subsequent expansion of PMJDY greatly increased bank-account ownership among low-income households and strengthened this infrastructure further. By the time of the 2025 NCAER study, all surveyed borrowers had a savings account in their own name and around 30% had more than one account. The move towards account-based loan disbursement therefore not only formalised the credit transaction but also connected microfinance borrowers more closely with the banking system and provided a platform for using other formal financial services.

The two NCAER studies together show a major change in the landscape of small borrowing over fourteen years. Low-income borrowers covered by the studies have moved from substantial dependence on informal lenders towards a diverse regulated lending system, with larger loans, continuing lender relationships, more transparent loan terms and closer integration with the banking system. Microfinance has been an important

part of this formalisation – by expanding access to regulated small-value credit, moving loan transactions through bank accounts and connecting low-income borrowers with the wider formal financial system.

3.1.3 Credit increasingly supports livelihoods

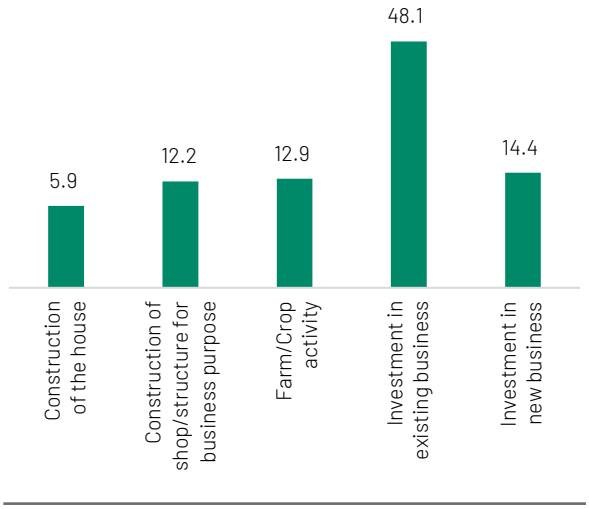
A second important change between the two NCAER studies is in how borrowers use microfinance loans. The evidence shows a substantial increase in the use of credit for business and other income-generating activities. This has taken place alongside an increase in average loan size, allowing borrowers to deploy larger amounts for livelihood activities. The following points capture the changes in the role of microfinance credit:

- Productive use of loans has increased substantially, than was the case in 2011.
- Credit is supporting both existing and new livelihood activities.
- Loan-funded activities are themselves contributing to repayment, linking borrowing more directly with income generation and repayment.

In the 2011 NCAER study, 45% of MFI loans were reported to be used for business or other productive purposes, although there was considerable variation across the geographical clusters covered by the study. By 2025, the share of borrowers using microfinance loans for productive purposes had increased to 75.4%. This increase coincided with a 2.5-4 times increase in average loan sizes (as discussed above) which provided borrowers with greater scope to use credit for investment in livelihood and business activities rather than only for meeting immediate household requirements.

The 2025 survey provides a clearer picture of how these loans are being used. Nearly half (48.1%) of borrowers reported investing the loan in an existing business. Together with loans used for starting a new business and for farm and cropping activities, productive uses accounted for 75.4% of borrowers. The top five leading uses of microfinance loans reported in the 2025 study are shown in **Figure 3.1.**

Figure 3.1: Distribution of borrowers (%) by top 5 loan uses



Source: NCAER study 2026

Importantly, the 2025 study also found that 51.8% of borrowers used income generated from loan-funded activities to repay their loans. For these borrowers, the relationship between credit and repayment therefore runs through the livelihood activity itself – the loan supports an income-generating activity, and income from that activity contributes towards servicing the loan. This finding is particularly relevant in the context of the change in the regulatory framework. Under RBI's 2022 framework, the earlier requirement linking a prescribed share of microfinance lending to income-generating activities was removed, giving borrowers greater flexibility in deciding how to use their loans. Despite this, around three-fourths of borrowers in the NCAER study used microfinance credit for productive purposes. This suggests that, even without a regulatory end-use requirement, borrowers are increasingly choosing to use microfinance credit for activities that support livelihoods and generate income.

The evidence from the two NCAER studies therefore points to a clear strengthening of the connection between microfinance and livelihoods. Over fourteen years, the share of borrowers using loans for productive purposes has increased substantially, average loan sizes have increased, and more than half of borrowers in the 2025 study reported using income from loan-funded activities to service their loans. Small credit is therefore increasingly serving not only as a means of meeting immediate financial needs, but also as a source of finance for livelihood activities and income generation.

3.1.4 Lending practices and borrowers' experiences

Alongside the formalisation of small borrowing, the way microfinance loans are assessed, repaid and serviced has also evolved considerably. The comparison between the two NCAER studies points to a lending process that has become more structured, with greater use of borrower information, changes in repayment practices, clearer disclosure requirements and formal mechanisms for borrower protection. The following are the three important changes in lending practices and borrower experience:

- **Loan assessment has become more structured –** household income, existing loan repayment obligations and credit bureau information now form part of the assessment of a borrower's capacity to take on additional debt.
- **Repayment practices have moved closer to borrower preferences –** monthly repayment has become the most common arrangement.
- **Disclosure and borrower-protection mechanisms have become more formalised –** borrowers receive structured information on loan terms and have access to formal grievance channels, although understanding of some aspects of loan pricing remains limited.

Underwriting: Loan assessment today draws on information on household income and existing loan repayment obligations, supported by the borrower's Credit Information Report (CIR). The 2025 study found that monthly loan repayment obligations averaged 18.7% of monthly household income, while 5.1% of borrowers were above the RBI ceiling of 50%. Credit bureau information also enables lenders to assess a borrower's existing loans and repayment history for deciding the loan amount.

The study makes an important point about assessing repayment capacity. Remaining within the regulatory ceiling does not by itself establish that a household can comfortably service additional debt. Household expenditure and savings or investment requirements also affect the amount available for repayment. The study therefore highlights the need for lenders to consider these factors alongside income and existing loan obligations. The evolution in underwriting is thus not only about knowing how much a household already owes, but also about assessing how much it can reasonably afford to repay.

Repayment practices: Weekly repayment was predominant at the time of the 2011 study and was identified as difficult by some borrowers, particularly those whose income flows did not match a weekly repayment cycle. By 2025, monthly repayment had become the most common arrangement: 58.4% of borrowers repaid monthly, compared with 31.0% weekly and 10.5% fortnightly. Monthly repayment was also the predominant arrangement among borrowers of NBFCs, NBFC-MFIs and SFBs covered by the study.

Borrower preferences show an even stronger inclination towards monthly repayment. Around 74.2% of respondents preferred monthly instalments, compared with 18.5% who preferred weekly repayment and 7.2% who preferred fortnightly repayment. The movement towards monthly repayment therefore represents a significant change

from the lending model captured in 2011 and has brought actual repayment schedules closer to the preference expressed by most borrowers.

Disclosure and borrower protection: The formalisation of lending has brought more structured communication of loan terms. Around 86% of borrowers reported receiving training on loan procedures and product terms. Nearly 97.0% knew the tenure of their loan and 98.5% knew the amount of their instalment. The Key Fact Sheet (KFS), loan cards and borrower interactions provide information on the loan amount, tenure, repayment schedule, pricing and other terms.

However, borrowers' understanding becomes weaker as the information becomes more technical. Only 47.1% could state the interest rate on their current loan and only 1.5% reported awareness of the Annualised Interest Rate (AIR). Around 63.3% did not know whether their loan was priced on a reducing- or flat-rate basis. Similarly, while 59.2% knew that a processing fee had been charged, only 20.1% could recall the amount. The findings therefore show that providing information and ensuring that borrowers understand it are two different aspects of borrower protection. While disclosure of loan terms has become more structured, there remains scope to make information on the cost of borrowing easier for borrowers to understand and retain.

Formal grievance-redressal mechanisms provide another layer of borrower protection. The 2025 study found that 59.6% of borrowers were aware of the grievance-redressal process, with awareness higher among better-educated and relatively better-off borrowers. Borrowers' reported experience with lender staff was hugely positive: 97.9% reported good behaviour by staff and 88% said they would return to the same RE for a future loan. These findings indicate that formal mechanisms for borrower protection are well established, while greater awareness of grievance channels remains an area for improvement.

Overall, the evidence points to a lending process that has become more structured and borrower-focussed. Loan assessment now uses household-level and credit bureau information; repayment schedules have moved closer to borrower preferences; and disclosure and grievance-redressal mechanisms provide a clearer framework for borrower protection. At the same time, the findings show that providing information does not necessarily ensure that borrowers fully understand it. Improving borrowers' understanding of loan pricing and their awareness of grievance mechanisms therefore remains an important area for further progress.

3.1.5 Financial engagement extends beyond the loan

The 2025 NCAER study shows borrowers are connected with the formal financial system through bank accounts and savings, have access to insurance and emergency credit and are gradually adapting to use of smartphones and digital payment applications. Compared with the situation captured in 2011, this points to a broader financial relationship in which credit is one part of a gamut of financial services used by low-income households. The evidence points to four important aspects of this wider financial engagement:

- Saving has become a regular financial practice, indicating that borrowers' engagement with formal finance is not limited to taking and repaying loans.
- Borrowers have access to a wider range of financial products – insurance and access to emergency credit provide households with additional ways of managing risks and unexpected financial needs.
- Smartphone ownership and use of payment applications have expanded the ways in which borrowers can transact with the formal financial system.
- However, access to digital services has progressed faster than independent usage in some areas.

Savings behaviour has changed for better: In the 2011 study, bank-account ownership among borrowers was much lower and ranged between around 50% and 65% across the clusters, with many accounts primarily being used to receive government payments. By 2025, all surveyed microfinance borrowers had a savings account in their own name and 97.2% reported saving regularly. Average monthly household savings were around Rs 3,200, equivalent to approximately 12.4% of household income.

This represents an important change in the financial behaviour of the households covered by the two studies. Borrowers are not only accessing formal credit but are also regularly setting aside part of their income as savings. Together with universal bank-account ownership among the surveyed borrowers, this indicates a much deeper engagement with the formal financial system than was evident in 2011.

Insurance and emergency finance have widened the financial safety net: The 2025 study also examines borrowers' engagement with insurance. Around 67% of respondents understood insurance as a means of protection against financial loss or unforeseen events. At the same time, more than 29% were not aware of the benefits of insurance, indicating that access to insurance has progressed further than understanding of the product among some borrowers.

Access to finance during emergencies provides another indication of the financial options available to borrowers. The study found that 98.8% of borrowers who sought an emergency loan were able to obtain one, with the loan being received in around six days on average. This is important for low-income households, for whom an unexpected expenditure can create an immediate financing requirement. Access to formal sources of emergency finance can reduce the need to turn to high-cost informal lenders at such times.

Digital engagement has expanded, but independent usage is still developing: Digitalisation represents another major change from the environment captured in the 2011 study. Loan disbursements are now made directly into borrowers' bank accounts, while smartphones and digital payment applications have become increasingly common. In the 2025 survey, 61.1% of borrowers owned a smartphone and 54.0% of smartphone owners had a payment application installed.

However, independent use of digital financial services remains limited. Only around one-fourth of borrowers using digital financial services were able to undertake transactions independently, with others relying on family members, field staff or other persons for assistance. Repayment of microfinance loans also remains predominantly non-digital, with only around 12% of borrowers making repayments digitally. Digital access among microfinance borrowers has therefore expanded considerably, but greater familiarity and capability will be important for converting this access into more independent usage.

3.2 Microcredit, multidimensional poverty and vulnerability – evidence from a research paper

The NCAER studies discussed in the previous section provide important evidence on how small borrowing has changed over time and on the experience of microfinance borrowers today. However, comparing borrower experiences at two points in time cannot by itself establish whether the changes observed in household outcomes are the result of access to microfinance. Assessing impact requires a different approach – one that compares borrowers and non-borrowers while taking into account the factors that may influence both the decision to borrow and household outcomes.

A recent study by Rasmita Maharana and Tara Shankar Shaw, "Impact of Microcredit on Multidimensional Poverty and Vulnerability in India", published in Journal of Economic Modelling in 2026 examines this question. The study uses household-level data over multiple years and different statistical approaches to assess the impact of microcredit on both current multidimensional poverty and the risk of households becoming multidimensionally poor in the future.

3.2.1 A multidimensional view of poverty

Income or expenditure alone may not fully capture the different forms of deprivation experienced by a household. A household may, for example, have income above a specified poverty level but still face disadvantages relating to education, health or basic living conditions. The study therefore assesses the impact of microcredit using a multidimensional measure of poverty covering education, health and standard of living.

The study uses the Alkire-Foster[94] approach to construct a Multidimensional Poverty Score (MDPS), which measures the extent of a household's current deprivation across these dimensions. It goes a step further by also estimating a Vulnerability to Multidimensional Poverty Score (VMDPS), based on the approach developed by Gallardo[95] (2020). This measures the risk of a household experiencing multidimensional poverty in the future.

The distinction is important. A reduction in current poverty reflects an improvement in the household's present situation, while a reduction in vulnerability indicates that the household is also less likely to face multidimensional poverty in the future. The study therefore allows the impact of microcredit to be examined from the perspective of both current wellbeing and future vulnerability.

For the analysis, the researchers use longitudinal data from the Consumer Pyramids Household Survey (CPHS)[96] for 2016–2019, covering around 130,000 households across India. Around 7% of the households in the sample reported borrowing microcredit through Microfinance Institutions (MFIs) or Self-Help Groups (SHGs).

3.2.2 Measuring impact – why multiple methods were needed

Measuring the impact of microcredit is not straightforward. Simply comparing households that borrow with those that do not can give misleading results because the two groups may differ in socio-economic profile and on various other parameters.

For example, poorer or more vulnerable households may be more likely to seek microcredit. MFIs and SHGs may also be more active in some regions than others. At the same time, characteristics that are difficult to observe – such as entrepreneurial ability, willingness to take risks or financial discipline – may influence both the decision to borrow and subsequent household outcomes. This makes it difficult to determine whether differences between borrowers and non-borrowers are due to microcredit or to other factors.

To address these issues, the study uses several statistical approaches, summarised in **Table 3.2**. Each examines the relationship between microcredit and multidimensional poverty in a different way. No single method can completely remove all the difficulties involved in estimating the impact of microcredit. The methods also rely on different assumptions and do not necessarily measure exactly the same effect. Their estimates should therefore not be directly compared in terms of magnitude. Instead, taken together, they provide different tests of whether the relationship between microcredit and household outcomes continues to hold when the borrower–non-borrower comparison is examined in different ways.

[94] Alkire, S., Foster, J., 2011. "Counting and multidimensional poverty measurement". J. Publ. Econ. 95 (7–8), 476–487

[95] Gallardo, M., 2020. "Measuring vulnerability to multidimensional poverty". Soc. Indic. Res. 148 (1), 67–103.

[96] Collected by Center for Monitoring Indian Economy (CMIE), through a wave-based longitudinal survey where each household is surveyed three times a year.

Table 3.2: Methodological framework used in the study

Method	What it does	Use in the study
Propensity Score Matching (PSM)	Matches households that borrowed from MFIs/SHGs with non-borrowing households that had similar observable characteristics before borrowing. It is important to note that only around 7% of households in the full sample had microcredit, and borrowers and non-borrowers differed significantly at the outset.	Creates more comparable groups of borrowers and non-borrowers based on their characteristics before borrowing, to reduce selection bias arising from observable differences between the two groups.
Two-Way Fixed Effects (TWFE)	Accounts for household characteristics that do not change over time and for factors affecting all households in a particular period. However, the authors note that TWFE cannot adequately address factors that change over time or reverse causality, which is why additional methods are used.	Examines whether changes in microcredit borrowing are associated with changes in multidimensional poverty and vulnerability over time.
Instrumental Variable–Two Stage Least Squares (IV-2SLS)	Uses factors that influence access to microcredit but are intended not to directly determine household poverty and vulnerability. This helps separate the effect of borrowing from other influences on household wellbeing, to address endogeneity, particularly reverse causality.	Uses the regional proportion of female Members of Legislative Assemblies and the number of functioning banks per capita as factors that may affect both the decision to borrow and household outcomes.
Fuzzy Regression Discontinuity Design (FRDD)	Compares households around an estimated cut-off where the likelihood of receiving microcredit changes. Households close to the cut-off are expected to be more comparable, providing another way of identifying the effect of borrowing.	Provide an alternative test of the causal effect of microcredit that relies on a different identification strategy. Its findings are more localised because they apply to households around the relevant cut-off.
Difference-in-Differences (DID)	Compares changes over time between households that start borrowing and those that remain non-borrowers.	Examines whether households moving into microcredit experience different changes in poverty and vulnerability from households that do not borrow. It also allows the study to examine the shorter-term effects of moving into microcredit.

Notes:

- Reverse causality: The relationship may work in both directions – microcredit may affect poverty, but poorer or more vulnerable households may also be more likely to seek microcredit. A simple borrower/non-borrower comparison therefore cannot tell us which direction is driving the observed relationship.
- Instrumental variables: The study uses the proportion of female members in the regional legislative assembly and the number of functioning banks per capita – factors expected to influence access to microcredit without directly determining household poverty or vulnerability after relevant controls.
- Endogeneity: A situation where factors influencing whether a household borrows may also influence its wellbeing, making it difficult to isolate the effect of microcredit. The paper cites entrepreneurial ability, risk tolerance and reliance on the informal sector as examples of such unobserved factors.
- Different identification strategy: Simply means estimating the effect of microcredit in a different way. While IV-2SLS uses external factors influencing borrowing, FRDD compares households around a cut-off where the probability of borrowing changes.

3.2.3 Evidence across empirical approaches

The study provides four broad findings:

- Microcredit is found to reduce multidimensional poverty and vulnerability to future multidimensional poverty.
- The positive effects are found for both MFI and SHG borrowing.
- Microcredit has an impact on current poverty as well as future vulnerability in both rural and urban areas, although the nature and timing of the impact can differ.
- The purpose (productive or for household expenses) for which microcredit is used matters and can affect current wellbeing and future vulnerability differently, particularly in the short term.

The results across the different statistical approaches are summarised in **Table 3.3.**

The findings broadly point towards reduction in poverty and vulnerability across different methods: The study finds that microcredit borrowing is associated with reductions in multidimensional poverty and vulnerability to future multidimensional poverty, although the statistical significance and magnitude of the effects vary across methods.

The findings are important as they point to two distinct roles for microcredit. The first is an improvement in current wellbeing, reflected in lower deprivation across education, health and standard of living. The second is an improvement in future resilience, reflected in a lower risk of facing multidimensional poverty in the future. The study therefore suggests that the benefits of microcredit may extend beyond meeting immediate financial needs to strengthening households' ability to cope with future deprivation.

The results extend across both MFIs and SHGs: The instrumental-variable analysis separately examines households borrowing from MFIs and those borrowing from SHGs. The study finds reductions in both multidimensional poverty and vulnerability for borrowing through each source. This is relevant because MFIs and SHGs represent different models for providing micro-credit. The findings indicate that the overall result is not attributable only to one of these channels.

Rural and urban households show different patterns of impact: The study also examines rural and urban households separately. Under the instrumental-variable approach, microcredit is found to reduce vulnerability to future multidimensional poverty among rural households, while an effect on their current

Table 3.3: Microcredit and MDP – findings across different statistical approaches

Method	Current MDP	Vulnerability to future poverty	What the result tells us
TWFE	Not statistically significant	↓ Significant	Reduction in vulnerability; effect on current poverty is not statistically established
IV-2SLS	↓ 6.8 pp*	↓ 1.8 pp*	Significant reduction in both current poverty and future vulnerability
FRDD	Mixed across cut-offs	Mixed across cut-offs	Results vary across the cut-offs tested; provides an additional robustness check rather than a uniform estimate
DID	↓ 0.4 pp*	↓ 0.5 pp*	Households starting microcredit show reductions in both outcomes compared with households that remain non-borrowers

Note: ↓ indicates a reduction; *Results are statistically significant based on levels reported in the study; Estimates across methods are not directly comparable because the methods use different identification approaches and assumptions. FRDD estimates are specific to households around the respective cut-offs.

multidimensional poverty is not established. Among urban households, the effect is seen in lower current multidimensional poverty, while an effect on future vulnerability is not established under this particular analysis.

The authors suggest that this difference may reflect the nature of economic activity and the time required for investments to generate returns. In rural areas, loans may be invested in agriculture or small enterprises where returns take time to materialise and may therefore be reflected more strongly in reduced future vulnerability. In urban areas, better market access and infrastructure may allow investments to generate returns more quickly, resulting in a more immediate improvement in current wellbeing. This is an interpretation offered by the authors to explain the observed pattern rather than a separate effect directly established by the analysis.

However, the rural–urban finding is more nuanced when examined through another method. The DID analysis focuses specifically on households that move from being non-borrowers to microcredit borrowers. Here, the study finds reductions in both current multidimensional poverty and future vulnerability in rural as well as urban areas. This suggests that microcredit can improve household wellbeing in both settings, although the relative strength and timing of its effects may differ.

The purpose of borrowing influences how the benefits emerge: The study also separates microcredit according to whether it is used for productive purposes or for household expenditure. The broader instrumental-variable analysis finds that both types of borrowing reduce current multidimensional poverty and future vulnerability.

The DID analysis, which examines the shorter-term change among households moving into microcredit, provides an additional insight. In this analysis, productive-purpose borrowing reduces vulnerability to future poverty but is associated with higher current multidimensional deprivation. In contrast, borrowing for household expenditure reduces both current poverty and future vulnerability.

The authors interpret the result for productive borrowing as a possible trade-off between current and future wellbeing. A household investing borrowed funds in a productive activity may have to reduce some expenditure on its immediate needs while waiting for the investment to generate returns. Current measured wellbeing may therefore not improve immediately, even though the household becomes less vulnerable to poverty in the future. Loans used for household expenditure, on the other hand, can directly address current needs such as housing, medical expenses or consumption and therefore have a more immediate effect on deprivation.

3.2.4 What does the study add to the evidence

The significance of the study lies in examining microcredit not simply in terms of access to finance or use of loans, but in relation to wider household outcomes. By considering education, health and standard of living together, the study provides a broader assessment of the impact of microcredit on household wellbeing. Its inclusion of vulnerability adds an important forward-looking dimension, examining not only whether households experience lower levels of deprivation at present, but also whether they are less vulnerable to multidimensional poverty in the future.

An important strength of the study is that it examines the relationship using several empirical approaches. While the magnitude and statistical significance of the results vary across methods, the evidence broadly points in the same direction – microcredit is associated with reductions in current multidimensional poverty and/or vulnerability to future poverty. The findings also show that the nature and timing of these effects can

differ across households and according to the purpose for which credit is used. This is particularly relevant for productive borrowing, where investment made today may take time to translate into improvements in household wellbeing.

The study therefore adds an important dimension to the evidence presented in this chapter. The NCAER studies show how small borrowing has become more formalised, how the use of credit has changed and how borrowers now engage with a wider range of financial services. The second research takes the analysis further by providing empirical evidence that microcredit can contribute to improvements in household wellbeing and resilience. Together, the two sets of evidence provide a stronger basis for assessing the wider contribution of microfinance to financial inclusion, which is discussed in the following section.

3.3 Conclusion - microfinance is contributing to progress of financial inclusion

The evidence from the two studies points to a clear contribution of microfinance to the progress of financial inclusion in India:

- Small borrowing has become much more formal. The comparison of the NCAER studies shows a sharp shift away from informal sources of credit. In 2011, informal sources accounted for 46% of reported loans and 47% of the amount borrowed. In the 2025 study, only 1% of surveyed microfinance borrowers reported an informal loan alongside their formal loans. Microfinance has therefore helped bring small borrowers within the regulated financial system.
- Credit is increasingly supporting livelihoods and income generation. The share of loans used for business or productive purposes increased from 45% in the 2011 study to 75.4% in 2025. The findings also show a strong link between borrowing, business activity and women's contribution to household income. This is closely aligned with the National Strategy for Financial Inclusion (NSFI) 2025–30 objective of linking financial services with livelihoods and its focus on women-led financial inclusion.
- Microfinance borrowers are participating more widely in formal finance. The NCAER study shows that today's borrowers are not engaging with the financial system only through a loan. Bank-account ownership is universal among the surveyed borrowers, regular saving is widespread, and borrowers are also using insurance and digital financial services. Microfinance is therefore operating within, and supporting participation in, a much wider financial ecosystem.
- The benefits extend beyond access to finance. The second study provides evidence, using different statistical approaches, that microcredit is associated with reductions in current multidimensional poverty and/or vulnerability to future poverty. This connects access to finance with household wellbeing and resilience – an important part of the shift in the financial inclusion agenda from access to financial services towards household outcomes.

Taken together, these findings show how the role of microfinance has evolved. Its most direct contribution remains the provision of small, collateral-free formal credit to low-income households, particularly women. This is an important part of financial inclusion because the financial needs of such households are often small and regular access to suitable formal credit cannot be assumed merely because they have a bank account.

The NCAER evidence also shows that the contribution goes beyond access to credit. A growing share of loans is being used for

livelihood and business activities, while borrowers are regularly saving and using insurance and digital financial services. These developments have taken place alongside the wider expansion of India's banking and digital infrastructure. Microfinance has helped connect its borrowers with this broader formal financial system.

This role fits closely with the direction set by the NSFI 2025-30. The strategy moves the focus beyond financial access towards financial wellbeing and places emphasis on equitable and affordable financial services, women-led inclusion, stronger links between finance and livelihoods, financial capability and customer protection. The evidence from the NCAER studies shows clear links with several of these objectives, particularly access to formal credit, women's participation and livelihood use. The journal paper adds evidence on the next stage of this process – the contribution of microcredit to household wellbeing and resilience.

There are still areas where progress is needed. The NCAER study shows gaps in borrowers' understanding of interest rates, credit bureaus and grievance mechanisms, as well as dependence on others for some digital transactions. These findings do not take away from the progress made; rather, they point to where the next phase of financial inclusion needs greater attention – helping borrowers use financial services with greater understanding and confidence.

The evidence from the two studies therefore presents a consistent picture. Microfinance is contributing to the progress of financial inclusion by bringing low-income households into formal credit, supporting livelihoods, widening their participation in formal finance and contributing to household wellbeing and resilience. As India's financial inclusion agenda moves from access towards meaningful use and financial wellbeing, these functions make microfinance an important part of that progression.

04 POLICY AND REGULATORY ENVIRONMENT

4.1 Policy and regulatory developments – implications for microfinance

FY 2025-26 witnessed significant consolidation of the regulatory framework governing financial services. For NBFC-MFIs, the reduction in the qualifying asset (QA) requirement from 75% to 60% provided greater flexibility for portfolio diversification, as discussed in detail in the previous edition of Micro Matters. The regulatory focus during the year, however, extended beyond this change, with the RBI consolidating its regulatory directions for REs and introducing important changes relating to credit information reporting, responsible business conduct, priority-sector lending, risk management and the scale-based regulatory framework. Several of these measures were further refined in the first quarter of FY 2026-27. These developments are reshaping the operating environment for REs in the microfinance space, with implications for credit underwriting, customer engagement, funding, governance and institutional sustainability. A chronology of relevant policy and regulatory developments during FY 2025-26 is provided in **Annex A.**

4.1.1 Consolidation of regulatory framework – microfinance provisions integrated into RE-specific frameworks

The RBI undertook a comprehensive consolidation of its regulatory instructions during FY 2025-26, bringing existing instructions applicable to different categories of REs into consolidated Directions. The exercise covered banks, SFBs, RRBs, NBFCs and other REs. Importantly, the consolidation was undertaken on an "as is" basis and, therefore, did not materially alter the regulatory framework applicable to microfinance.

This has, however, changed the way the microfinance-related provisions are housed within the regulatory framework. Following the RBI's harmonised regulatory framework for microfinance introduced in Mar'22, common provisions relating to microfinance loans, including the definition of a microfinance loan, household income assessment, repayment-obligation limits, pricing and other borrower-level requirements, were applicable across REs. With the 2025 consolidation, these provisions are now incorporated into the respective Directions governing each category of RE. Thus, the provisions applicable to an NBFC-MFI are contained in the NBFC-MFI Directions read with the broader NBFC Directions, while the corresponding requirements for banks, SFBs and other REs are contained within their respective regulatory frameworks.

The exercise therefore represents primarily a reorganisation of the regulatory directions rather than a substantive change in microfinance regulation, which was done in 2022. The current exercise essentially relocates and consolidates those requirements within the regulatory framework applicable to each type of institution. For entities in microfinance space and other stakeholders, the principal implication is therefore one of regulatory navigation

and reference, rather than a change in the underlying requirements. The substantive regulatory developments during FY 2025-26 are discussed in the subsequent sections.

4.1.2 Credit information reporting – closing the information gap

The frequency of reporting data to the credit bureaus is particularly important for microfinance, where lending is unsecured, loan disbursals are frequent and the same low-income household may have relationships with multiple formal lenders. A higher reporting frequency will provide a more accurate view of a borrower's indebtedness, enabling better compliance with RBI's Fixed Obligation to Income Ratio (FOIR) for microfinance loans as well as MFIN Guardrails.

RBI's move to increase the frequency of credit information reporting marks an important shift in this direction. Reporting to Credit Information Companies (CICs), which had earlier been monthly, was moved to a fortnightly cycle from Jan'25[97] and to a weekly frequency from Dec'25.[98] For microfinance, where responsible lending depends critically on an accurate assessment of existing indebtedness, reducing this information lag strengthens the ability of lenders to identify multiple borrowing and make better-informed credit decisions.

However, while weekly reporting should be viewed as an important step forward – MFIN's position is that the sector should progressively move towards daily credit bureau reporting across all REs; for MFIN Members it is mandatory as per MFIN Directive.

4.1.3 Responsible Business Conduct – strengthening customer protection and accountability

Through Responsible Business Conduct (RBC), the RBI has strengthened expectations around fair treatment, responsible recovery, customer privacy, grievance redressal and accountability for outsourced activities. The RBC Directions, 2025[99], issued separately for different categories of REs, consolidated existing customer-facing requirements, including those relating to microfinance conduct and recovery practices.

The framework was further expanded in 2026. The Second Amendment in Jun'26[100] introduced comprehensive requirements around advertising, marketing and sale of financial products and services, including customer consent, suitability and safeguards against mis-selling and compulsory bundling. These are particularly relevant for REs distributing insurance and other third-party products alongside microfinance loans.

The Aug'26[101] amendments, effective from 1st Jan'27, introduced a more comprehensive recovery framework across RE categories, covering recovery-agent due diligence and training, RE oversight, borrower communication, grievance redressal, privacy and prohibited recovery practices. They also integrate the specific requirements applicable to collection and recovery of microfinance loans within the broader recovery framework. **Table 4.1** captures the evolution of RBC.

[97] RBI, 2025. "CIC Amendment Directions, 2025", Jan'25, Clause 6(b), subsequently withdrawn.

[98] RBI 2025. "CIC Amendment Directions, 2025", Dec'25, Clause 4(ix)

[99] RBI,2025. "RBC 2025 Directions", Nov'25

[100] RBI, 2026. "RBI 2025, Second Amendment Directions", Jun'26

[101] RBI, 2026. "RBI 2025, Third Amendment Directions", Aug'26

Table 4.1: Evolution of RBI's RBC framework

Evolution stage	Covered under	What it established / added	Significance for microfinance
Common microfinance conduct framework	Regulatory Framework for Microfinance Loans, March 2022[102] – applicable uniformly to all REs providing microfinance loans	Established a common borrower-protection framework covering Fair Practices Code, borrower disclosures, conduct of field staff, recovery at designated places, prohibition of harsh recovery practices, grievance redressal and voluntary sale of non-credit products.	For the first time, banks, SFBs, NBFCs and all REs providing microfinance were subject to a common conduct framework, irrespective of institutional form.
Integration into entity-specific RBC frameworks	Responsible Business Conduct Directions, Nov'25 – issued separately for different categories of REs	Existing customer-conduct requirements, including those applicable to microfinance, were consolidated into the respective RBC Directions governing each category of RE.	Primarily a regulatory reorganisation rather than a change in the underlying microfinance conduct standards. The common 2022 principles continued, but were housed within RE-specific regulatory frameworks.
Extension to marketing and sale of financial products	RBC Second Amendment Directions, Jun'26	Strengthened conduct requirements around advertising, marketing and sale of financial products, including consent, suitability/appropriateness and safeguards against mis-selling and compulsory bundling.	Relevant where microfinance lenders distribute insurance, pension or other financial products alongside credit; strengthens protection against inappropriate cross-selling.
Comprehensive recovery-conduct framework	RBC Third Amendment Directions, Aug'26 – effective 1 Jan'27	Introduced a more detailed framework for recovery governance and recovery agents, including due diligence/training, RE oversight, borrower privacy and communication, recovery timings, prohibited practices, grievance mechanisms and recording of recovery calls.	Moves the framework from broad conduct principles towards process-based accountability. Strengthens borrower protection but increases operational requirements for microfinance, particularly around recovery-call recording, field processes and the 8 a.m.–7 p.m. recovery window.

[102] RBI, 2022. "Master Directions, Regulatory Framework for Microfinance Loans", Mar'22. Updated Jul'25, subsequently withdrawn.

These provisions strengthen borrower protection and accountability. However, recovery-related contact and visits prescribed between 8:00 a.m. and 7:00 p.m. could create operational challenges for microfinance. In many rural areas, particularly during summer, borrowers leave early for agricultural and other work, often before 8:00 a.m. A delayed start to centre meetings or collection activities could therefore make it harder to reach borrowers at a convenient time and may require REs to redesign meeting schedules and field routes. The challenge is to balance borrower protection with the practical realities of rural livelihoods.

Another significant requirement is recording of recovery calls, including calls from/to field staff/recovery agents & borrowers. REs must also maintain records of recovery calls for six months, or longer where required. MFIN supports call recording as a client-protection and accountability measure, but has highlighted the operational burden of applying it to the large volume of routine interactions in the sector. A proportionate approach that focuses enhanced documentation on recovery interactions involving overdue accounts or active grievances could preserve the accountability objective while avoiding unnecessary compliance costs.

Overall, the RBC framework is moving from broad principles of fair treatment towards greater accountability at customer touchpoints. For REs providing microfinance, the challenge will be to implement these safeguards at scale while retaining the operational flexibility required by a high-frequency, field-based delivery model.

4.1.4 Risk management – strengthening resilience to borrower and portfolio shocks

RBI's 2025 consolidation exercise also reorganised prudential and risk-management requirements into separate Directions on credit risk management (CRM),[103] concentration risk management (CNRM),[104] resolution of stressed-assets (RSA),[105] income recognition, asset classification and provisioning (IRACP)[106] for different categories of REs, including NBFCs. The exercise was largely consolidative, but it created a clearer risk-management framework around the lending business. The three themes which these updates covered are described below.

Calamity risk – from post-event relief to risk assessment and resolution: A more substantive change came in Apr'26, when RBI repealed[107] the direction on 'relief measures by banks in areas affected by natural calamities' and harmonised the regulatory treatment of exposures affected by natural calamities across all REs through respective directions on CRM, RSA, RBC and IRACP. The revised framework, effective 1st Jul'26, requires credit assessments to factor in the possible impact of calamities on affected borrowers and aligns the treatment of restructuring, asset classification, provisioning and borrower relief across RE categories.

This is particularly relevant for microfinance because borrower repayment capacity is often closely linked to local livelihoods, agriculture and informal economic activity, which can be disrupted sharply by floods, droughts, cyclones and other localised shocks. The revised framework moves calamity risk

[103] RBI, 2025. "NBFCs Credit Risk Management Directions", Nov'25. Updated Jul'26.

[104] RBI, 2025. "NBFCs Concentration Risk Management Directions", Nov'25. Fourth Amendment, updated Aug'26

[105] RBI, 2025. "NBFCs Resolution of Stressed Assets Directions", Nov'25. Updated Jul'26

[106] RBI, 2025. "NBFCs Income Recognition, Asset Classification and Provisioning Directions", Nov'25. Updated Jul'26

[107] RBI, 2026. "Relief Measures by Banks in Areas affected by Natural Calamities Directions 2018 – SCBs Repeal Directions, 2026", Apr'26

from being treated mainly as a post-event relief issue towards being considered at the credit-assessment stage itself. For lenders with geographically concentrated portfolios, this strengthens the case for incorporating local climate and livelihood vulnerability into underwriting, portfolio monitoring and contingency planning.

The framework also provides a structured route for resolution of calamity-affected accounts. Resolution plans may include rescheduling of payments, conversion of interest into another credit facility and additional finance, subject to an assessment of borrower viability, with prescribed timelines for invocation and implementation. The corresponding IRACP amendments allow eligible Standard accounts to retain their classification and accounts that slip into NPA between the calamity and implementation of the resolution plan to be upgraded to Standard upon implementation. For microfinance borrowers facing temporary income disruption, this provides scope to address short-term repayment stress while maintaining defined eligibility and prudential safeguards.[108]

Concentration risk – managing geographic and portfolio vulnerabilities: For NBFCs, RBI's CNRM Directions, 2025 prescribe a layered framework for managing concentration to individual counterparties and groups, with progressively enhanced requirements for Middle-Layer (ML) and Upper-Layer (UL) NBFCs, under the Scale Based Regulation (SBR)[109] framework. For NBFC-MFIs specifically, the Directions[110] additionally require Board-approved internal exposure limits to avoid undesirable concentration in specific geographical locations. The June 2026 Third Amendment further refined the framework for Upper-Layer and government-owned NBFCs, including withdrawal of the earlier exemption from concentration norms available to government-owned NBFCs.

For microfinance, geographic concentration is particularly relevant as a localised economic, climatic or livelihood shock can affect a large number of borrowers simultaneously. Together with the calamity-risk framework, these provisions reinforce the importance of geographic diversification and monitoring of location-specific portfolio vulnerabilities.

Systemic risk – simpler identification of Upper Layer NBFCs: Separately, RBI simplified the methodology for identifying UL NBFCs in June 2026, replacing the earlier parametric scoring methodology with a definitive asset-size threshold of Rs 1 Lk Cr and above.[111] Eligible government-owned NBFCs were also brought within the UL framework, while the threshold will be reviewed every three years. MFIN welcomed the changes as making the framework simpler, more transparent and ownership-neutral. For microfinance, the change is relevant primarily to NBFC-MFIs reaching systemic scale rather than to the sector as a whole.

Overall, these developments point towards a more forward-looking and proportionate approach to risk management – assessing borrower vulnerability before stress emerges, managing portfolio concentrations that can amplify shocks, and applying enhanced prudential requirements as institutions become systemically significant. For microfinance, they reinforce the need to integrate climate, geography and livelihood risk more explicitly into credit and portfolio management.

4.1.5 Priority-sector lending – greater flexibility and stronger traceability

The revised PSL Directions, 2025[112] came into effect from 1st Apr'25. As discussed in the previous edition of Micro Matters, the framework introduced several changes relevant to microfinance, including removal of the co-terminus requirement for bank lending

[108] NBFC-RSA paras 122E–122L for resolution & NBFC-IRACP 27A–27B for prudential treatment

[109] RBI, 2025. "NBFCs – Registration, Exemptions and Framework for Scale Based Regulation", Nov'25. Updated Jul'26.

[110] RBI, 2025. "NBFC-MFIs Directions", paras 10(1) & 37, Nov'25; CNRM Directions, paras 3, 6/8, 13 and 25–26

[111] RBI, 2026 "NBFC – Registration, Exemptions and Framework for Scale Based Regulation", Jun'26. Updated Jun'26.

[112] RBI, 2025. "PSL – Targets and Classification", Mar'25. Updated Aug'26.

to NBFCs/HFCs for on-lending, inclusion of JLGs within the weaker-sections framework and removal of processing fee on loan size of up to Rs 50,000 which was earlier Rs 25,000. These changes provided greater flexibility in structuring bank funding to NBFCs and broadened the treatment of smaller borrowers within the PSL framework. During FY 2025-26, two subsequent developments are particularly relevant to microfinance as discussed below.

Lower PSL requirement for SFBs: RBI reduced the overall PSL target for SFBs from 75% to 60% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBSE), effective from FY 2025-26. The earlier requirement of 75% had two components – 40% core PSL and 35% additional PSL. The reduction is in the additional PSL component from 35% to 20% which is flexible in nature unlike the core PSL with strict sub-targets. The additional PSL provides a competitive advantage to the SFBs given their experience in microfinance and MSME loans, which could be monetised via Priority Sector Lending Certificates (PSLC) if overachieved.

The change gives SFBs greater flexibility to diversify their portfolios beyond priority-sector assets. Given the importance of microfinance in the portfolios of several SFBs, it could reduce the regulatory incentive for incremental microfinance lending solely for meeting the overall PSL target. The actual impact, however, will depend on individual business strategies, as microfinance remains a core business segment for several SFBs.

Stronger traceability of PSL funding to MFIs: The Jan'26 amendment strengthened the conditions governing bank lending to MFIs for on-lending. Under para 22, banks are now required to obtain an external auditor's certificate from the MFI confirming that the on-lending benefit in respect of the loans has not been claimed from any other bank. The underlying framework remains unchanged – eligible bank lending to NBFC-MFIs and other MFIs continues to qualify as PSL under the relevant categories, subject to the conditions prescribed in para 22.

For NBFC-MFIs borrowing from multiple banks, the amendment increases the need for clear mapping of bank funding to the underlying eligible portfolio and auditable records to ensure that the same loans are not used to support PSL claims by more than one bank. The change therefore strengthens traceability without restricting the basic availability of PSL-linked bank funding to MFIs.

Overall, the developments during the year preserve microfinance's role within the PSL framework while combining greater portfolio flexibility for SFBs with stronger controls over PSL attribution for bank funding to MFIs.

4.1.6 Other regulatory developments

A few other regulatory developments during the year have implications for microfinance and NBFC-MFIs.

KYC - easier updation and greater customer inclusion: RBI amended the KYC Directions in Jun'25 and Aug'25,[113] with measures aimed at easing periodic KYC and reducing customer exclusion.

- Low-risk individual customers can continue transactions while completing periodic KYC within one year of its due date or up to 30th Jun'26, whichever is later [Para 38].
- Banks can use Business Correspondents (BCs) to obtain self-declarations where there is no change in KYC information or only a change in address [Para 38(a)(iia)].
- REs are required to provide advance intimations and reminders to customers for completing periodic KYC [Para 38(e)].

[113] RBI, 2025. "Master Direction - KYC Direction, 2016", Aug'25. Updated Aug'25.

- The August amendment strengthened accessibility for Persons with Disabilities (PwDs) and customers with special needs, including safeguards against rejection of onboarding/KYC applications without due consideration and recognition of Aadhaar Face Authentication.

The changes make periodic KYC easier for low-income customers and strengthen safeguards against exclusion from formal financial services. This is particularly relevant for microfinance customers for whom repeated documentation or physical access to branches can create barriers to continued access to banking services & credit.

Digital lending – greater transparency in multi-lender platforms: RBI strengthened the digital-lending framework in May'25[114] with two new measures, which were subsequently incorporated into the NBFC – Credit Facilities Directions, 2025 as part of the Nov'25 regulatory consolidation.

- Where a Lending Service Provider (LSP) has arrangements with multiple lenders, borrowers must be shown all matching loan offers, with key information including lender name, loan amount, tenor, APR, monthly repayment obligation and penal charges to enable comparison. LSPs cannot use dark or deceptive patterns to favour a particular lender [Para 7].
- NBFCs are required to report their DLAs and those of their LSPs to RBI for inclusion in the centralised directory [Para 21].

For NBFC-MFIs using digital channels or LSPs, these changes improve transparency at the point of loan selection and make it easier for borrowers to identify digital lending apps associated with regulated lenders.

Pre-payment charges – removing restrictions on early repayment: RBI strengthened and harmonised the framework for pre-payment charges in Jul'25[115]; the requirements are now contained in the NBFC – RBC Directions, 2025 and apply to loans sanctioned or renewed from 1st Jan'26.

- For covered floating-rate loans to individuals for non-business purposes, the existing prohibition on pre-payment charges continues [Para 34(1)].
- The framework now expressly provides that the prohibition applies to part or full pre-payment, irrespective of the source of funds used and without any minimum lock-in period [Para 34(3)]. NBFCs therefore cannot use lock-in conditions or the source of refinancing to restrict a borrower's ability to prepay an eligible loan without charge.
- Any applicable pre-payment charge must be disclosed upfront in the sanction letter, loan agreement and, where applicable, the KFS; an undisclosed charge cannot subsequently be levied [Para 34(8)].

For microfinance, the direct impact is limited as microfinance loans are fixed-rate; the change is therefore relevant mainly as part of the broader strengthening of borrower-protection standards.

FIDC recognised as SRO for NBFCs: RBI recognised the Finance Industry Development Council (FIDC) as an SRO for NBFCs in Oct'25[116], under its Omnibus Framework for recognition of SROs. This establishes an SRO framework for the wider NBFC sector, alongside the existing SRO framework for microfinance. The recognition reflects RBI's approach of using self-regulation to complement direct supervision and strengthen standards within regulated sectors.

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[114] RBI, 2025. "Digital Lending Directions", May'25. Subsequently withdrawn and incorporated into NBFC Credit Facilities Directions 2025, paras 7 &21.

[115] RBI, 2025. "Pre-payment Charges on Loans Directions", May'25. Subsequently withdrawn & incorporated into NBFC RBC Directions 2025, paras 33-34.

[116] RBI, 2025. Press release on recognition of SRO for NBFCs, 03rd Oct'25.

4.2
Credit Information Reporting – RBI directions on appropriate reporting and the continued challenges

4.2.1 RBI Directions on appropriate reporting of microfinance loans

For last one year or so, MFIN noticed that that a significant portion of the portfolio earlier reported to the microfinance bureau was shifted to the retail bureau. MFIN's QAR/ GAR exercises also showed unusually sharp declines in fresh disbursements reported by some leading institutions, which was not commensurate with the overall industry trend, which indicated fresh disbursement in consumer bureau in place of microfinance bureau.

This was seen as leading to inferior outcomes as a) lenders checking the comprehensive credit bureau reports would not see the correct exposure under microfinance, which may lead to violation of guardrails on cap of number of microfinance lenders and consequently b) the core purpose of the microfinance bureau and Guardrails to check over-indebtedness would get compromised. This shifting was made possible due to availability of "microfinance" tags in the consumer bureau format and the fact that, the consumer bureau does not require HHI reporting.

MFIN initiative: The above issues were discussed in detail at MFIN SROC and Board and were subsequently taken up with the RBI in Dec'25, following which a Technical Working Group (TWG) was constituted by the RBI in Feb'26 with representatives from credit bureaus, lending institutions and MFIN to examine the issues. MFIN participated in several rounds of these TWG meetings and submitted its views on the matter.

Resolution provided by the RBI: Based on the TWG recommendations and MFIN submissions, RBI issued instructions to the CICs in Sep'26 correcting this anomaly. The instructions state the following:

a) **Reporting of group loans:** All group loans should be reported exclusively to the microfinance bureau, irrespective of the household income of the borrower. One of the reasons given for inaccurate reporting of such loans to consumer bureau was the impact on the data quality index (DQI) score of the lender, if the loans were given to HH breaching the Rs 3 Lk income norm. However, RBI has clarified that the DQI score will not be impacted in case of reporting of such JLG loans with monthly household income higher than the regulatory norm.

b) **Reporting of individual microfinance loans:** All unsecured individual loans to households having annual income up to Rs 3 Lk should be reported to the microfinance bureau, in line with the RBI's definition of microfinance.

c) **Data migration:** REs to identify all open MF loans reported in consumer segment for the purpose of migration to the MFI segment.

d) **Reporting of legacy reporting provisions in UCRF:** The existing microfinance tags/ classification in the consumer bureau format to be removed.

CICs have also been advised to complete the migration of loans inaccurately reported in consumer or commercial bureau within the next six months.

4.2.2 Progress on reporting frequency – MFIN took the lead

RBI has progressively been working on strengthening of the quality, consistency and timeliness of credit information reported by financial institutions. A key step in this

direction was the Master Direction – Credit Information Reporting Directions, 2025, issued in Jan'25, which consolidated the framework for credit information reporting and placed greater emphasis on standardised reporting, data quality and resolution of discrepancies.

The effort was further strengthened in Dec'25, when RBI reduced the frequency of incremental credit information reporting by REs from fortnightly to weekly, effective Jul'26, to ensure timely and latest credit information. In addition to the weekly incremental reporting, REs are also required to provide a monthly full data dump, which serves as a comprehensive and updated submission of the overall credit portfolio.

Recognising the importance of timely credit information, MFIN had been advising its members since 2019 to adopt daily incremental reporting, mainly to address multiple lending and over-indebtedness risks. RBI's latest move from fortnightly to weekly reporting brings the reporting frequency for all REs closer to that followed by the MFIN members.

4.2.3 Challenges that continue to persist

While these measures have strengthened the credit information ecosystem, certain data quality and reporting challenges continue to persist. The following points highlight these challenges and the steps being taken by MFIN to improve the quality, consistency and usefulness of credit information.

- **Inconsistencies in reporting of SHG loans**

  The reporting of SHG loans to credit bureaus continues to be an area of concern, as the entire loan amount is often reported against each individual member of the group instead of being appropriately apportioned based on their actual indebtedness. This practice overstates a borrower's true outstanding indebtedness, which can adversely affect credit assessments and access to future credit. When the same borrower approaches a lender for a JLG loan, the incorrectly reported SHG exposure can distort the assessment of individual indebtedness, number of lenders and repayment obligations. There is a need for greater clarity and standardisation in the utilisation of SHG tradelines to ensure consistency and uniformity across all REs while assessing borrower eligibility and adherence to applicable guidelines.

  The practise of reporting SHG loans in Commercial Bureau has now been checked with the RBI instructing CICs to remove the provisions for reporting SHG loans in commercial bureau.

- **No reporting of Income in the consumer bureau**

  It is suggested that for any unsecured individual loan extended to a borrower from a household with annual income above Rs 3 Lk, and consequently reported to the consumer bureau, household/ individual income should be made a mandatory reporting field, at least up to a specified loan-size threshold. This would help prevent non-compliant microfinance loans from being classified under the consumer bureau merely to avoid regulation and guardrails applicable on microfinance loans.

  While mandatory income reporting may be viewed as creating additional operational requirements, the concern is overstated. REs are already required to assess income at the time of sanction and rely on such assessment to determine whether the borrower falls above the Rs 3 Lk HHI threshold. Moreover, no unsecured lending is done without income estimation, and the only difference can be that in microfinance, household income is seen, while in retail, individual income is seen. But this also fails the test of logic as Individual income will in itself, be a check as individual income can at best be equal to household income or less but not more

than household income. The present gap arises because income is not a mandatory field in the Consumer UCRF.

This gap creates scope for regulatory arbitrage, particularly in the case of unsecured lending to customers who may otherwise fall within the microfinance borrower segment. Such loans can potentially be reported to the consumer bureau without corresponding income information, limiting the ability to verify whether their classification outside the microfinance segment is appropriate. Making income reporting mandatory for unsecured consumer loans up to a defined threshold would strengthen transparency and enable more effective monitoring of such classification.

- **Daily reporting of loans**

  The RBI has progressively strengthened the frequency of credit information reporting, with reporting of incremental credit information moving to a weekly basis from 01st Jul'26. While this represents a significant improvement in the timeliness and availability of credit information, the next logical step should be a transition towards daily reporting. With increasing digitisation and technology-enabled lending processes, more frequent submission and updating of credit information is increasingly feasible. Daily reporting would enable lenders to access more current and comprehensive borrower information at the time of underwriting.

  The microfinance sector has already demonstrated the feasibility of such a framework, with MFIN mandating daily credit bureau reporting for its member institutions for the past several years. Extending daily reporting across all REs would further reduce information asymmetry, strengthen credit underwriting and help prevent multiple lending and over-indebtedness, particularly in segments where borrowers may access credit from different categories of lenders.

  MFIN will continue to engage with the RBI and the CICs on these outstanding issues to ensure that credit information reporting is accurate, consistent and comprehensive, enabling lenders to assess borrowers' indebtedness appropriately and strengthening compliance with the regulatory framework.

4.3 State level interventions and their impact on microfinance operations and credit discipline

The year saw two of the three largest microfinance states, Bihar and Tamil Nadu, legislate against coercive recovery by money lending entities, while Karnataka notified the Rules under the Act it had passed the previous year. Alongside the statutes, the year also saw the influence of non-state actors on borrowers, unregulated lenders duping borrowers, and in a few states inaccurate reporting in the regional print and electronic media.

4.3.1 State legislations – dual regulation obviated for Member REs

Member REs operated in Karnataka, Tamil Nadu and Bihar with state legislations in vogue on prevention of coercive actions. MFIN remained closely engaged with policy makers in each of these States, offering inputs on clauses concerning the operations of REs, to ensure that member entities continue to serve borrowers without operational disruption. At every stage of these developments, RBI was kept duly apprised, and its intervention was sought with the respective State Governments for the total exemption of Regulated Entities from the purview of these State legislations.

Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Act, 2025

The Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Act, 2025 was notified on 25th Mar'25 and the REs of RBI were totally exempted from the applicability of the provisions of the Act. In Aug'25, the draft Rules for comments were notified. Three clauses, all from the definitions, drew MFIN's attention since these definitions, if included, were likely to create confusion among the administrators and the borrowers. Section 2 of the draft Rules reproduced RBI definitions of NBFC-MFI, Microfinance Loan and NBFC. MFIN suggested to drop these three definitions as there was no need to define them in the Rules, since REs were totally exempted from the provisions of the Act. The Government of Karnataka acceded to the suggestions made by MFIN and removed these definitions from the Rules notified in Oct'25.

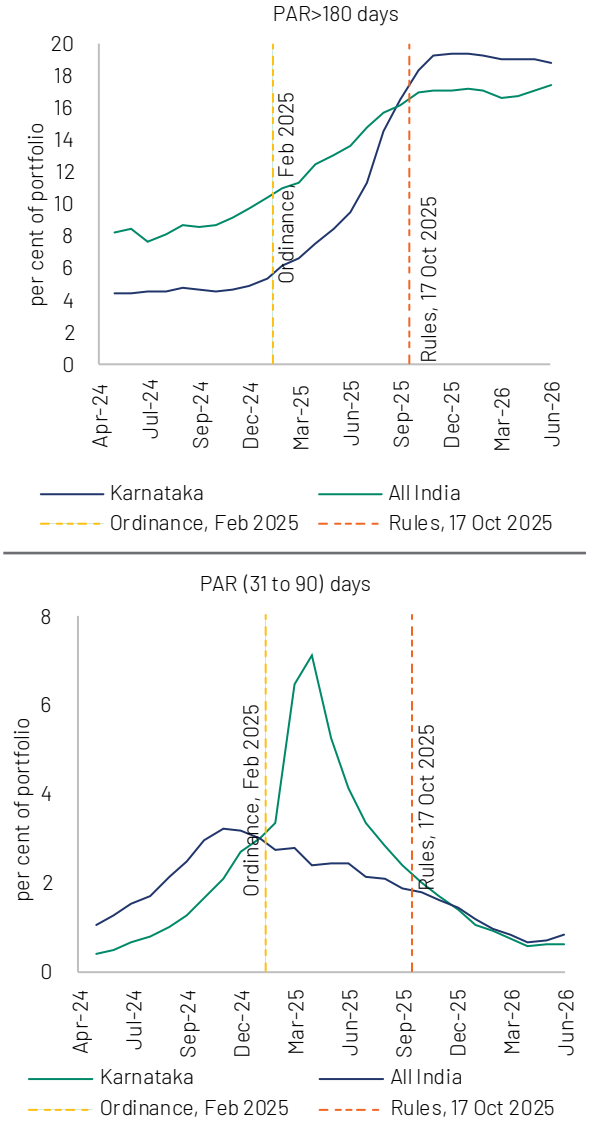
The aspect of non-applicability of the Act for the Member REs, however, did not percolate down to the district administrations and the Police effectively, and non-state actors and wilful defaulters, on the other hand, took advantage of the gap. MFIN undertook outreach with the district administrations, represented in all meetings convened by the DCs and the Guardian Ministers, and clarified the position. MFIN reached out to the borrowers through Microfinance Awareness Programmes at Gram Panchayat level and convened capacity building workshops with the operations teams of Member REs.

With the above concerted outreach, MFIN prevailed upon the district officials and the borrowers that the Act is not applicable to the regulated microfinance entities of RBI. However, the misperception created by vested interests at field level and the misinformation campaigns of the media has led to severe impact on the financial inclusion and asset quality in Karnataka.

Figure 4.1 measures the effect. PAR>180 days was at 4.89% in Dec'24 (months before the Ordinance was promulgated in Feb'25) against 9.74% nationally. By Jan'26, PAR>180 days in Karnataka peaked to 19.34%, above the All-India value of 17.14%.

The right panel of the exhibit indicates that early delinquency i.e., PAR (31-90) days in Karnataka, which peaked in Apr'25 (post Ordinance) but significantly improved by Apr'26 to 0.57%, below the All-India value of 0.65%.

Figure 4.1: Karnataka vis-à-vis Pan India, Apr'24 to Jun'26



Note: Dashed vertical lines indicate the Ordinance of Feb'25 and the Rules of 17th Oct'25.

Source: MFIN database

The Tamil Nadu Money Lending Entities (Prevention of Coercive Actions) Act, 2025

The Tamil Nadu Money Lending Entities Act came into force on 9th Jun'25 with the corresponding Rules notified by the Government of Tamil Nadu on 19th Nov'25. Section 2 of the Act exempted Banks, NBFCs, Co-operative Banks and Co-operative societies from its operation, but the provisions relating to 'coercive actions' against the borrower were made applicable through the proviso to Sec 2 of the Act to the NBFCs registered with the RBI, Co-operative Banks and Co-operative societies.

At the time of framing up of the Rules in Aug'25, Government of Tamil Nadu sought comments and suggestions from MFIN on the draft Rules. In response, MFIN, while acknowledging the concerns of the state government relating to unfair recovery practices by the Money Lending Entities, raised the fundamental issue of dual regulation on NBFCs in the Act. The submissions of MFIN rested on the settled position that State legislation cannot regulate REs of the RBI and referred to the case of Nedumpilli Finance Company Limited v. State of Kerala & Ors., decided on 10th May'22. The Hon'ble Supreme Court of India in this case held that Chapter III B of the RBI Act, 1934 is a complete code in itself governing NBFCs, and that State money lending laws have no application to NBFCs registered with and regulated by the Reserve Bank of India, a view subsequently adopted by the Hon'ble High Court of Telangana in SKS Micro Finance Ltd. v. State of Andhra Pradesh.

MFIN highlighted that inclusion of REs of RBI viz., NBFCs under the provisions of coercive actions of the State Act was neither in consonance with the established law nor has relevance, as these aspects are already covered by the RBI and MFIN as an SRO.

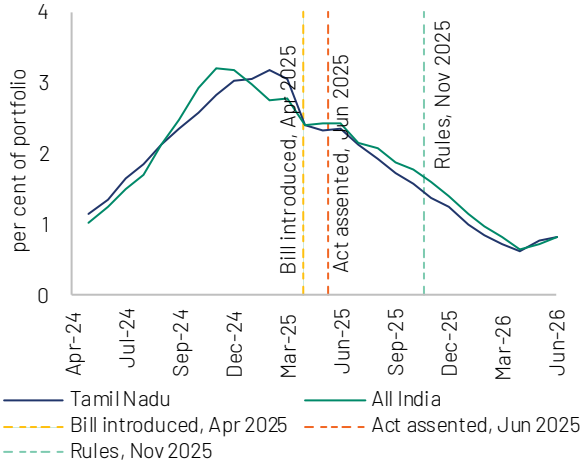
Despite the Act and the Rules, operations of REs in the State have continued without disruption, and no instance of interference by the district administration or the police was reported, including in the run up to the assembly elections of Apr'26 and thereafter. **Figure 4.2** further shows that credit discipline among borrowers in Tamil Nadu improved between Apr'25 and Jun'26. PAR (31-90) days, which had peaked in Q4 FY 2024-25 before the enactment, declined markedly thereafter and has held at the lower level since.

The Bihar Micro Finance Institutions (Regulation of Money Lending and Prevention of Coercive Actions) Act, 2026.

In Bihar, the Bihar Micro Finance Institutions (Regulation of Money Lending and Prevention of Coercive Actions) Bill, 2026 was passed by the Legislative Assembly on 26th Feb'26 and by the Legislative Council on 27th Feb'26 and got notified on 11th May'26.

MFIN's engagement with the officials began in Aug'25, on learning that the Finance Department had resolved to bring in legislation to curb coercive recovery practices by lending entities. The advocacy proceeded on the same grounds as in Karnataka and Tamil Nadu. Between Oct'25 and Feb'26, the team engaged with the Chief Secretary and the Finance Secretary and submitted a representation seeking the exemption of Regulated Entities in their entirety. The submissions rested, among other grounds, on the settled position that State legislation cannot regulate entities under the RBI.

Figure 4.2: Tamil Nadu vis-a-vis All-India PAR (31-90) days, Apr'24 to Jun'26



Note: Dashed vertical lines mark the Bill of 26th Apr'25, assent on 9th Jun'25 and commencement on 19th Nov'25.

Source: MFIN database

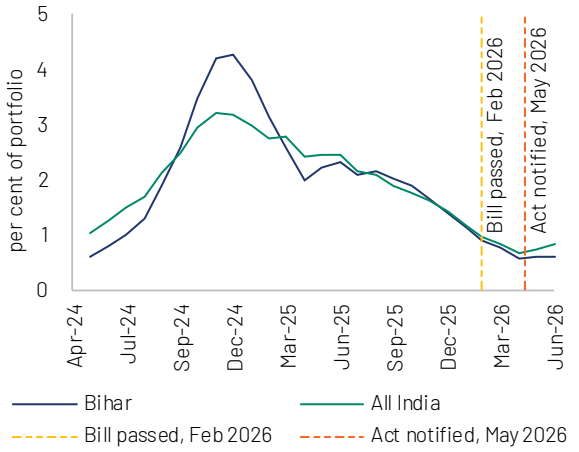
On 27th Feb'26, immediately after the passage of the Bill, MFIN issued a Press Release flagging the duality of regulation created by Section 2(3) of the Bill. Section 2(2) of the Bill exempted SCBs, RRBs, NBFCs regulated by RBI, HFCs regulated under the National Housing Bank Act, and the cooperative banking entities from the operation of the Act in respect of their lending operations. However, Section 2(3), through a non-obstante clause, brought in these very entities back within the ambit of the Act on the provisions relating to the prohibition of coercive recovery methods, borrower protection measures and fair recovery practices in respect of recovery of loans from borrowers within the State of Bihar, thereby creating the very duality of regulation.

To reinforce above position, MFIN sought a legal opinion from the Hon'ble Mr. Justice (Retd.) Dr. D. Y. Chandrachud, Former Chief Justice of India, who conclusively opined that the Bihar Bill, if enacted, would be constitutionally invalid in its application to REs, including SCBs, SFBs, NBFCs and NBFC-MFIs, and that Section 2(3) of the Bill is void and would, in any event, be overridden by the RBI Act and the relevant statutory Directions of the RBI. The opinion of the former CJI was submitted to the Hon'ble Governor of Bihar for his consideration before providing his assent to the Bill.

The notification of the Act in May'26 has not affected operations of member entities in the State, and no instance of interference by the district administration or the police has been reported since. As on 31st Aug'26, the Rules for implementation of the Act are not notified by the Government.

Figure 4.3 shows that credit discipline among borrowers in Bihar improved between Apr'25 and Jun'26. PAR (31-90) days, which had peaked at 1.98% in Apr'25, declined markedly thereafter and has held at the lower level since.

Figure 4.3: Bihar vis-a-vis All-India PAR (31-90) days, Apr'24 to Jun'26



Note: Dashed vertical lines mark the passage of the Bill on 26th Feb'26 and notification of the Act in May'26.

Source: MFIN database

In sum, the three legislations take three different positions. Karnataka exempted REs in their entirety, leaving the field rightly and exclusively to the RBI framework. Tamil Nadu retained the exemption in form but, through a proviso, subjected NBFCs and the co-operative entities to the State provisions on coercive action, leaving only banks fully exempted. The Bihar Act carried the ambit furthest, applying the recovery related provisions through a non-obstante clause to every exempted entity, with the consequence that all Regulated Entities, banks included, stand attracted to the State law for the specified subject matters.

4.3.2 Unregulated lenders and non-state actors' disruption to operations and credit discipline

The principal challenge to the sector in the field arises from the influence of non-state actors and the absence of stringent oversight of unregulated lenders. Microfinance borrowers, given their economic, social and educational profile, are easily misled and exploited, at times to the point of severe

financial stress. In a number of such cases, the disruption has translated into overdues for the REs. During the year, MFIN tracked 95 such incidents and engaged with the district administrations and local law enforcement agencies for their resolution. A few critical incidents, the MFIN interventions and their effect on credit discipline are discussed below.

Loan pipelining through commission agent

A loan-pipelining fraud involving approximately 700 microfinance loans through two local commission agents was reported from Mandla district of Madhya Pradesh in Jun'25. These agents misled the borrowers against repayment of loans to REs and instigated the latter to protest before the administration against operating MFIs. MFIN escalated the matter with the District Collector on 11th Jun'25 and subsequently met the Superintendent of Police, Mandla on 12th Jun'25. MFIN presented supporting evidence following which the accused and their associates were arrested.

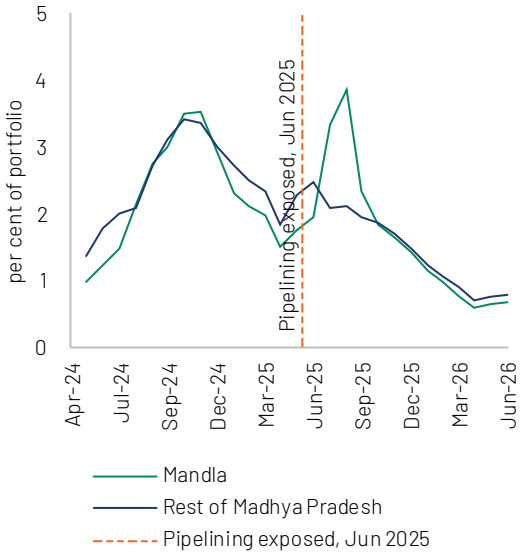
Figure 4.4 illustrates the impact of the non-state actors' interference in the district. PAR (31-90) days delinquency of the district, which peaked to 3.87% in Aug'25 compared against all other districts in the state. Credit discipline improved in the district, post the arrest of the agents.

NGO absconds with the borrowers' loan proceeds

An NGO - All India Education and Health Treatment Rural and Women Development, duped many microfinance borrowers in Purulia district of West Bengal.

This NGO encouraged borrowers to avail microfinance loans and deposit with them. In return, NGO promised to provide sewing machines to the borrowers and provide vocational training besides repaying the monthly loan instalments.

Figure 4.4: Mandla vis-à-vis rest of Madhya Pradesh, PAR (31-90) days, Apr'24 to Jul'26



Source: MFIN database

On 12th Jul'25, Member REs reported that they received official communication from Para and Kashipur police stations to cooperate in the investigation, where effected women filed complaints against the two Directors, after realizing that they had absconded with the loan amounts.

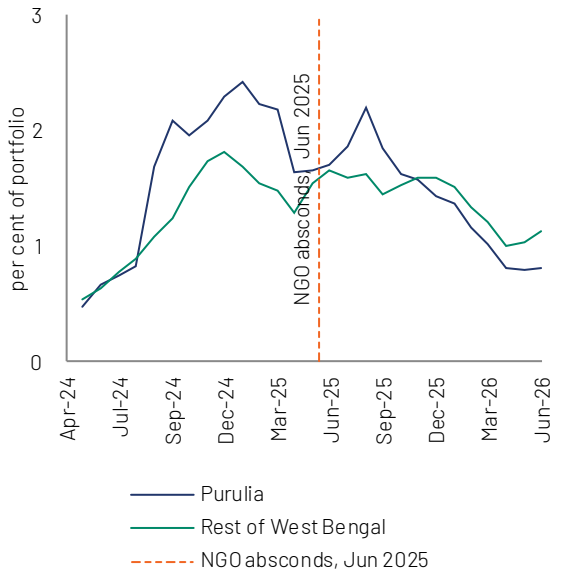
The entity deceived many persons, including around 600-750 microfinance borrowers from member REs, in various villages under the jurisdiction of Kashipur and Para police stations in the Raghunathpur area.

Member REs reported MFIN that no orders were passed by the administration restricting the operations, however, effected borrowers had conveyed their inability to repay instalments. MFIN met the District Magistrate on 22nd Jul'25 and highlighted the issue. Both the delinquent Directors were subsequently got arrested by the Police. Member REs adopted empathetic recovery approach from the OD clients.

Figure 4.5 depicts the impact of this fraud on the sector committed by the unregulated entity in the district. PAR (31-90) days delinquency of the district, which was on

the rise since Apr'25 had peaked to 2.20% in Aug'25 compared against all other districts in the state. Credit discipline subsequently improved in the district from Oct'25.

Figure 4.5: Purulia vis-à-vis rest of West Bengal, PAR (31-90) days, Apr'24 to Jul'26



Source: MFIN database

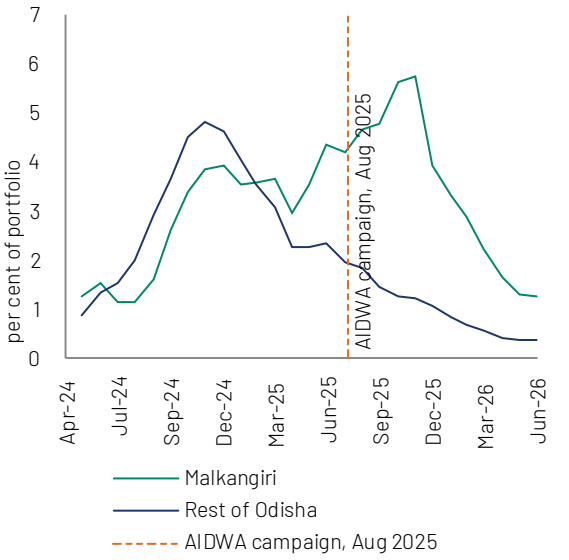
Campaigns against MFIs

All India Democratic Women Association (AIDWA) ran campaigns against the MFIs in the state of Odisha in Aug'25. AIDWA organized a public meeting, door-to-door campaigns against microfinance, which culminated with a rally and submission of representation to the SP, Malkangiri.

Member REs reported that under the influence of AIDWA, borrowers were demanding additional time of six months citing financial stress. MFIN met the DC and SP of the district on 3rd Sep'25 and submitted a representation with material evidence, including copy of representation submitted by MFIN last year, which had resulted in arrest of Karza Mukti Abhiyan (KMA) volunteer. Last year, with MFIN intervention, this KMA volunteer was arrested for misleading the borrowers in the district on loan-waivers. Post release from the custody, this KMA volunteer resumed campaign under the AIDWA banner. With the intervention of the district administration and swift action, normalcy returned and the operations resumed.

The impact of KMA and AIDWA campaigns had severely damaged the asset quality and displaced the credit discipline in the district during the period May'25 to Nov'25. **Figure 4.6** shows early delinquency i.e., PAR (31-90) days of 5.73% by Nov'25 against 1.22% in the rest of Odisha.

Figure 4.6: Malkangiri vis-à-vis Odisha, PAR (31-90) days, Apr'24 to Jul'26



Source: MFIN database

Unauthorised loan waiver campaigns

In 2023-24, the sector faced unauthorised loan waiver campaigns led by the entity, KMA spread across North, West and East Regions. The campaign subsided after the RBI issued a Press Release in Nov'23 to the borrowers cautioning them not to fall prey to the unauthorised loan waiver campaigners and report such campaigns to the local law enforcement agencies. MFIN engaged with the states and with the swift action taken against the volunteers of KMA, the campaign subsided with five districts of Punjab severely impacted. The campaign had resurfaced in

the state of Gujarat this year. MFIN came to know of their plan of events in the state, well in advance, through their social media appeals to the borrowers. Much before the scheduled public meeting in Ahmedabad planned by KMA to distribute fake loan-waiver certificates to the borrowers, MFIN engaged with the Chief Secretary, Finance Secretary and IB Chief of the state. With swift action by the state government, the campaign died down in the state within months.

There are many such instances of non-state actors' interference in the operations resulting in exploitation of vulnerable borrowers almost on daily basis somewhere in the country. MFIN tracked all such instances, pursued them with the state and district administrations for resolutions, while informing the RBI on regular basis. Few more instances are presented in **Table 4.2** with MFIN interventions and position at closure.

Table 4.2: Other non-state interventions during the year

Intervention or event	Where	Modus operandi	Impact reported by members	MFIN action	Position at close
Nari Shakti deposit scheme, Chhattisgarh; complaint 24 Dec'25	Sarangarh Bilaigarh, Raigarh	Door-to-door canvassing of tribal and microfinance borrowers to take loans from several MFIs and deposit the proceeds with the scheme on the promise that the money would double in 27 months; early instalments serviced by the scheme to build confidence	About 1,200 accounts, Rs 40 Cr exposure	Written complaint to the RBI and the district; members alerted through State and district meetings	Principal accused and associates arrested; about Rs 2 Cr recovered from bank accounts and Rs 4 Cr in cash seized; District Collector convened all REs in Jul'26 to review the impact. Member REs are emphatic during repayments from the effected borrowers.
Ringleaders, Bokakhat, Golaghat, Assam; Aug'25	Golaghat	Two ringleaders enrolled about 300 tea garden borrowers, handed each Rs 10,000 of the sanctioned loan of Rs 40,000 and retained the balance against a signed undertaking to service the instalments, then disappeared	About 300 borrowers; student association demanded a ban on MFIs; recovery paused about three months; members put the exposure at Rs 2 Cr	Continuous engagement with the District Commissioner and the Co-District Commissioner	Letter permitting recovery under the Fair Practices Code; field open from Jan'26.

Intervention or event	Where	Modus operandi	Impact reported by members	MFIN action	Position at close
Impostor society and unregulated entity, West Bengal; Dec'25	South 24 Parganas; Purba Bardha-man	A society styling itself Mahila Ujjivan Society issued loan passbooks in the name of a member SFB; in Purba Bardhaman an entity styled Swim FX collected half the sanctioned loan from borrowers on the assurance that it would repay the whole loan on their behalf	Affected borrowers stopped repaying	Escalated through the SRO to the ADGP, Economic Offences Wing; members supported the police investigation.	In both the cases, the local Police, after diligent search of the accused, could not trace them. The effected borrowers resumed repayments.

4.3.3 Non-factual media reports affecting sector reputation

Negative coverage of the sector in the print, electronic and social media, based on non-factual/wrong attribution is frequently seen. In most of these cases, any issue with money is associated with the term MFI.

MFIN routinely tracks the newspapers, electronic and social media daily and verifies the negative reporting of the sector. In case of misinformation or misattribution to the regulated entities, the matter is taken up with the respective media houses for correction or rebuttal. In few critical instances, the state and district administration are intimated about the misreporting, besides Regional Offices of RBI. Three such instances are highlighted here.

Kalaburagi, Karnataka (Jun'25). On 30th Jun'25, the online edition of the Times of India reported the death of a 46-year-old man at Sulepet town in Chincholi taluk of Kalaburagi district, under a headline attributing the suicide to harassment by microfinance personnel. MFIN carried out a field enquiry and verified the facts. The enquiry established that the lenders involved were unregulated moneylenders and not regulated microfinance institutions. On MFIN taking up the matter, the publication amended the headline to attribute the harassment to moneylenders and republished the corrected report on 2nd Jul'25.

Mysuru, Karnataka (Jun'25). On 20th Jun'25, News First Kannada and the online edition of the Times of India reported that staff of a microfinance company had taken away a seven-year-old girl from her home in Mysuru district because her parents had delayed the repayment of a loan instalment of Rs 1,280. This news item created sensation and even the Hon'ble Home Minister of state had given brief statement on the incident and directed state police to investigate the matter.

MFIN's field enquiry, based on records and statements of the persons concerned, found that the child had neither been abducted nor forcibly taken to locate her mother, as alleged. The evidence pointed to a false complaint having been lodged. The enquiry concluded that the field staff of the lender concerned had no intention of abduction, intimidation or any other coercive action.

In a separate enquiry done with the children, the Chairman, Child Welfare Committee of the state government stated that "some social

activists had produced the children and the executive before them on Thursday, accusing the official of kidnapping the minors. When we asked the children, they said they were not abused, or threatened by the accused, who was warned and let off"

MFIN submitted the findings of its Report to the Chief Secretary, Govt. of Karnataka and the Regional Director, RBI, Bengaluru.

Muzaffarpur, Bihar (Dec'25). On 15th Dec'25, reputed national and Bihar newspapers reported the deaths of a man and his three daughters at Navalpur Mishraulia village in Sakra block of Muzaffarpur district, attributing the tragedy to the burden of a microfinance loans. Few editions even attributed his spouse unnatural death a year ago to debt burden.

MFIN's enquiry found that no loan had been extended to the deceased by any member RE, since microfinance loans are extended only to women borrowers and his wife, the only person in the household who could have been a borrower, had passed away earlier. On record, elderly women neighbour of the deceased stated that deceased wife died a year ago due to appendicitis.

MFIN communicated its findings to the Director General of Police, Bihar, who constituted a Special Investigation Team to investigate the incident. A copy of the Report was also submitted to the RD, RBI, Patna.

The incidents above illustrate constant misreporting and sensationalisation, without examination or enquiry. Corrections, where secured, rarely travel as far as the original story. The damage to the sector's reputation and to the morale of field staff is, in the end, seldom made good.

In conclusion, the State legislations did not by themselves disturb the operations of Member REs or the credit discipline of borrowers during the year. The influence of non-state actors, the defrauding of borrowers by unregulated lenders and the non-factual reporting of the regional print and electronic media, however, affected asset quality, credit discipline and financial inclusion in certain regions. MFIN responded by scaling up its outreach to contain the damage, correct the perception and strengthen borrowers' awareness. **Section 6.5** describes the instruments through which these field level issues were addressed.

4.4 CGSMFI 2.0 – timely intervention, but design constraints limited uptake

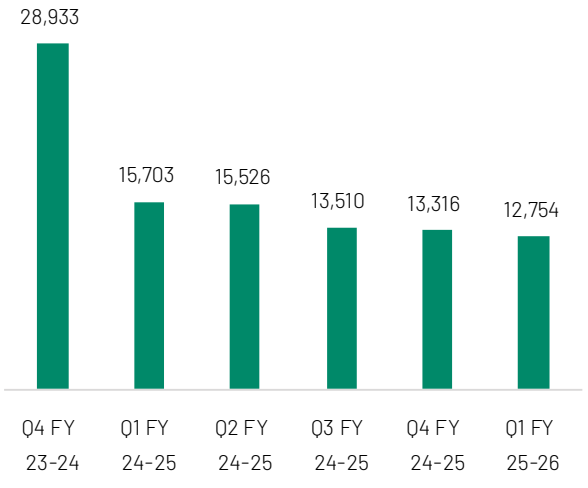
The origin of Credit Guarantee Scheme for Microfinance Institutions (CGSMFI) dates back to Jun'21 when it was launched by the DFS, Ministry of Finance (MoF), GOI, in response to the dire liquidity situation that the MFIs were facing due to the impact of Covid. Banks had become increasingly cautious about lending to MFIs, restricting their ability to on-lend and, in turn, affecting low-income households that needed credit to restore their livelihoods. The scheme was designed to encourage banks to lend to MFIs so that credit could continue to reach the microfinance borrowers. MFIN was closely involved with the DFS in the design of the scheme, participation of its Member NBFC-MFIs and monitoring of credit deployment to the borrowers.

CGSMFI 1.0, which provided guarantee cover of up to Rs 7,500 Cr for lending by Member Lending Institutions (MLIs), was fully utilized within 75 days of launch, showing that a targeted guarantee unlocked bank lending when risk appetite was weak. The scheme infused confidence in the banking sector to resume funding to NBFC-MFIs and as reported to MFIN, Rs 7,200 Cr was disbursed to 38 member MFIs. This was on-lent to about 17.75 Lk microfinance borrowers. Further, despite the disruption caused by Covid in terms of portfolio quality, there was no pecuniary loss to the government.

A similar liquidity situation emerged by the prolonged sectoral crisis during FY 2024-25 and a large part of FY 2025-26 due to heat waves, effects of loan-waiver campaigns (KMA) and other external factors. The impact was severe for NBFC-MFIs who are the largest providers of micro-credit in the country (accounting for more than 40% of the total industry portfolio during FY 25-26). Being non-deposit taking entities, they are dependent on debt funds from external sources to service their borrowers/clients. MFIN Micrometer data shows that the majority of the funding to NBFC-MFIs is provided by Banks (around 80% of the total), followed by NBFCs (around 10%).

Quarterly funding received by NBFC-MFIs declined sharply from Q4 FY 2023-24 and continued to moderate thereafter as shown in **Figure 4.7.** The amount of funding received by MFIN member NBFC-MFIs stood at Rs 12,754 Cr in Q1 FY 2025-26, a 56% reduction from Q4 FY 2023-24 when the amount was Rs 28,933 Cr.

Figure 4.7: Total funding received (Rs Cr)

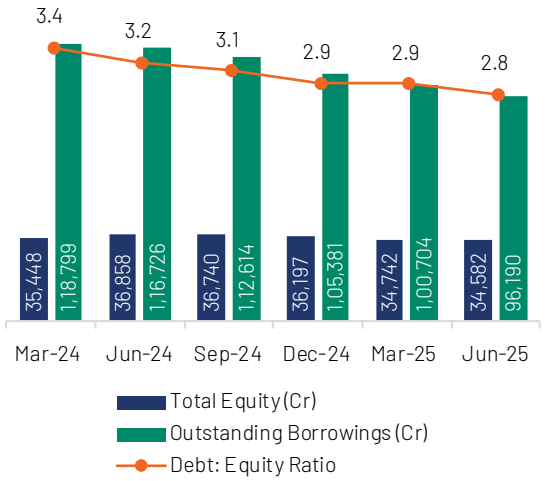


Source: MFIN Micrometer

As a consequence, the debt-to-equity ratio (**Figure 4.8**) of MFIN Member NBFC-MFIs fell to 2.8 in Jun'25 from 3.4 a year earlier, indicating reduced leverage and headroom to raise additional debt relative to equity.

Drying up of liquidity impacted the ability of NBFC-MFIs to serve microfinance borrowers. Microfinance client base declined by 1.2% in FY 2024-25, and 17.1% in FY 2025-26 with around 1.4 Cr clients pushed out of the formal credit sector over the last two years, possibly back to the informal lenders, undermining the efforts towards financial inclusion.

Figure 4.8: Debt to Equity Ratio of MFIN Member NBFC-MFIs



Source: MFIN Micrometer

MFIN proposed CGSMFI 2.0 to DFS in Aug'25, drawing on the experience of CGSMFI 1.0 to kick-start a virtuous cycle of fresh lending to the sector. The proposal envisaged certain modifications, including earmarking a portion of the guarantee for small and medium MFIs, which had been particularly affected by the crisis, and a significantly larger overall guarantee cover. Multiple interactions were subsequently held between senior officials of DFS and MFIN on the design of the scheme, which was ultimately launched on 20th Mar'26, with the National Credit Guarantee Trustee Company Limited (NCGTC) as the implementing agency.

Key features of the scheme

The scheme provides guarantee cover through the NCGTC to MLIs, banks and financial institutions, against expected losses on wholesale lending provided to NBFC-MFIs and MFIs for on-lending to microfinance borrowers. The scheme provides guarantee

support for eligible lending of up to an aggregate Rs 20,000 Cr. Following are the key features of the scheme:

- Guarantee tiered by MFI size: 80% of default for small, 75% for medium and 70% for large institutions covered.
- MLI to charge maximum EBLR or 1 Year MCLR + 2% interest per annum to NBFC-MFIs/MFIs
- MFIs and NBFC-MFIs to lend at 1% below their average lending rate over the previous six months.
- Funding was capped at 20% of the institution's own-book AUM, initially subject to maximum limits of Rs 100 Cr for small, Rs 200 Cr for medium and Rs 300 Cr for large MFIs.
- Out of the total scheme allocation 5% was earmarked to Small, 10% to Medium and remaining 85% to Large MFIs.
- The tenor was up to three years, including a one-year moratorium.

Modifications after the launch

During the scheme implementation MFIN remained in close touch with DFS to ensure proper flow of industry feedback. Based on the feedback, the following changes were made to the scheme design

- Extension of scheme up to 31st Aug'26 or till guarantees covering loans of Rs 20,000 Cr were issued, whichever was earlier.
- Increase in the maximum loan cap for large NBFC-MFIs/MFIs from Rs 300 Cr to Rs 1,000 Cr.
- Clubbing the allocation for small and medium MFIs to at least 15% of the Rs 20,000 Cr. scheme corpus, replacing the earlier separate requirement of 5% and 10% for small and medium MFIs respectively.

Scheme performance – why it delivered below expectation

CGSMFI 2.0 came at a crucial point for the sector, when portfolio quality was showing significant improvement and affordable funding could have supported the recovery and growth of the sector. The sovereign guarantee was intended to restore lender confidence and facilitate renewed credit flow to MFIs. As per the latest available update 139 guarantees worth Rs 8,464 Cr have been issued under the scheme as on 31st Aug'26[117]. Out of these about Rs 1,811 Cr was issued to small and medium MFIs and remaining Rs 6,653 Cr guarantee has been issued to large MFIs[118].

The relatively low utilisation of 42.3% appears to have reflected constraints in scheme design and implementation rather than an absence of funding requirements in the sector. The feedback from the industry indicates that a number of operational constraints limited the pace of sanctions. These include

- Difficulties faced by MLIs in meeting the prescribed category-wise allocation requirements for small and medium-sized MFIs, resulting in a cautious approach to lending.
- Credit rating requirements insisted by MLIs despite Government not mandating it made it difficult for many small MFIs despite having sound portfolio quality.
- Smaller on-balance sheet portfolios of smaller MFIs, which restrict their borrowing eligibility under the current framework.
- Scheme pricing is not attractive for many large MFIs, as they already borrow at rates below MCLR + 2%, while the Scheme required them to reduce their average lending rate by at least 1%.
- Loading of Guarantee Fee by MLIs on the lending rate

[117] DFS, Aug'26. Guarantees issued under CGSMFI

[118] NCGTC

Lessons for future design of the scheme

MFIN believes that the implementation challenges could have been addressed through a few targeted modifications that would have significantly improved the utilisation of the Scheme while retaining its core objective of expanding credit flow to low-income households. These include

- Increasing the portfolio-linked eligibility limit from 20% to 40% of the on-balance sheet portfolio and removal of the absolute borrowing caps for small and medium MFIs.
- Dispensing with the mandatory minimum allocation requirements of 5% for small MFIs and 10% for medium MFIs and instead encouraging lending to these categories on a best-effort basis.
- Acceptance of recognised grading assessments, in addition to credit ratings, for evaluating the creditworthiness of small MFIs.
- Adoption of risk-based pricing by MLIs for larger MFIs. MLIs may extend loans to well-rated MFIs at rates lower than the cap of 1 year MCLR + 2% while ensuring that the intended interest rate benefit is passed on to borrowers.

The recent liquidity stress underscores the vulnerability of microfinance institutions to periodic disruptions in funding, particularly when deterioration in portfolio quality leads lenders to become more risk averse. Given the critical role of microfinance in extending formal credit to underserved households, the experience of CGSMFI 2.0 should therefore inform the design of future liquidity-support mechanisms rather than diminish the relevance of the guarantee instrument itself. MFIN was closely involved with DFS in the design of CGSMFI 2.0 and, in retrospect, some of the design constraints that affected its uptake could have been better anticipated, including through wider consultation with prospective MLIs. The implementation experience has provided important lessons on how eligibility, allocation and pricing structures need to be calibrated to prevailing market conditions and the differing funding needs of small, medium and large MFIs. The strong uptake and successful experience of CGSMFI 1.0 demonstrate that a well-designed credit-guarantee mechanism can be an effective counter-cyclical tool, and these lessons should inform the design of any future intervention when the sector faces similar funding stress.

05 MICROFINANCE INDUSTRY- A PERFORMANCE UPDATE

After a challenging 2024-25, the regulated microfinance sector represented by RBI registered REs, showed signs of recovery starting from mid FY 2025-26, with improvement in portfolio quality and gradual revival in portfolio growth. The year also saw changes in loan characteristics, financial and operational performance, and human-resource indicators across the sector. This Chapter examines these trends, drawing on the data for the microfinance universe (sourced from the credit bureau) as well as of NBFC-MFIs (reported to MFIN) to assess the extent of sector's recovery over the last FY.

5.1 The industry outreach – sequential degrowth halted

Figure 5.1 shows the progress of the microfinance industry since Mar'12. The sector has seen two consecutive years of degrowth. Following a decline of 13.5% during FY 2024-25, the sector witnessed a further decline of around 13.3% in FY 2025-26. The fall was accompanied by a decline in loan accounts and unique borrowers. However, the degrowth has halted, and the portfolio started growing again from Q4 FY 2025-26 with a QoQ growth of 3.3% over Q3 FY 2025-26. Improving portfolio quality has restored lender confidence, easing liquidity constraints. Introduction of CGSMFI 2.0 (discussed in **Section 4.4**), even though not fully utilised, also played its part in catalysing fresh inflows of funds to the sector. On a YoY basis, NBFC-MFIs have seen a negligible decline, while MFIN member NBFC-MFIs have actually grown both in terms of on-balance-sheet (On-BS) portfolio and AUM. The recovery of portfolio growth during FY 2025-26 would have looked better, if not for the following reasons.

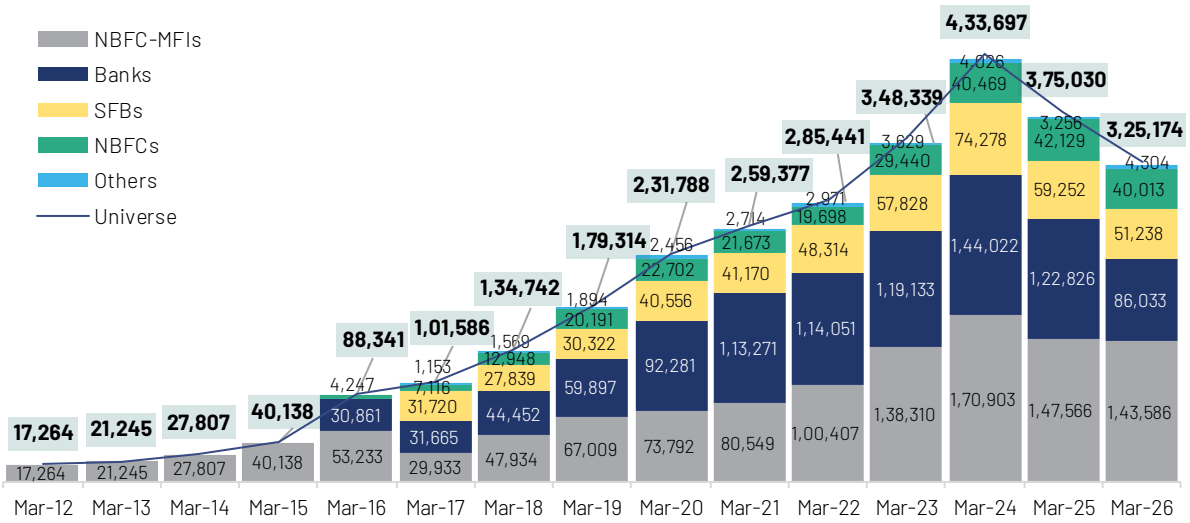
- Shifting of portfolio from microfinance bureau to retail bureau especially by Banks
- Liquidity constraint
- Impact of MFIN Guardrails
- Regional issues pertaining to states

Shifting of portfolio by banks: Overall, the microfinance portfolio of banks declined by 30.0% on a YoY basis, which accounted for 73.8% of the industry's portfolio decline during the FY 2025-26. As discussed in Chapter 4, the transition of bank's portfolio from microfinance bureau to the retail bureau has contributed significantly to this decline. Much of the decline in West Bengal, Kerala and some other states can be attributed to this movement.

Liquidity constraint: Throughout FY 2024-25 and during the first two quarters of FY 2025-26, MFIN member NBFC-MFIs reported persistent funding stress. As NBFC-MFIs are the largest providers of microfinance, lower funding availability constrained disbursements and, consequently, industry growth. The liquidity situation, however, appears to have eased during the last two quarters. More detail on this issue is presented in **Section 5.3.1** of this report.

Impact of MFIN Guardrails: Since their implementation, the Guardrails have led to tighter underwriting standards, resulting in institutions focusing disbursements on repeat clients who have earned lender confidence. This increased caution led to higher rejection rates during underwriting and consequently reflected in lower disbursements & therefore impacted portfolio growth.

Figure 5.1: Microcredit portfolio (Rs Cr)



Source: Credit bureau data

Regional issues pertaining to states: The clients served by the industry comprise vulnerable segment of the society. Hence, the industry remains sensitive to local incitements and miscommunications by non-state actors which disrupts operations. Often, it takes some time to recover from such cases and it causes prolonged slowdown in the affected geographies. Bihar saw introduction of "Bihar Micro Finance Institutions (Regulation of Money Lending and Prevention of Coercive Actions) Act, 2026" by the legislative assembly which was notified in May'26. Tamil Nadu and Karnataka bills were notified in the latter half of last financial year. Although these bills are not directly applicable to regulated microfinance operations, they may have contributed to the overall slowdown due to temporary caution among lenders.

The industry saw a decline of 23.8% in accounts and 17.2% in unique borrowers during FY 2025-26. This means that more than one Cr borrower households have lost access to regulated financial services over the last two financial years. **Table 5.1** shows the continuing decline in accounts and unique borrowers. In FY 2025-26, the decline in accounts and unique borrowers was more closely aligned than in FY 2024-25. Earlier, closure of a loan account often did not result in borrowers exiting the sector as she had other active accounts as well. During FY 2025-26, however, the fall in unique borrowers was proportionate, indicating that the issue of multiple lending has been largely addressed and highlighting the effectiveness of MFIN Guardrails. In Q4 FY 2025-26, the numbers stabilised and showed a QoQ deceleration in both accounts closure and exit of borrowers.

Table 5.1: Change in Unique borrowers and number of accounts (YoY)

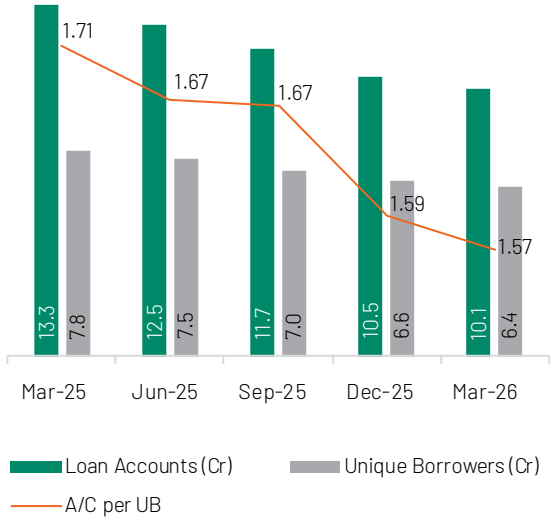
FY	Unique borrowers	Accounts
2023-24	18.1%	15.4%
2024-25	-1.2%	-11.3%
2025-26	-17.2%	-23.8%

Source: Credit bureau data

As on 31st Mar'26, the microfinance industry serves 6.4 Cr unique clients through 10.1 Cr loan accounts. Trend of accounts and unique borrowers covered by microfinance industry is shown in **Figure 5.2**. The ratio of accounts per unique borrowers has now come down to 1.57 as of Mar'26 from 1.71 as of Mar'25.

This ratio, seen with the bottoming out of more than three lender relations (**Table 5.2**) indicates that cleanup of multiple lending is nearly complete. This cleanup has led to major improvement in portfolio performance of newly created portfolio post implementation of MFIN guardrails which is discussed in detail in **Section 5.4**. Microfinance operations are now spread across 721 districts and 36 states and union territories.

Figure 5.2: No of accounts and unique borrowers (Cr) and A/C per UB



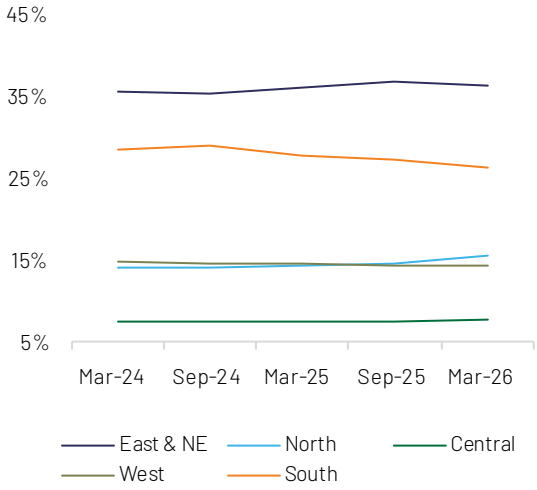
Source: Credit bureau data

Regional spread of microfinance portfolio – East & North East retains pole position

East & North East retained its position as the leading region, accounting for 36.3% of India's microfinance portfolio. North India gained 1.4% of portfolio share, while South lost 1.5%. As on 31st Mar'26, South accounted for 26.2% of the portfolio compared with 27.7% at the end of FY 2024-25. **Figure 5.3** shows the regional distribution of the microfinance portfolio. Compared with the previous year, portfolio decline was steepest in the South (18.0%), followed by West (15.3%), E&NE (12.7%), Central (10.5%) and North (5.0%).

Portfolio declined during the first three quarters of the financial year. On a rolling QoQ basis, Andhra Pradesh and Punjab consistently outperformed the national average, with portfolio either declining less than the industry average or growing. Gujarat, Karnataka, Maharashtra and Uttarakhand consistently underperformed. Tamil Nadu also remained below the national average, except in Q3 when performance improved marginally. Kerala witnessed a decline of 17.7% in the last quarter due to large-scale portfolio migration by SFBs and has moved out of the top 10 states list.

Figure 5.3: Regional distribution of GLP



Source: Credit bureau data

Table 5.2: Unique borrower wise active lender association

Active lender association	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Mar-26
<=3	93.6%	93.5%	94.2%	94.6%	95.4%	96.3%	97.8%
4	3.6%	3.6%	3.4%	3.2%	2.9%	2.6%	1.7%
>=5	2.8%	2.8%	2.5%	2.1%	1.6%	1.1%	0.5%

Source: Credit bureau data

Table 5.3: Trend of portfolio in Top 10 states

State	Region	CAGR Apr'21 to Mar'26	YoY Growth		
			Apr'23 to Mar'24	Apr'24 to Mar'25	Apr'25 to Mar'26
Bihar	East & NE	12.5%	32.4%	-11.9%	-8.0%
Uttar Pradesh	North	16.5%	36.7%	-9.9%	-4.8%
Tamil Nadu	South	3.9%	24.2%	-19.5%	-17.0%
Karnataka	South	6.1%	32.7%	-16.9%	-19.0%
West Bengal	East & NE	-6.5%	23.3%	-8.9%	-22.9%
Maharashtra	West	5.5%	18.6%	-11.2%	-16.4%
Madhya Pradesh	Central	4.2%	16.2%	-13.0%	-9.9%
Odisha	East & NE	2.8%	24.8%	-19.1%	-16.5%
Rajasthan	West	3.0%	13.2%	-17.8%	-11.9%
Jharkhand	East & NE	10.2%	22.8%	-15.1%	-3.7%

Source: Credit bureau data

Despite pressure on portfolio growth during the first three quarters, Q4 saw a return to growth. Outstanding portfolio had declined by 16.1% up to Dec'25 but began increasing from Jan'26 onwards. On a QoQ basis, the microfinance portfolio grew by 3.3% in Q4 FY 25-26. **Table 5.3** below shows trends of YoY change in microfinance portfolio of top 10 states.

5.2 Products – ticket size, tenure, frequency (based on industry disbursements)

The REs are now exhibiting greater confidence in existing clients as underwriting practices for onboarding new clients and extending repeat loans have become more stringent across the industry. As a result, the product profile of the sector witnessed significant changes during FY 2025-26. The ongoing shift towards higher ticket sizes, longer tenures and monthly repayment frequencies became more pronounced during the year.

5.2.1 Ticket size – sharp increase in average loan size

During FY 2025-26, the sector witnessed a 14.8% increase in average ticket size, reaching Rs 59,503 per loan. This was significantly higher than the 10.9% increase recorded during FY 2024-25, when the average ticket size stood at Rs 51,825. As a result, the three-year CAGR of ticket size increased to 12.9% from 10.0% reported in the previous edition of this report.

The increase in average ticket size was visible across all regions. **Table 5.4** compares ticket size of loans disbursed over last two financial years. South recorded the highest increase of 18.2%, with its average ticket size increasing from Rs 54,692 to Rs 64,664. This was followed by West and North, which recorded increases of 15.8% and 15.6%, respectively. East & NE and Central witnessed relatively lower increase of 13.1% and 11.8%, respectively.

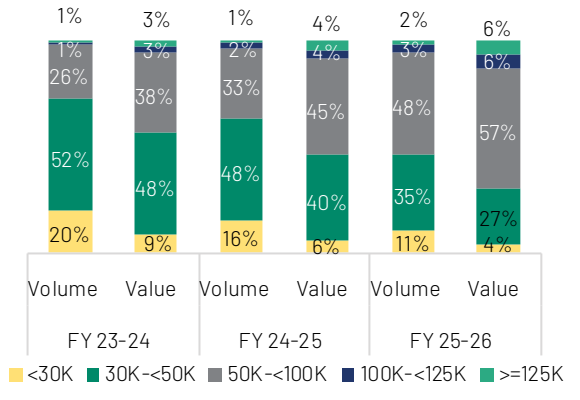
Table 5.4: Region wise average ticket size (Rs)

Region	FY 24-25	FY 25-26	Growth (%)
Central	49,283	55,116	11.8%
East & NE	51,541	58,268	13.1%
North	50,434	58,291	15.6%
South	54,692	64,664	18.2%
West	50,565	58,552	15.8%
India	**51,825**	**59,503**	**14.8%**

Source: Credit bureau data

The share of loans disbursed in the Rs 50K-<100K bucket increased from 45.1% in FY 2024-25 to 56.6% during FY 2025-26 in value terms, making it the largest ticket-size category by a wide margin. In contrast, the share of the Rs 30K-<50K bucket declined from 39.8% to 26.6%. **Figure 5.4** depicts this shift in ticket size over the last three financial years. As noted in previous editions, the portfolio continues to gravitate towards higher-ticket loans. While the share of loans below Rs 50K declined by 8.0% and 10.4% during FY 2023-24 and FY 2024-25 respectively, the decline accelerated to 15.4% during FY 2025-26. Overall, the trend reflects the growing share of repeat loans, which are typically larger in size.

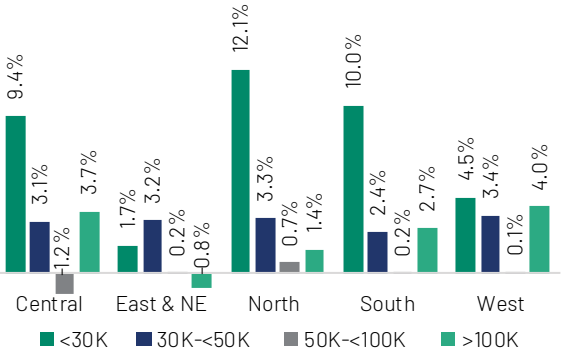
Figure 5.4: Ticket size (Rs)



Source: Credit bureau data

YoY change in ticket size across buckets & regions for loans disbursed by REs is provided in **Figure 5.5**. North, South and West saw increment in the ticket size across all buckets. E&NE remained subdued in comparison. Though the contribution of <Rs 30K bucket to overall disbursements has reduced, the average loan size in this bucket witnessed a sharp increase across all regions, perhaps due to a general increase in the first loan to a new to credit (NTC) client.

Figure 5.5: YoY growth in different ticket size buckets (%)

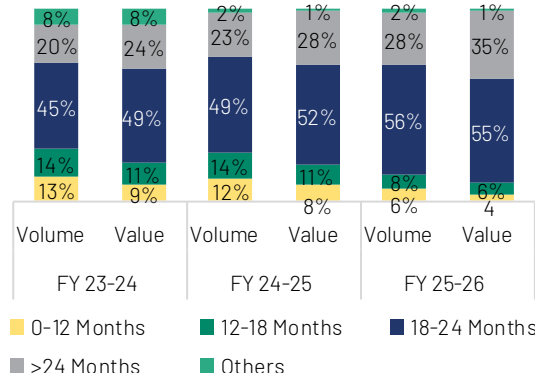


Source: Credit bureau data

5.2.2 Loan tenure – less than 10% new loans in <1.5 year tenure

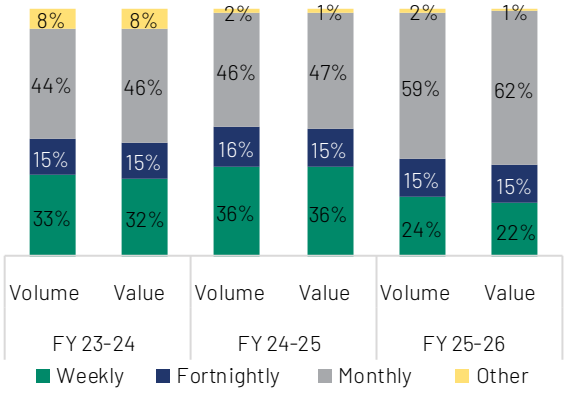
The trend towards longer tenure loans continued during FY 2025-26. Share of new loans disbursed with tenure of >24 months increased from 28.2% in FY 2024-25 to 34.9% in FY 2025-26 in value terms. **Figure 5.6** represents trends of loan tenure for disbursement in last three years. Owing to the focus on larger loan size to repeat clients and keeping loan repayment to income ratio under regulatory limit, the tenure of loans has naturally gone up. The <18-month tenure had only 9.5% disbursements in FY 2025-26, down from 19.1% during FY 2024-25. The 18-24 months bucket, which continues to account for the largest share of disbursements, increased from 51.5% to 54.6%. The combined share of 18-24 months and >24 months loans increased from 79.7% to 89.6% during this period.

Figure 5.6: Loan tenure



Source: Credit bureau data

Figure 5.7: Repayment Frequency



Source: Credit bureau data

The trend towards longer tenure was visible across all major regions. All regions saw more than 50.0% reduction in less than 18-month tenure except E&NE (48.2%). South had the highest share of loans with tenure of >24 months at 44.9% showing maturing clientele, followed by North at 36.0%. West and Central had shares of 30.8% and 32.0%, respectively, while East & NE recorded lowest share at 30.0%.

The strong trend of increase in ticket size and loan tenure indicates that the industry is moving towards longer relationship with a client to improve efficiency and curtail client acquisition costs.

5.2.3 Repayment frequency – monthly gains prominence as weekly declines

Continuing the trend observed in previous editions, the share of loans disbursed with monthly repayment frequency increased from 47.5% to 62.1% in value terms and from 45.9% to 59.0% in volume terms. This increase was accompanied by a sharp decline in weekly repayment frequency, whose share fell from 36.0% to 21.6% in value terms and from 36.5% to 24.0% in volume terms. Since banks account for a large share of weekly-repayment loans, the decline is partly a reflection of new bank disbursements being reported to the retail bureau. **Figure 5.7** presents the distribution of disbursements by repayment frequency over the last three financial years.

The fortnightly repayment segment remained broadly stable, accounting for 15.3% of disbursement value in both FY 2024-25 and FY 2025-26. All other repayment frequencies together accounted for only around 1% of disbursement value during FY 2025-26. The shift towards monthly repayment was visible across all major regions. South recorded the highest share of monthly repayment at 65.5%, followed by West at 63.4%. East & NE accounted for 60.8%, while Central and North each stood at 59.8%. Although weekly repayment continues to have a meaningful presence across regions, its share has declined considerably. In value terms, weekly repayment accounted for 23.2% in West, 22.9% in East & NE, 22.0% in South, 20.1% in Central and 17.3% in North.

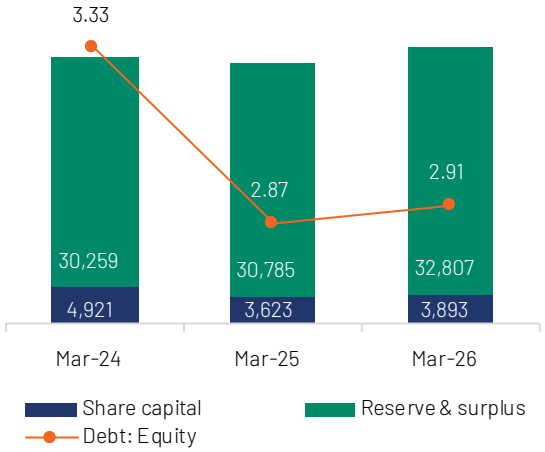
5.3 Financial strength (NBFC-MFIs) – signs of improving financial performance

In terms of financial parameters, FY 2025-26 was a year of consolidation. This section presents the financial performance of MFIN member NBFC-MFIs based on self-reported data submitted for MFIN's Micrometer publication. To maintain comparability, the analysis is based on the same set of institutions across all previous years.

5.3.1 Borrowings and equity; liquidity easing

Figure 5.8 shows progression of total equity, debt to equity ratio and break up of equity into share capital and reserve and surplus. Since Q1 FY 24-25, NBFC-MFIs witnessed seven consecutive quarters of decline in outstanding borrowings, while funding inflows declined for six quarters. This trend reversed in Q2 FY 25-26, with the borrowing increasing every quarter thereafter. Q1 FY 26-27 data, available at the time of finalizing this publication, show a stellar 91.4% increase in quarterly borrowings compared with Q1 FY 25-26.

Figure 5.8: Equity position (Rs Cr) and leverage



Source: MFIN Micrometer

Higher borrowing during the year also stalled the decline in the D:E ratio, which stood at 2.91 at the end of FY 2025-26, marginally above the previous year's level. As a result of stabilizing D:E ratio, the contribution of equity in portfolio creation which was 29.5% in the last year has remained broadly unchanged. For large MFIs the ratio was 30.9% at the end of last FY and has reduced to 29.2%, medium and small MFIs saw the ratio increasing to 43.0% and 56.7% respectively from 35.2% and 52.7% levels recorded in the previous edition, indicating higher reliance on their own capital for portfolio origination. Some of the major equity deals during the year are highlighted in **Box 5.1**.

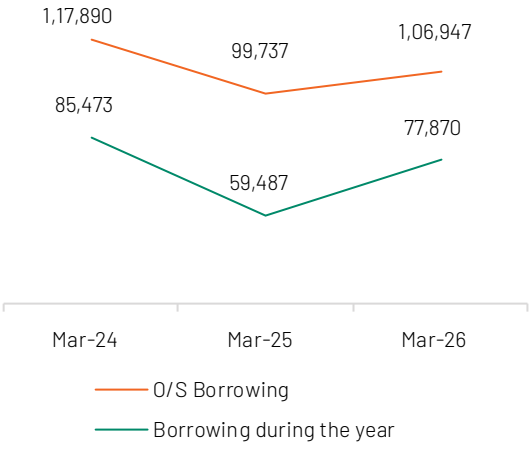
Box 5.1: Equity deals during FY 2025-26

- During FY 2025-26, 15 MFIN member MFIs reported addition of fresh equity to the tune of Rs 255.2 Cr. Holding company contributed the largest share accounting for 62.3% of fresh equity, followed by individuals 25.5% and institutional investors 7.2%. Promoters contributed the remaining 4.9% of fresh equity added in these institutions in this FY. Break up of equity share and convertible preference shares remained unchanged at 97.5% and 2.5% respectively.
- Major institutions which invested in the microfinance sector in the last FY are - Manappuram Finance Ltd, Offer for Sale (OFS) from equity market, LOLC Asia Private Limited, Nellcome Limited.

Source: Data reported by Members to MFIN as part of Micrometer

Figure 5.9 shows that borrowing outstanding at the end of last three FYs and borrowing mobilised during the year.

Figure 5.9: Borrowings (Rs Cr)

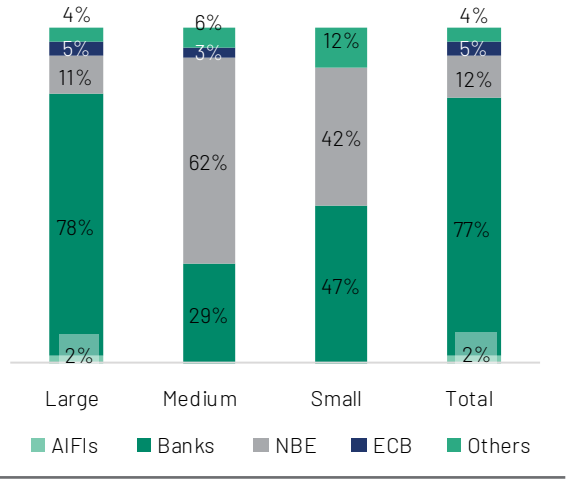


Source: MFIN Micrometer

Borrowing trends show clear signs of recovery. Outstanding borrowings increased by 7.2% YoY, while borrowings received during the year increased by 30.9%. Recent FY 2026-27 data indicate further improvement, supported by greater funding availability and to some extent due to CGSMFI 2.0.

Figure 5.10 shows breakup of funding received based on the source. The pattern of funding to the NBFC-MFIs has largely remained similar to last FY. AIFIs have further reduced their exposure to only 1.9% in FY 2025-26 from 3.1% in previous year and 7.9% in the year before that. Banks and non-bank entities retained their share at 77.4% and 12.2% respectively. Share of ECB and other sources fell by almost 1% to 8.5%. Sources other than banks and non-banks contributed 10.4% of the share, slightly higher than 9.7% share contributed during FY 2024-25.

Figure 5.10: Break-up of Borrowings received during FY 2025-26



Source: MFIN Micrometer

5.3.2 Financial ratios – return to profitability

This financial year saw a marked improvement in financial performance, reflecting a gradual recovery from the losses experienced in the previous year. Key financial ratios that indicate the health of microfinance operations in the country are analysed in **Table 5.5**. The analysis is based on data reported by 36 members. In terms of portfolio share, small entities contributed 1.7%, medium entities 3.9%, and large entities 94.4% of the total AUM. Based on the financial ratios, it can be said that FY 2025-26 was a moderately positive year for the microfinance sector.

Table 5.5: Key financial ratios

Parameter	FY 23-24	FY 24-25	FY 25-26
Profitability			
RoA	3.9%	-2.7%	1.6%
RoE	17.7%	-11.5%	5.4%
OSS	137.2%	95.6%	111.7%
Income			
Yield	21.7%	22.0%	23.2%
Other income	2.3%	1.4%	2.5%
Portfolio quality			
Gross NPA	2.1%	4.5%	3.5%
Net NPA	0.5%	1.2%	1.1%
Liquidity			
LCR	304.2%	280.9%	148.8%
Cost efficiency			
PER	4.4%	5.2%	5.1%
OER	6.5%	7.5%	7.7%
FCR	10.3%	9.7%	8.5%
Cost/Borr., Rs	2,147	2,590	2,766
Write-off ratio	1.9%	8.1%	5.0%

Source: MFIN Micrometer
Note: All parameters are depicted by wtd. avg. ratios

Definitions

Cost per borrower:	Operating Expense/ Number of Active Borrowers
Financial Cost Ratio (FCR):	Total funding expenses/ Average On-balance sheet portfolio
Gross NPA (GNPA):	Gross Non-Performing Assets/ On Balance Sheet Portfolio
Liquidity Coverage Ratio (LCR):	Stock of high-quality liquid asset /Total net cash flows over the next 30 calendar days
Net NPA (NNPA):	(Gross NPA - Loan Loss Reserve) / (On Balance Sheet Portfolio – Loan Loss Reserve)
Operating Expense Ratio (OER):	Total Operating Expenses / Average On-balance sheet portfolio
Operational Self-Sufficiency (OSS):	Financial Revenue less grants / (Financial Expense + Impairment Losses on Loans + Operating Expense + Tax Expense)
Other income to total income ratio:	Total other income / Total income
Personnel Expense Ratio (PER):	Personnel expenses / Average Total GLP
Return on Assets (RoA):	Profit After Tax / Average Total Assets
Return on Equity (RoE):	Profit After Tax / Average Total Equity
Yield on portfolio (Yield):	Interest income on loan portfolio / Average On-balance sheet portfolio
Write-off ratio:	Write-off / Average Total GLP

While some challenges persisted, the year witnessed an improvement in portfolio quality, lower write-offs, and a return to profitability, indicating greater stability in performance of NBFC-MFIs. Some key observations are as below.

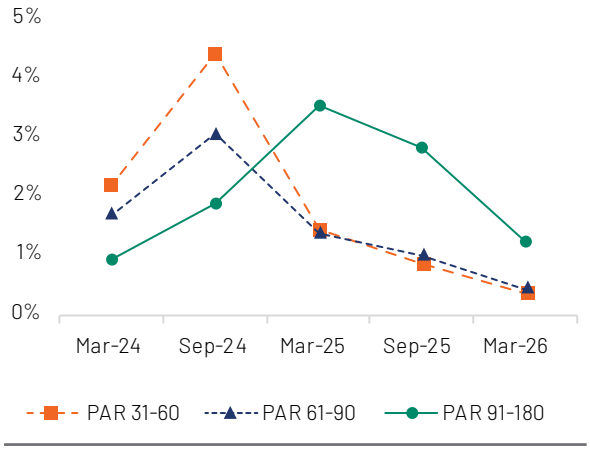
- OSS of more than 100%, RoA and RoE improving to 1.6% and 5.4% respectively, showed an overall profitable FY 2025-26.
- Delinquency declined, with GNPA and NNPA reducing to 3.5% and 1.1% respectively, while the write-off ratio fell to 5.0%. The improvement supports the view that stronger underwriting under the MFIN Guardrails has positively influenced portfolio quality.
- Expense ratios remained broadly stable; however, the reduced borrower base inflated the cost per borrower by 6.8% YoY to Rs 2,766. Notably, the rate of increase moderated compared with the previous year.
- Liquidity remained comfortable, with LCR at 148.8%, well above regulatory requirements, though much below the last year's level.

5.4 Portfolio quality (Universe)

Portfolio quality improved throughout FY 2025-26 across all quarters. PAR 31-180 declined from its peak of 6.3% as on 31st Mar'25 to 2.1% as on 31st Mar'26. This improvement should not be mistaken with only forward flow of delinquent loans from lower buckets to PAR>180 bucket and write-offs. It is also due to better quality newly originated portfolio.

As discussed in **Section 5.1**, easing liquidity supported higher disbursements. Q4 FY 25-26 recorded disbursement growth of 9.3% YoY and 28.1% QoQ. The denominator effect discussed in the previous edition worked in a favourable direction this year, as higher disbursements increased the share of fresh portfolio with relatively low delinquency. Together, these effects led to a sustained improvement in portfolio quality – **Figure 5.11** shows the declining PAR trend.

Figure 5.11: PAR trend (Microfinance Universe)



Source: Credit bureau data

Implementation of the MFIN Guardrails has improved underwriting standards and increased lender confidence in repeat clients. Borrowers' credit requirements are increasingly being met through fewer lender relationships and loans, resulting in better borrower visibility for lenders and greater convenience for clients.

Table 5.6 shows progression of PAR>30 for newly disbursed portfolio on month of business (MOB) basis.

As evident, from Q2 FY 2024-25, portfolio quality of new disbursements has improved consistently for new disbursement happening in those quarters. Disbursement of Q4 FY 25-26, however, showed a slight uptick in the delinquency from the very beginning. But as per latest data available at the time of writing the report, the ratio has settled into even better numbers than previous quarters, which means that the elevation was likely due to reporting delays or corrections in the records.

Table 5.7 shows the evolution of portfolio quality across the top 10 states over the last three financial years. All major states recorded improvement in portfolio quality. The most notable recovery was in Karnataka, where PAR 31-180 declined from 10.2% as on 31st Mar'25 to 2.0% as on 31st Mar'26. This suggests that the impact of the state's microfinance bill was temporary and repayment behaviour has largely normalised. Bihar and Tamil Nadu also introduced similar legislation that was not applicable to RBI-REs, resulting in limited impact on portfolio quality. Other large states showing significant improvement include Tamil Nadu, Uttar Pradesh, Odisha and Jharkhand.

Table 5.6: PAR>30 MOB buckets

Sourcing QTR	3-MOB	6-MOB	9-MOB	12-MOB	15-MOB	18-MOB	21-MOB
Q4-25	1.7%						
Q3-25	0.4%	2.7%					
Q2-25	0.5%	1.4%	3.0%				
Q1-25	0.6%	1.9%	3.2%	4.6%			
Q4-24	0.8%	2.1%	3.8%	5.2%	6.3%		
Q3-24	1.4%	3.2%	5.2%	6.8%	7.6%	8.1%	
Q2-24	0.8%	3.6%	6.1%	7.5%	8.9%	9.3%	9.2%

Source: Credit bureau data
Note: 3-MOB means, 3 months after origination of portfolio and so on

Table 5.7: PAR 31-180 days of Top 10 states

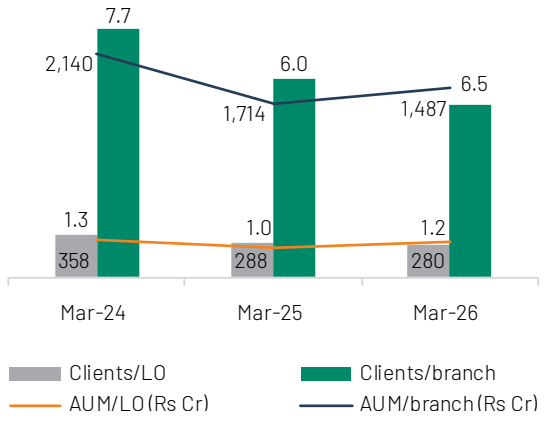
State	Mar-24	Mar-25	Mar-26
Bihar	1.2%	7.2%	2.0%
Uttar Pradesh	2.2%	6.8%	2.1%
Tamil Nadu	2.1%	6.6%	1.7%
Karnataka	0.8%	10.2%	2.0%
West Bengal	1.3%	3.3%	2.4%
Maharashtra	2.0%	4.1%	2.2%
Madhya Pradesh	3.3%	5.6%	2.4%
Odisha	2.0%	8.6%	1.6%
Rajasthan	3.6%	5.9%	2.5%
Jharkhand	2.3%	7.1%	1.7%

Source: Credit bureau data

5.5 Operational efficiency (NBFC-MFIs)

As noted in **Section 5.1**, MFIN member NBFC-MFIs have seen a moderate recovery in portfolio growth. This growth has been achieved with higher ticket loans to client rather than new to credit (NTC) clients. As a result, the number of active clients per loan officer and branch has declined, while AUM per loan officer and branch has improved. The increase in cost per borrower discussed in **Section 5.3.2** also reflects this trend of serving fewer clients with larger loan sizes. **Figure 5.12** presents the trend in these operational efficiency indicators.

Figure 5.12: Staff productivity ratios



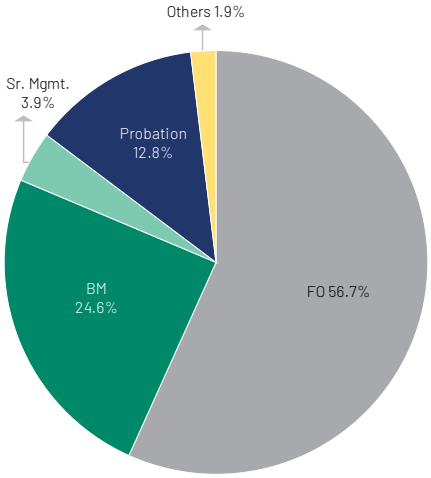
Source: MFIN Micrometer

The movement in these parameters indicates a clear shift in the business model towards higher portfolio per employee and per branch, driving efficiency through bigger loans instead of higher client numbers.

5.6 Human resource trends (NBFC-MFIs)

The workforce of NBFC-MFIs largely comprises employees engaged in maintaining client relationships. This is reflected in the composition shown in **Figure 5.13**. As on 31st Mar'26, MFIN member NBFC-MFIs employed 1,94,285 people, of whom 94.1% were based in field locations. Employee strength declined by 10.9% YoY, in line with the contraction in portfolio and client base discussed in **Section 5.1.**

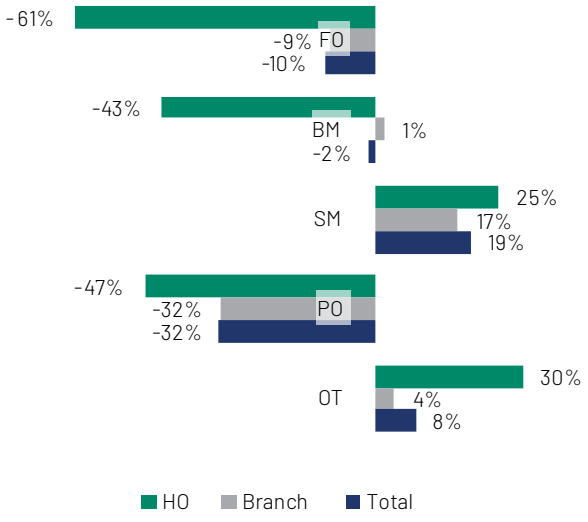
Figure 5.13: Staff distribution (Mar'26)



Source: MFIN Micrometer

Analysis of staff composition by position indicates a decline in probationers and field officers (**Figure 5.14**), which is consistent with portfolio and client trends. This suggests that institutions prioritised portfolio quality and consolidation over expansion during the year, as growth in field staff typically precedes business expansion. With portfolio quality improving and early signs of recovery visible, staff strength may resume growth in the coming quarters.

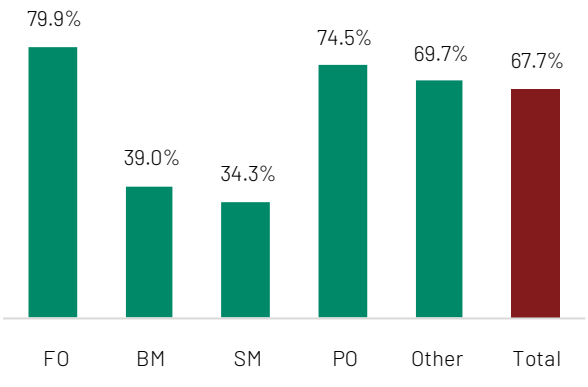
Figure 5.14: Staff change by position (FY 2025-26)



Source: MFIN Micrometer

High attrition continues to be a key challenge for microfinance institutions. Overall attrition increased from 61.7% to 67.7% during FY 2025-26. Except for probationers, all staff categories recorded higher attrition than the previous year. Attrition among Senior Managers (SMs) increased sharply to 34.5% from 18.4% in FY 2024-25, further adding to the challenge. **Figure 5.15** presents attrition rates by position for MFIN member NBFC-MFIs.

Figure 5.15: Attrition rate by position



Source: MFIN Micrometer

5.7 Risks

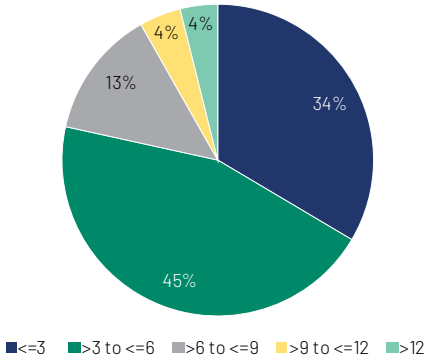
While implementation of MFIN guardrails has effectively addressed multiple lending concerns but with higher size of loans being disbursed, the average outstanding per client has grown. These are two important risk factors which are analyzed in the following section.

5.7.1 Density of financial institutions (`000 potential HH per FI)

Density of financial institutions is an important indicator of microfinance outreach at the district level. Rather than looking at the absolute number of FIs operating in a district, it relates that number to the population of potential microfinance households. The distribution remained largely unchanged during the year, with more than half of the districts continuing to fall in the ≤6,000 households-per-FI bucket, as shown in **Figure 5.16**.

The absolute number of active FIs changed significantly during the year. A total of 503 districts saw a reduction in the number of FIs, while 149 districts witnessed new entrants; 69 districts recorded no change. Although this movement is not fully reflected in the density distribution, it indicates continued consolidation of operations and deferment of expansion into new geographies, a trend also noted in the previous edition.

Figure 5.16: Density of FIs (As on 31st Mar'26)



Source: Credit bureau data

Table 5.8: YoY change in number of FIs operating at district level for Top 10 states

State	Total dist. with mF ops	Increase in FI	Decrease in FI	No change
Bihar	38	6	29	3
Uttar Pradesh	75	22	48	5
Tamil Nadu	38	1	36	1
Karnataka	30	3	26	1
West Bengal	23	1	22	0
Maharashtra	36	0	35	1
Madhya Pradesh	52	9	41	2
Odisha	30	2	27	1
Rajasthan	33	4	28	1
Jharkhand	24	21	1	2

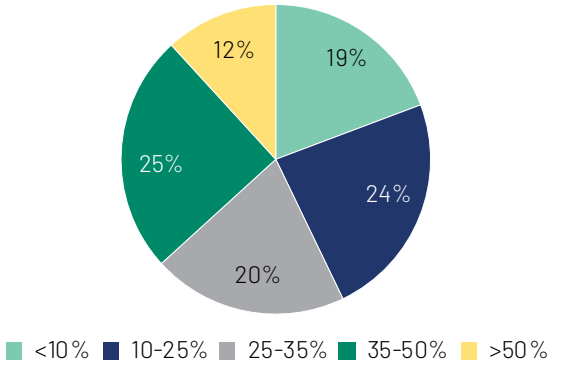
Source: Credit bureau data

The district level change in number of FIs operational in the top 10 states during FY 2025-26 is presented in **Table 5.8.** Jharkhand and Uttar Pradesh stand out as the two major states where expansion is visible through entry of new FIs across multiple districts. In most other states, such expansion is limited to a few districts driven by specific opportunities.

5.7.2 Depth of outreach

Depth of outreach measures the proportion of potential microfinance clients reached within a district. Following a sharp decline in unique borrowers over the last two financial years, a distinct shift is visible. Overall depth of outreach declined from 38.0% to 31.2% during the year. As on 31st Mar'26, only 11.8% of districts reported outreach levels above 50%, compared with 26.0% a year earlier. Lower outreach buckets expanded correspondingly, with districts below 25% outreach increasing from 36.5% to 42.9%. **Figure 5.17** illustrates the impact of declining multiple lending with adoption of MFIN Guardrails, and lower disbursements during the first half of the year also contributed. Overall, this represents a healthier and more sustainable level of outreach for the sector.

Figure 5.17: Depth of outreach
(As on 31st Mar'26)



Source: Credit bureau data

Depth of outreach across the top 300 districts followed a similar pattern (**Table 5.9**), declining from 46.3% in the previous year to 38.0% in FY 2025-26. A comparable decline is visible across other district groupings as well as at the national level.

In conclusion, Microfinance operations remain highly concentrated in the top 300 districts, a pattern that has remained largely unchanged over the years. Earlier, this concentration could partly be explained by rapid portfolio growth in established markets. With portfolio growth having moderated, that explanation is less compelling. The

industry now has an opportunity to expand outreach in underserved geographies and client segments. Such expansion could unlock economic potential in these regions while creating new avenues for sustainable portfolio growth.

At the same time, the industry continues to face challenges. Outreach has contracted significantly over the last two years, resulting in lower borrower coverage across several geographies. As portfolio quality stabilizes and funding availability improves, institutions will need to focus on rebuilding outreach in a responsible manner, particularly in underserved districts and client segments. The lessons learnt during the recent stress period, coupled with stronger underwriting practices and improved risk discipline, provide an opportunity for the sector to pursue growth on a more resilient foundation. If the current trajectory of portfolio quality and liquidity improvement continues, the industry is well placed to expand its outreach while maintaining financial stability.

Table 5.9: District level concentration of microfinance operations (As on 31st Mar'26)

District	GLP (Rs Cr)	GLP (% of Univ.)	No. of AC (Cr)	Accounts (% of Univ.)	Depth of outreach
Top 100 Districts	1,50,478	46.3%	4.5	44.9%	44.4%
Top 200 Districts	2,24,336	69.0%	6.9	67.8%	41.5%
Top 300 Districts	2,69,969	83.0%	8.3	82.2%	38.0%
Remaining 421 Districts	55,205	17.0%	1.8	17.8%	18.0%
Aspirational - 112	50,710	15.6%	1.6	15.7%	37.9%
Top 10 states	**2,71,884**	**83.6%**	**8.4**	**83.0%**	**36.8%**
Universe	**3,25,174**		**10.1**		**31.2%**

Source: Credit bureau data

06 MFIN'S INITIATIVES DURING THE YEAR

As an SRO, MFIN undertakes a wide range of activities to promote responsible lending, regulatory compliance and customer protection in the microfinance sector. Its core functions include Governance and Standard setting (through directives, Industry Code of Conduct etc.), Surveillance and Monitoring (via evaluations, the SRO Enforcement Framework, adherence reports etc.), Capacity building (through programs such as ASCEND), and operating the Customer Grievance Redressal Mechanism (CGRM). SRO's work continuously focusses on policies and initiatives to strengthen practices in the interest of borrowers. Following are the key work done during the year:

6.1 Governance & Standards

Directives, Advisories and Guidance Notes

MFIN continued to strengthen its SRO oversight and compliance framework through a combination of Guidance Notes and Directives issued during the year. These were issued to support a consistent implementation of RBI regulations, MFIN guidelines and guardrails across the member institutions.

Guidance note on strengthening operational discipline in microfinance[119]

MFIN issued the Guidance Note on Strengthening Operational Discipline in Microfinance on 11th Feb'26, to reinforce adherence to key regulatory and industry requirements and promote greater consistency in operational practices across member institutions. The Guidance Note was prepared factoring in the observations emerging from the Third-Party Evaluation exercises conducted during the year, which highlighted certain areas requiring greater consistency in the implementation of established regulatory and industry practices.

The Note reiterated the applicable RBI regulatory requirements, MFIN Directives and guardrails, while focussing primarily on operational areas where consistent implementation is critical for responsible lending and customer protection. The key areas covered were:

- **Household Income Assessment (HHIA):** Strengthening the processes for assessment and documentation of household income and repayment capacity in accordance with regulatory requirements.
- **Pricing of microfinance loans:** Ensuring transparent disclosure of pricing and inclusion of all applicable pricing components in accordance with the RBI guidelines.
- **KFS:** Ensuring that borrowers receive complete, accurate and timely information on the terms and conditions of the loan prior to the sanction of the loan.
- **Non-bundling of Third-Party Products (TPPs):** Ensuring that the purchase of insurance or other third-party products remains voluntary and is not linked to loan sanction or disbursement, in accordance with regulatory guidelines.

[119] MFIN website. Industry Standards, Guidance Notes

Directive on Board-level oversight of QAR and GAR

To further strengthen governance and accountability for compliance, MFIN issued a Directive on 19th Feb'26 mandating that the Quarterly Adherence Report (QAR) and Guardrails Adherence Report (GAR), along with the key observations, instances of non-compliance and corrective actions undertaken, need to be placed before the Board of Directors or an appropriate Board-level Committee of each RE for their review and supervision.

The Directive brings QAR and GAR review within the regular Board level oversight process and ensures that significant compliance issues receive timely attention, and the corrective actions are followed through to closure.

Policy on reporting gaps in field conduct and regulatory compliance

A policy on reporting gaps in field conduct and regulatory compliance was released on 21st Aug'26. The policy establishes a structured and confidential mechanism for reporting operational or regulatory concerns involving MFIN member REs, particularly those relating to non-compliance with RBI/MFIN guidelines, data integrity or misreporting, and practices that could adversely affect borrowers or the wider microfinance sector.

Under the policy, concerns can be raised by authorised representatives of REs and other stakeholders, including anonymously, provided they are supported by adequate evidence. Based on the findings, appropriate corrective action will be recommended under the MFIN-SRO Enforcement Framework. Where a reported issue points to a broader sector-wide concern, the findings may also be used to strengthen MFIN's overall surveillance and monitoring mechanisms.

6.2 SRO oversight and compliance initiatives

Third-Party Evaluations

The Third-Party Evaluation (TPE) exercise, by end of FY 2025-26 completed a three-year cycle, covering almost all MFIN member NBFC-MFIs. The evaluations have provided MFIN with useful information into how regulatory guidelines are implemented across member institutions and highlighted areas requiring further attention.

During the last year, TPEs were conducted for 15 member entities using a revised methodology covering key areas, including household income assessment, repayment obligations, pricing and APR, KYC, KFS, Customer Grievance Redressal and Conduct towards borrowers. The assessment combined institutional and field-level reviews, including examination of policies, systems and records, management interactions, branch visits and customer interactions. The evaluation scores for the entities assessed during the year ranged from 55% to 93%.

The observations from the TPE exercises have also supported MFIN's interventions on issues requiring industry-level action. The observations relating to the computation and disclosure of Annual Percentage Rate (APR) led to further engagement with members and communication to the RBI highlighting the need for a standardised format for APR computation and disclosure. The other field-level observations resulted in the issuance of Directives and Advisories by MFIN as stated above. Broadly, following were some of the major observations (**Table 6.1**) during the evaluations conducted during the year.

Table 6.1: Observations from the TPEs

Positives	Issues
• Robust and well documented processes and policies covering all business activities aligned with RBI regulations and Industry Code of Conduct. • Well established Board-approved customer grievance redressal policies for registering, resolving or escalating complaints. • High degree of compliance with regulations pertaining to the calculation of maximum repayment obligation limits. • Transparent disclosures of Interest rates. No pre-payment penalties collected as per the guidelines. • Adherence on capping of Processing Fees at 1.5% as per MFIN Guardrails.	• Non maintenance of records highlighting the reasons for divergence between previously reported and reassessed household income. • KFS not as per regulatory requirement in some cases, with missing unique number and validity period. • In few cases, Pricing policy did not include the range of spread of each component which have been used to arrive at the all-inclusive interest rate. • TPPs being bundled with the primary credit product without the prescribed minimum one-month gap.

With the broad-based three-year TPE cycle substantially completed, MFIN-SRO will now focus its evaluations on selected areas of concern. These thematic exercises will not be designed to assess any individual RE. Instead, a selected theme will be examined across a defined geography or region to understand prevailing practices and identify areas that may require further attention. The findings will be used to support appropriate industry communication, supervisory interventions and, where required, engagement with the RBI and other relevant stakeholders.

Website disclosure of interest rates

In accordance with RBI requirements, MFIN compiles and publishes the minimum, maximum and weighted average interest rates charged by its member REs on its website. Member institutions submit their applicable lending rates to MFIN on a regular basis, which are consolidated and published on the 7th of every month .[120]

The disclosure provides a common reference point for lending rates across MFIN members and allows borrowers and other stakeholders to compare these rates. The microfinance sector is the only sector, which has a centralised, member wise mechanism for publishing this information through its SRO.

MFIN has therefore, consistently advocated that such transparency in lending rates should not be limited only to microfinance and should apply across all lender categories. RBI's new draft guidelines, which have been published in Aug'26, now proposes mandatory public disclosure of lending rates for all lenders. If implemented, this would allow customers to compare rates across different type of lenders on a more consistent basis. This would represent a significant step towards establishing greater transparency and comparability across the wider lending ecosystem.

[120] MFIN website. Regulatory Information, Interest Rate of Members

Monitoring Compliance

Guardrails Adherence Report (GAR): Guardrails are a set of self-imposed industry guidelines developed by MFIN to mitigate emerging risks, address regulatory concerns and promote responsible lending practices, thereby supporting the long-term sustainability of the microfinance sector. The current Guardrails were mandated in Nov'24 after analysis of sectoral risks and discussions with member institutions, with implementation of these commencing from Jan'25 and Apr'25, as applicable.

The GAR evaluates adherence to the following key parameters:

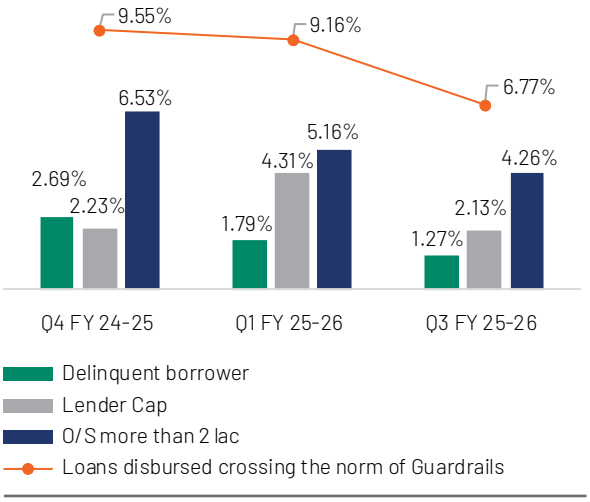
- Loans disbursed to delinquent borrowers (outstanding more than Rs 3,000 & PAR> 60 days);
- Loans disbursed where the lender becomes the fourth or subsequent active MFI lender; and
- Loans disbursed to borrowers with total indebtedness exceeding Rs 2 Lk.

Over the past year, the guardrails put in place appear to have helped the industry, with the industry showing steady improvement across several operational parameters. As the chart above (**Figure 6.1**) shows, the proportion of loans disbursed in violation of guardrail norms has come down sharply, from 9.55% in Q4 FY 2024-25 to 6.77% in Q3 FY 2025-26.

The improvement has also been broad-based across the industry, with all segments, including NBFC-MFIs, SFBs, Banks and NBFCs showing better adherence to the guardrail parameters **(Figure 6.2)**. This improvement has also been driven by closer monitoring and follow-up as the adherence reports on the guardrails were generated and shared with member REs. The members showing significant breaches across the Guardrail and FOIR parameters were required to undertake a detailed analysis of these breaches, including examining sample borrower accounts from the CICs and submit their findings and corrective actions to MFIN.

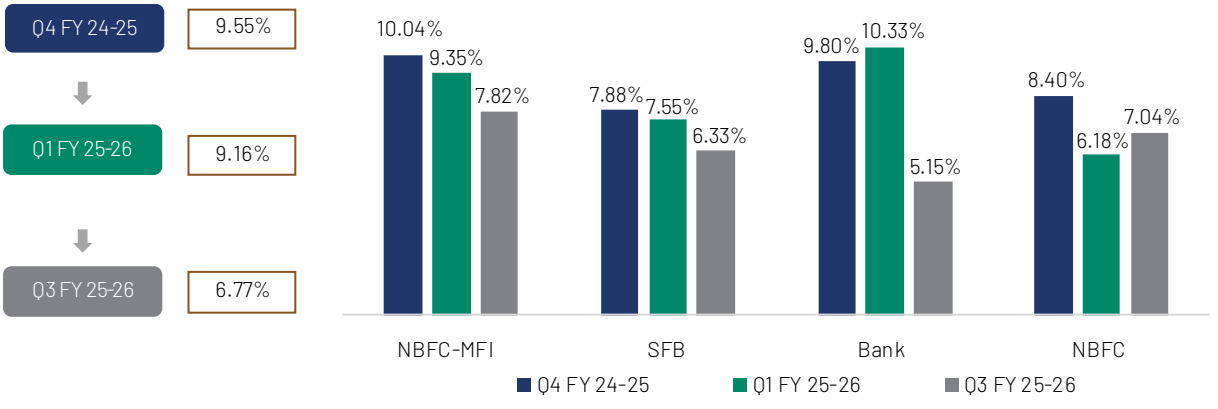
The review of Guardrail and FOIR breaches, including account-level analysis by member REs, also helped the institutions to identify the causes of such breaches and strengthen their internal controls.

Figure 6.1: Guardrails Breach (% of total loans disbursed)



Source: Credit bureau, MFIN analysis

Figure 6.2: Loans disbursed crossing the norm of Guardrails (% of total loans disbursed)



Source: Credit bureau, MFIN analysis

Quarterly Adherence Report (QAR): As part of its monitoring and enforcement mandate, MFIN also generates Quarterly Adherence Reports (QARs) for all member REs based on credit bureau data. The suggested format for generation of QARs from bureau data is prescribed in Annexure C of the 4th Edition of the Industry Code of Conduct, released in Oct'22. The QAR provides a periodic snapshot of adherence to key regulatory and industry requirements, including:

- Timeliness of credit bureau reporting;
- Loans disbursed beyond the microfinance threshold of Rs 3 Lk and loans where repayment obligations exceed the prescribed 50% threshold; and
- Discrepancies between accounts reported to credit bureaus and accounts reported to MFIN for its Micrometer publication.

As can be seen from the chart above, overall loans disbursed to households with annual income less than Rs 3 Lk breaching the FOIR norm of 50% have seen a sharp improvement, declining from 15.84% in Q4 FY 2024-25 to 5.37% in Q3 FY 2025-26 (**Figure 6.3**).

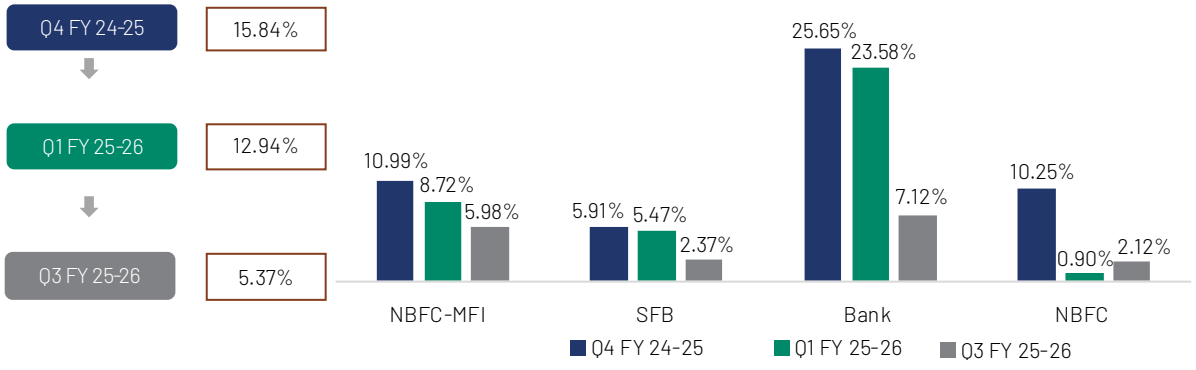
The overall improvement in Guardrail adherence and the decline in QAR breaches indicate a strengthening of lending discipline across the sector. However, despite the significant improvement in adherence highlighted above, some instances of breaches continue to be observed. These reported figures also need to be viewed in the context of operational and system-related factors that may contribute to some of these breaches. In several cases, the observed breach may not necessarily reflect an underlying deviation in lending practices but could arise from operational issues (captured in **Box 6.1**).

Box 6.1: Key operational reasons for breaches

- Variances observed in the data reported from different credit bureaus for the same borrower
- Adherence checks being applied on the disbursement date while the institutions source the reports on the enquiry date with a gap between these two dates
- Delayed reporting and backdated data corrections post initial reporting of the data by some lenders.

One parameter, however, that requires closer examination is lending to households with annual income above Rs 3 Lk. Almost 25% of the loans being disbursed are now to such households which are above this threshold (**Figure 6.4**). Some of these cases may reflect existing borrowers whose incomes may have increased over a period of time. However, the

Figure 6.3: Loans disbursed with annual household income of upto 3 lacs and FOIR > 50% (% of total loans disbursed)



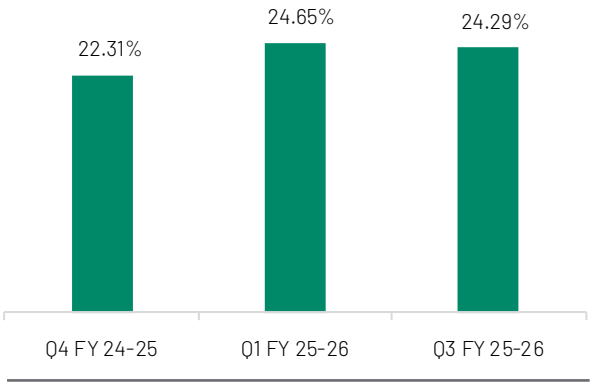
Source: Credit bureau, MFIN analysis

scale of such lending suggests that whether the assumption that current threshold of Rs 3 Lk, continues to appropriately capture the intended microfinance borrower segment needs to be reviewed.

The household income cap was introduced in 2022, and the incomes have increased since then. At a 6% annual increase in household income, Rs 3 Lk in 2022 would be equivalent to approximately Rs 4 Lk by 2027. This indicates that the income threshold needs to be reviewed periodically to appropriately capture the intended borrower segment.

MFIN will continue to monitor these cases to understand the extent of this trend at the institutional level and the overall industry level. The QAR is shared with the individual members which allows them to identify such exceptions, examine the underlying accounts and take corrective action where required. Taken together with the GAR and TPE findings, it provides an efficient mechanism for identifying areas of concern, monitoring adherence and strengthening compliance.

Figure 6.4: Loans disbursed crossing the norm of annual household income of >3 Lk (% of total loans disbursed)



Source: Credit bureau, MFIN analysis

New Initiatives – Comprehensive Compliance Rating Framework

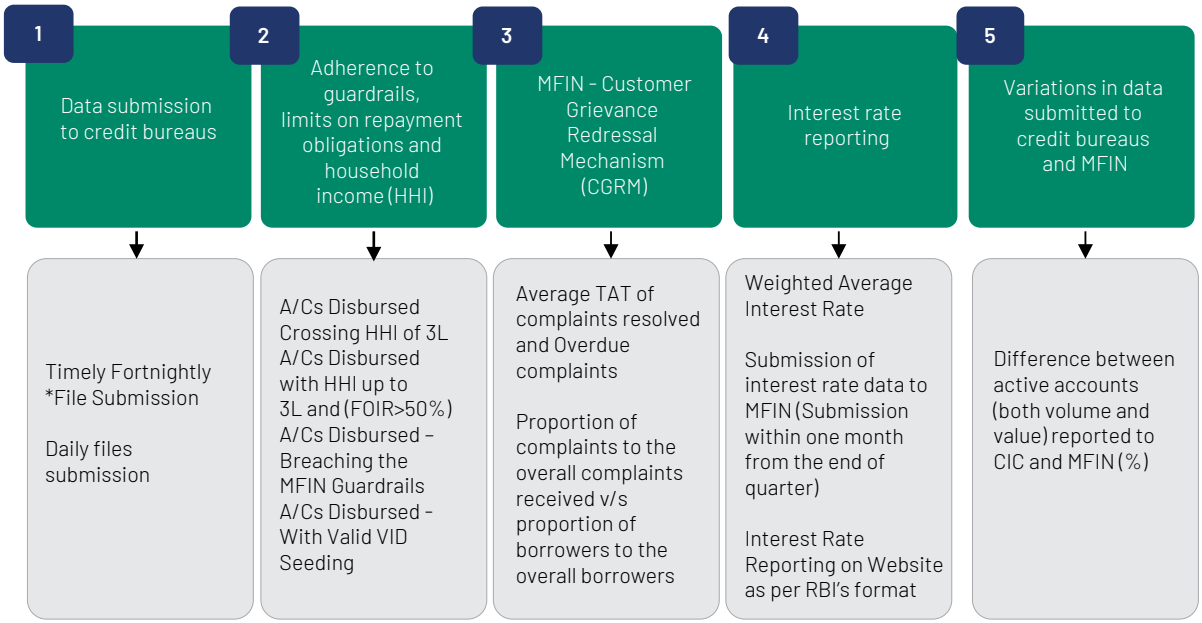
As a new initiative during the year, MFIN developed the Comprehensive Compliance Rating Framework (CCRF) to strengthen its quarterly assessment of member REs and provide a structured view of compliance across key regulatory and industry requirements. Following a two-quarter pilot, the framework was rolled out across all members in Jul'26.

The CCRF captures the indicators across five parameters - credit bureau reporting, adherence to MFIN Guardrails and prescribed repayment obligation limits, customer grievance redressal, interest-rate reporting, and consistency of data submitted to CICs and MFIN.

The framework incorporates a colour-coded risk rating system comprising three categories, Green, Amber and Red. Green indicates good performance, Amber indicates performance broadly in line with the industry average, while Red indicates areas requiring improvement. Each domain is assessed using specific parameters, with different weightages assigned based on their relative importance (**Figure 6.5**).

The CCRF has two components: the first provides a consolidated view of the performance of all member REs and helps identify sector trends. The second provides an individual report for each RE, highlighting its areas of strength and areas requiring attention.

Figure 6.5: Comprehensive Compliance Rating Framework



*Timely weekly file submission from Q2 FY 2026-27

Snapshot of the CCRF

Member	Member Name

	Data submission to Credit Bureau	Adherence to Guardrails, limit on repayment obligation and HHI*	CGRM	Interest Rate	Submission of Data to CIC and MFIN
Green: Good performance Amber: Around industry average Red: Needs improvement Blank: Data not available	1. Timely fortnightly file submission 2. Daily files submission	1. A/C Disbursed Crossing HHI of 3L 2. A/C Disbursed with HHI up to 3L and (FOIR>50%) 3. A/C Disbursed – Breaching the MFIN Guardrails 4. A/C Disbursed - With Valid VID Seeding	1. MFIN Average TAT of complaints 2. MFIN Overdue complaints 3. Proportion of complaints to the overall complaints received VS proportion of borrowers to the overall borrowers	1. Weighted Average Interest Rate Submission to MFIN (Submission within one month from the end of quarter) 2. Interest Rate Publication on Website as per RBI's format	1. Difference between active accounts (volume) reported with CRIF and MFIN (%) 2. Difference between active accounts (value) reported with CRIF and MFIN
Q2 FY 25-26					
Q3 FY 25-26					
Q4 FY 25-26					
Q1 FY 26-27					

* Guardrails/QAR exercise was not undertaken for Q2 FY 25-26, Q4 FY 25-26 and Q1 FY26-27.

Overall Impact

The TPEs, QAR/GAR, interest rate disclosures and various guidance notes and directives have expanded MFIN's SRO oversight activities. The focus is increasingly on following up on identified gaps, monitoring corrective actions and addressing issues that recur across member REs. The improvement seen in the Guardrail and QAR adherence reflects, in part, the impact of this increased monitoring and follow up.

6.3 Strengthening trust through responsive grievance redressal

Over the last decade, MFIN's Customer Grievance Redressal Mechanism (CGRM) has developed into one of the largest grievance redressal platforms operated by any industry association (key features presented in **Box 6.2**). By embedding transparency, accountability, responsiveness, and customer-

centricity into the redressal process, the mechanism plays an important role in strengthening customer confidence in the microfinance ecosystem, particularly among low-income and vulnerable households.

The RBI has consistently underscored the importance of CGRM as a fundamental requirement for safeguarding customer interests and enhancing customer satisfaction, mandating SROs to establish robust grievance and dispute resolution mechanisms for clients of their member institutions. While the internal grievance redressal mechanisms of individual lenders generally serve as the first point of contact, the availability of an independent and neutral platform becomes particularly important when grievances remain unresolved at the institutional level.

The complaint registration process in the MFIN-CGRM has been designed to remain simple, straightforward, and customer-friendly, without imposing unnecessary procedural requirements or excessive data collection. Importantly, there is no restriction on the period within which a grievance can be raised, allowing customers to approach MFIN even for issues relating to transactions or experiences from the past. Additionally, MFIN has also incorporated a system to receive and record grievances during the non-working hours through an IVR system. Currently, this service is being implemented in Hindi-speaking regions, with a view to expanding it further, based on effectiveness.

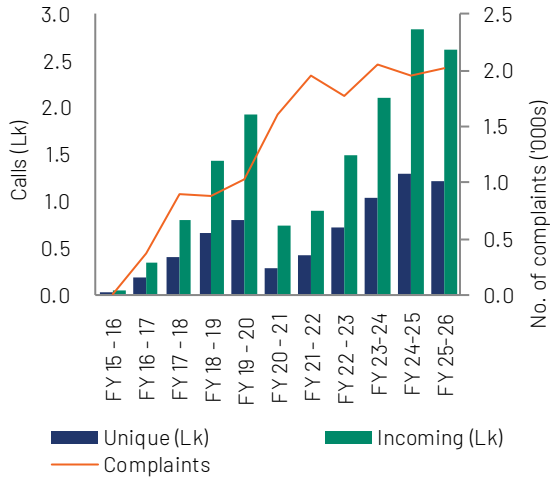
The mechanism is supported by a customized CRM platform that enables systematic registration, tracking, monitoring, escalation, and resolution of complaints within prescribed timelines.

MFIN's CGRM system has been extensively utilized by customers since its inception. The trend in calls received, unique callers accessing the helpline, and complaints registered through the mechanism over the years is presented in **Figure 6.6**.

Box 6.2: Key Features of MFIN CGRM

- MFIN's Toll free no: 1800 102 1080
- MFIN's e-mail id to lodge complaints: customercomplaint@mfinindia.org
- CGRM at MFIN is operational through a specific CRM solution for easy handling and monitoring of calls received.
- All the calls landing up at the toll-free number gets recorded.
- The incoming call facility at MFIN's toll free no is available from Monday to Saturday from 9:30 am till 5:30 pm.
- Calls received in the non-working hours gets recorded through IVR for Hindi speaking circles.
- There are 8 Customer Care Executives (CCEs) who are primarily responsible for receiving calls from across all states.
- Operational in 12 languages, namely English, Hindi, Odia, Bengali, Marathi, Punjabi, Assamese, Gujarati, Malayalam, Kannada, Telugu, and Tamil.
- Specific TATs for different types of complaints.
- Resolution provided is verified with the customer before closing the ticket.
- Automated alerts to customers at key stages of the complaint - registration, verification and closure.
- Feedback from customers obtained on the quality of their interaction with the CCEs through an IVR based system triggered after every call of a minimum set duration.
- With a steady growth over the years, 2.61 Lk calls were received in the last financial year and 74% complaints received in MFIN CGRM were resolved within 15 days.

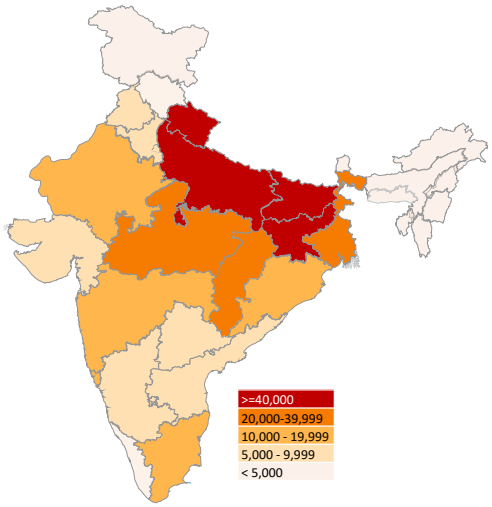
Figure 6.6: MFIN YoY call details



Source: MFIN CGRM

The geographical spread of these calls reflects the reach and accessibility of the mechanism across different regions, as well as the confidence customers have shown in using the platform to seek assistance and redressal. The circle-wise distribution of calls received through CGRM is presented in the **Figure 6.7**. Uttar Pradesh, Bihar, West Bengal, and Madhya Pradesh account for the highest volumes, with the states classified into five bands on the basis of number of calls received from those states[121].

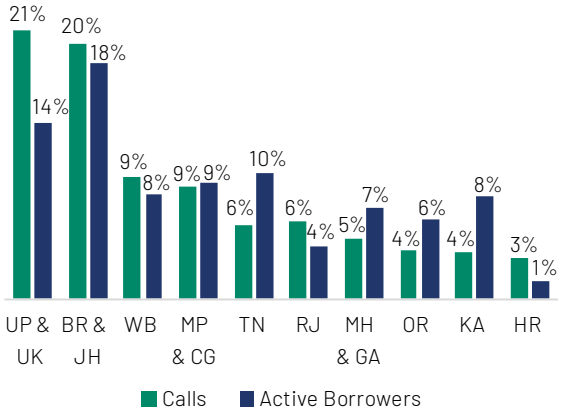
Figure 6.7: Circle wise calls received (FY 2025-26)



Source: MFIN CGRM

The number of calls received are largely in line with the borrower base of those states, except for Uttar Pradesh & Uttarakhand, where calls (21%) significantly exceed the borrower share (14%) (**Figure 6.8**). Rajasthan and Haryana also show a similar, though smaller gap. In contrast, Tamil Nadu and Karnataka reflect comparatively lower call intensity relative to their borrower base.

Figure 6.8: Circle wise calls & Active Borrowers, FY 2025-26



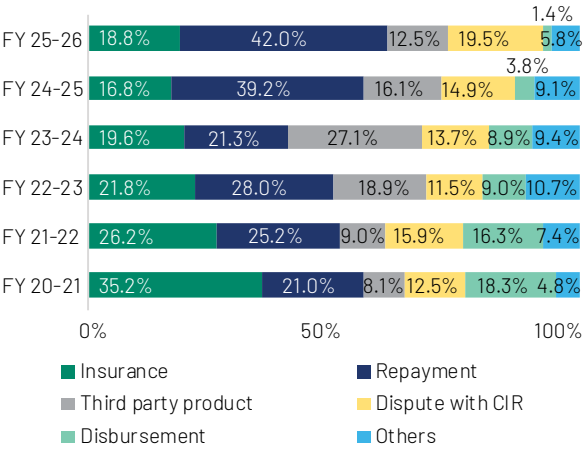
Source: MFIN CGRM

Process of Resolution

To facilitate effective handling and resolution, every call received is initially assessed and classified either as a query or a complaint. Complaints are further categorized based on their nature, enabling appropriate assignment, monitoring, and resolution. Major categories include grievances relating to repayment, insurance, Credit Information Reports (CIRs), and third-party products. The distribution of complaints received over the last 5 years is presented in **Figure 6.9**. As can be seen from this, the share of complaints pertaining to TPP were highest during the high growth period of 2023-24, which was replaced by the complaints related to 'Repayment' in the subsequent years when there was a contraction in the portfolio.

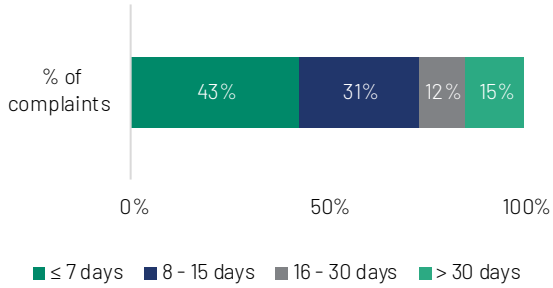
[121] Bihar and Jharkhand, Uttar Pradesh and Uttarakhand, Madhya Pradesh and Chhattisgarh, Maharashtra and Goa, and Andhra Pradesh and Telangana are categorized as single circles

Figure 6.9: Complaint Category



Source: MFIN CGRM

Figure 6.10: TAT of complaint resolution in FY 25-26



Source: MFIN CGRM

During the resolution process, each complaint is assigned to the concerned RE, with defined turnaround times (TATs) based on the nature and severity of the grievance. The framework also provides for expedited handling of urgent and critical cases where immediate intervention may be required.

Once assigned, complaints are continuously monitored to ensure adherence to the prescribed TATs. Delays in the response triggers escalation to higher levels within the concerned RE, reinforcing accountability and timely resolution. The average TATs for the complaints closed during the last financial year is presented in **Figure 6.10**.

However, the process does not conclude merely with the RE reporting a complaint as resolved. MFIN also undertakes a verification call with the customer to obtain feedback and assess satisfaction with the resolution provided. Where the customer remains dissatisfied, the grievance may be reopened or taken up for further review and corrective action, as appropriate.

In cases where a customer continues to remain dissatisfied despite the RE having undertaken the necessary actions, the mechanism also facilitates further escalation to the RBI Ombudsman, wherever applicable. This ensures that customer remains aware and have access to an independent avenue for grievance redressal beyond the institutional and SRO-level mechanisms.

Through this structured process of registration, classification, assignment, monitoring, escalation, resolution, and customer verification, MFIN's CGRM goes beyond facilitating timely resolution of individual complaints. It strengthens accountability among member institutions, provides valuable insights into emerging customer concerns, and reinforces customer protection and trust in the formal financial system.

Quarterly CGRM Report

The SRO prepares a detailed quarterly CGRM report by consolidating grievance-related data received in the MFIN-CGRM as well by its member NBFC-MFIs. The report presents an industry-level view of customer grievances, covering the volume and nature of calls and complaints, category-wise and state-wise distribution, complaints relative to the customer base and TAT. It is shared with member institutions and the RBI every quarter, providing a consistent and structured assessment of grievance redressal trends and performance across the microfinance sector.

System enhancements during the last year

- **Alerts to Customers on the status of their complaints:** An SMS notification feature was introduced within the CGRM system to keep customers informed about the status of their complaints throughout the resolution process. Automated alerts are triggered at key stages, including complaint registration, verification and closure. Initially launched in English, the facility has since been expanded to 12 languages, including Hindi, Odia, Punjabi, Tamil, Gujarati, Kannada, Telugu, Bengali, Malayalam, Assamese and Marathi, making complaint-related communication more accessible to customers across regions.
- **Customer Feedback on the quality of interaction:** To strengthen customer engagement and assess the quality of interactions with Customer Care Executives (CCEs), an IVR-based feedback mechanism was introduced on a pilot basis in Hindi. Under the system, after completion of an inbound call with a CCE lasting for more than 30 seconds, an automated outbound IVR call is triggered to seek feedback on the interaction. Customers can rate their experience as "Satisfied" or "Not Satisfied," providing a structured mechanism to capture customer experience and identify areas for improvement in service delivery.
- **Verification call automation:** An automated IVR-based verification mechanism was introduced in Hindi to obtain direct confirmation from customers on the resolution of their complaints. Once the response provided by the concerned MFI is reviewed and approved by MFIN, an automated IVR call is triggered, allowing the customer to confirm whether they are satisfied with the resolution. In cases where the customer does not respond to the automated call, a manual follow-up call is made to complete the verification process.

CGRM brochure

To strengthen awareness and accessibility of MFIN's CGRM, a dedicated CGRM brochure was developed for customers and other stakeholders. The brochure provides a simple overview of the grievance redressal mechanism and explains how microfinance customers can approach MFIN to register their grievances at no cost through its toll-free CGRM channel.

The brochure details the end-to-end complaint resolution process, beginning with registration of the grievance with MFIN's CCEs, its referral to the concerned Member RE for resolution, and subsequent follow-up and closure. It also sets out the three-level escalation matrix, enabling unresolved or delayed complaints to be progressively escalated to designated officials within the concerned RE. The applicable TATs for different categories of complaints are clearly indicated, providing customers greater clarity on the expected resolution timelines.

The brochure also highlights the use of automated SMS alerts at key stages of the grievance lifecycle, which keep customers informed about the registration, progress and closure of their complaints. By presenting the process in a simple and structured manner, the brochure is intended to improve customer awareness of available grievance redressal channels and make the CGRM more accessible and transparent.

The CGRM brochure (refer to **Annex B**) was initially released in English in May'26, followed by a Hindi edition in Jul'26 and is available on the MFIN's website for quick reference.

Employee complaints

With increased visibility and wider dissemination of the toll-free helpline, the channel has also increasingly been accessed by employees of member lending institutions to raise workplace-related grievances. Over the past few years, the number of such calls has shown a steady increase. While employee

grievances do not fall within the primary scope of the CGRM, the SRO takes cognizance of concerns received through the helpline and engages with the concerned member institution, where appropriate, to seek a response and facilitate suitable resolution. This enables significant employee-related concerns received through the channel to be addressed in a systematic manner, while retaining the CGRM's core focus on customer protection.

6.4 Capacity building efforts and projects

6.4.1 ASCEND – Education and Advancement Program in Microfinance

Launched in May'25, ASCEND was introduced as an industry-wide certification programme to strengthen the knowledge and capabilities of microfinance field staff (key features in **Box 6.3**). Since its launch, MFIN has focused on enhancing the accessibility and learning experience of the programme, while encouraging wider participation across member institutions.

MFIN has continued to engage with member institutions and their learning and development (L&D) teams to enhance awareness and encourage enrolment in the programme. A dedicated webinar was conducted with over 70 L&D representatives from member REs, supplemented by direct engagement with institutions and communication to CEOs highlighting the programme and its benefits.

To strengthen visibility and recognition, achievements of successful candidates have been showcased through testimonials and recognition of top performers. Successful candidates have also been provided wearable badges as a mark of achievement, helping create greater awareness and interest in the programme among their peers.

Box 6.3: ASCEND course features

- Self-paced, AI-proctored online certification programme, offering participants flexibility to learn at their own pace.
- Bilingual courseware available in English and Hindi in downloadable PDF format.
- Recorded video modules in both English and Hindi, hosted on the Learning Management System (LMS) of BIRD (Bankers Institute of Rural Development).
- Live doubt-clearing sessions with BIRD faculty to address participants' queries and provide additional guidance.
- Flexible 3-6-month completion window, followed by an online examination.
- Co-branded certification jointly issued by MFIN and BIRD upon successful completion.
- Institution-friendly enrolment process, with bulk registration, bulk payment facility and discounts to enable seamless enrolment of larger employee groups.

Do's and Don'ts for the branch staff

Microfinance operations are anchored in the principles of responsible lending, transparency, fair conduct and respect for customer dignity. As the first point of contact with borrowers, branch staff play a pivotal role in translating these principles into everyday practice. Their conduct and decision-making at the field level directly influence the quality of customer experience, adherence to regulatory and industry standards, customer trust, and ultimately, the reputation of both the institution and the microfinance sector.

Recognising the critical role played by frontline staff, a comprehensive set of Do's and Don'ts for branch staff was developed in 12 languages

to reinforce ethical behaviour, operational discipline and customer-centric practices across different stages of the loan lifecycle. The guidance covers key aspects of customer engagement, including customer acquisition and group formation, credit appraisal and underwriting, loan disbursement, centre meetings, repayment and recovery practices, grievance redressal and general field conduct.

Overall, the initiative reinforces the principle that responsible microfinance is ultimately reflected in the quality of interactions at the last mile. Strengthening the conduct and accountability of frontline staff is therefore critical not only for safeguarding borrower interests, but also for building sustained customer trust and promoting responsible and sustainable growth of the sector. A snapshot of the Do's and Don'ts is in **Annex B.**

6.4.2 DEA workshops

MFIN is a facilitating agency, appointed by the Depositor Education and Awareness (DEA) Fund Cell, RBI, for conducting 2,131 workshops across 224 districts in 25 states with 25 partner MFIs spread across five bi-months. As noted in previous reports, the DEA Fund was set up by RBI to utilise deposits unclaimed for more than 10 years, for promotion of depositors' education and awareness. The focus of these workshops is on financial literacy as envisaged by DEA and includes depositors' awareness on aspects like opening of bank accounts, KYC, anti-money laundering (AML) etc. as per RBI's guidelines.

MFIN has developed the material for workshop delivery including a handbook for participants in accordance with topics specified in the standardized material kit provided by the DEA Cell, RBI. The following set of activities are undertaken before and after the conduct of workshops.

- In each bi-month, training material is provided to partner MFIs in two formats – as a presentation and as participant handbooks. The presentation is complete with awareness generating videos and interactive case studies and is used for delivering the workshop content. The handbooks are distributed among workshop participants, for them to take back home to revisit the topics in future. The handbook includes pre-workshop and post-workshop assessment forms and a workshop evaluation/feedback form that need to be filled and submitted by the workshop attendees.
- Training of trainers (ToT) before each bi-month, where sessions are delivered to trainers from partner MFIs on workshop content and on topics that would better equip them to conduct the DEA workshops, such as adult education, experiential learning cycle, communication, approach & checklist of documentation work the programme, and mock delivery of DEA modules. The participating trainers are also provided with a trainers' booklet that contains the script for delivering DEA workshops in order to facilitate further internal training of MFI staff by them.
- After completion of each workshop, MFIN collects digital and physical copies of workshop attendance sheet, pre-workshop and post-workshop assessment forms and evaluation forms filled by participants, and workshop expense invoices and bills, which undergo review and financial audit. Upon completion of the audit, a report for the bi-month, highlighting the outreach and immediate impact in terms of change in awareness levels of the participants, is submitted to the DEA Cell along with an audited utilisation certificate.

The first bi-month was successfully completed in FY 2024-25 (Dec-Jan) with 269 workshops delivered across 13 states and 82 districts by 9 partner MFIs. Before the first bi-month, MFIN organized two ToTs - one in New Delhi and Bengaluru each. The 269 workshops were attended by a total of 14,797 participants, 89% of the whom were women.

Following this, the second bi-month was held between 01st Jun'25 and 31st Jul'25 during which 457 workshops were conducted across 18 states and 130 districts. As in the first bi-month, a ToT for partner MFIs was organised in Delhi before the second bi-month. Out of the 457 workshops, 2 stood cancelled due to unsatisfactory organisation and delivery of workshops as observed by MFIN team during its monitoring visits. Some highlights of the second bi-month outreach are as below:

- The bi-month covered a total of 25,115 participants across 455 workshops, 83% of which were women. Most of the participants were in the age bracket of 31 to 40 years.
- Workshops were regionally well distributed with around 28% in South, 22% in North, 22% in East & North East, 17% in the West, and 11% in the Central region.
- 34% of the workshops conducted were for rural participants and 33% each for semi-urban and urban participants.
- Nearly 41% of participants were reported to be engaged in services and trade such as shopkeeping, teaching, self-run business and daily wage labour. 33% of participants were housewives.

In Nov'25, a proposal for conducting the third bi-month in Jan'26 and Feb'26 was submitted to the RBI. The plan covered 457 workshops to be delivered by 17 partner NBFC-MFIs. However, due to delays in approval of the proposal, the third bi-month workshops could not be conducted as scheduled. Consequently, a discussion with the RBI was held in May'26 regarding certain queries of the DEA Fund Cell, post which efforts are underway for submitting a revised plan to the RBI for conducting the third bi-month from mid-Nov'26 to mid-Jan'27.

6.4.3 Natural catastrophe insurance

The project on "piloting parametric microinsurance for climate change and disaster resilience" supported by ADB through a Technical Assistance (TA), concluded in May'26. This initiative was designed to establish a parametric Natural Catastrophe (NatCat) risk mitigation solution to protect microfinance clients and Partner Financial Institutions (PFIs) from severe weather shocks.

The product features, partnerships and process related details have been cited in previous editions of the publication. While robust product design, thorough process mapping, automation, and fine-tuning were realized, project could not enrol microfinance client due to various factors. Summary of the implementation challenges faced, lessons learnt, good practices and recommendations for future implementation are provided below.

Implementation challenges

Despite a robust product and extensive outreach, the project could not see full scale rollout and enrolment at the ground level. Major challenges causing this are detailed below:

- **Slowdown in microfinance sector:** The rollout phase coincided with a prolonged industry-wide credit slowdown, shifting focus of PFI leadership to portfolio management and collections over new product testing.
- **Protracted MoU negotiations:** Out of 21 shortlisted PFIs, 14 expressed interest and 12 participated in pre-launch workshops. However, delays in final decision making prevented formal MoU execution prior to project close.
- **Interest rate and disclosure concerns:** Strict KFS guidelines made PFIs reluctant to introduce voluntary fee-based product that could push effective interest costs higher.

- **Product bundling:** As per MFIN directive on bundling of TPP, a product can only be sold to a microfinance client after at least one month of disbursement of primary loan creating challenges.

- **Comparison with other indemnity covers:** PFIs compared the product with indemnity-based home insurance products, Credit Guarantee Fund for Micro Units (CGFMU). These covers provide risk coverage which is quite different from NatCat cover but at lower premiums.

- **Concerns over reputational risk:** Since this product is highly complex, apprehensions were expressed by the leadership of many PFIs over possible risk of NatCat events occurring but not triggering a compensation. Thus, a reputation risk was associated with the product.

Key takeaway/lessons learnt

Although the project did not achieve desired results in terms of enrolment, the process generated several important insights and learnings:

- **Start with simpler variants:** It would be better to start with an entry level offering. This will prime the market, improve understanding of institutions and clients.

- **Product pricing is crucial:** Microfinance sector deals with clients who are extremely cost sensitive. Hence, suitable pricing of the product is extremely important.

- **Subsidization of premium:** In initial stage, it would be advisable to explore a component of subsidy which makes the product more appealing to have better adoption and to manage the ultimate cost to customers.

- **Product positioning:** NatCat insurance should not be compared with indemnity-based products, as the nature of coverage, risk protection, and pricing structures are fundamentally different

- **Implementation burden due to design complexity:** The technical design, multiple triggers, and extensive data requirements made explanation difficult for both institutions and clients. Therefore, communication materials should be simple.

Good practices

During the project phase several good practices were identified. These practices have been documented so that future endeavours in this direction are benefited from the experiences gained in the present project. These are:

- **Uniform and all-inclusive pricing**: NatCat insurance is a trigger-based product. These triggers are defined at a geographical unit which could be as small as pin code. Hence, the product often gets priced at such geographic level to cater to specific location-based triggers. This geographic variation would be too difficult for microfinance borrowers to comprehend and field staff to effectively communicate. Hence, the project adopted a uniform pricing policy across all geographies. This approach ensures that field staff training and client communication can be standardised.

- **Transparent claim settlement practices:** To ensure transparency of claims, the product leveraged pin-code level parametric triggers to enable highly precise and transparent claim settlement.

- **Grievance redressal and escalation matrix:** Since this was the first of its kind product, it was expected that many

teething issues will emerge. Hence, a 3-tier robust grievance management and escalation mechanisms was planned with PFI and Insurer forming the first two layers and MFIN being the third layer.

- **Automation of onboarding and claim processing**: A completely digitized process flow was designed. Claim trigger, processing and settlement were kept automatic with no claim registration requirement from the client.
- **Payout aligning with obligations**: Product was designed with the philosophy that benefits should be commensurate with the premium paid. Therefore, the product offered adequate cover for loan repayment obligations so as to provide sound value proposition.

Recommendations for future implementation

The project remains strategically important, as NatCat events continue to pose significant livelihood risks for microfinance clients and business risks for microfinance institutions. Key recommendations for future efforts are:

- **Early engagement:** Securing commitments early on from partner institutions not only provides a strong foundation for pilot execution but also helps generate credible success stories that can be leveraged to onboard additional stakeholders.
- **Multiple product variant required:** A tiered approach ranging from a basic plan to a comprehensive plan, which can cater to the varying risk appetites of participating financial institutions would cater to the varying risk appetites of PFIs.
- **Advocacy on developing ecosystem for parametric products**: Efforts should be put in to improve awareness and acceptance of parametric insurance among policymakers, regulators, institutions and clients through targeted advocacy and communication.
- **Tailoring perils as per local risks:** Customized coverage options could be explored. In geographies where certain perils are not significant, they could be excluded. This is linked to the perception of institutions that such low-risk events are unnecessary burden on premium. However, such geographical coverage helps in subsidising the premiums of high-risk geographies.
- **Subsidy support:** Pricing emerged as a major challenge. For future efforts, it is recommended that subsidy support from Government, NDMA or funding agencies be explored for the initial rollout. PFIs may also consider an initial subsidy support which could be phased out later. It is understood that once a rollout happens and the product gathers pace, wider coverage will drive premiums down and pricing may not remain as big a challenge as it is now.

6.5 MFIN's field outreach

The year under review was a demanding one in the field. MFIN undertook 1,357 activities across all regions, reaching borrowers, the officials of the district and State administrations, and the operations teams of Member REs. As section 4.3 records, three State legislations, the disruption caused by non-state actors and the defrauding of vulnerable women borrowers by unregulated entities called for engagement well beyond the Annual Activity Plan. The work was carried out in a structured and focused manner by a relatively lean team, supported by the Dashboard and the Tracker App (iOS and Android), and it contained the operational and reputational risk to the Member REs.

6.5.1 The instruments of outreach and the year in numbers

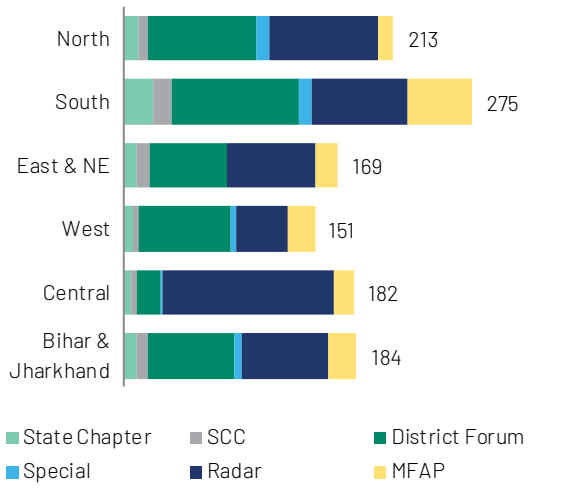
MFIN reaches each stakeholder through a distinct instrument. Borrowers are reached through the Microfinance Awareness Programmes (MFAPs). Meetings with the Regional Directors of the Reserve Bank and with State and district officials are recorded as Stakeholder Engagements (SHMs). Within the membership gamut, two collaborative platforms operate: the State Chapters, at the level of the State, Divisional and Zonal Heads of field operations of Member REs, and the District Forums, at the level of Branch and Area Managers. The State Coordination Committees' (SCC) of each State are MFIN's first point of contact for monitoring field operations; its members form part of MFIN delegations, shape the agenda of the State Chapter Meetings and take an active part in them.

MFIN also provides RADAR, a risk management tool that gives pin code level field intelligence on negative and risky areas, ring leaders and external inciters, so that a Member RE can see the risk in a location before it lends there. During the year, Member REs added 217 data points on these parameters, taking the cumulative count to 10,840. RADAR demonstration sessions are held at District Forum Meetings on request.

MFIN prepares an Annual Activity Plan (AAP) at the start of the year and executes it with room to scale up any instrument as the field situation demands. Between Apr'25 and Mar'26 MFIN recorded 1,174 structured activities: 71 State Chapter Meetings, 48 SCC meetings, 408 District Forum Meetings, 32 Special Meetings, 476 RADAR workshops and 139 MFAPs. Alongside these, 183 stakeholder engagements with officials were recorded between 10th Apr'25 and 16th Mar'26. Taken together, that is 1,357 recorded engagements in the year, or about 26 in every week.

Figure 6.11 gives the regional distribution and **Table 6.2** provides state wise details. The South, with 275 activities, carried the heaviest load, largely because Karnataka alone accounted for 106 activities and 21 MFAPs in the year. The North followed with 213, Bihar and Jharkhand with 184, the Central region with 182, the East and Northeast with 169 and the West with 151. The 32 Special Meetings, convened to address emergent critical events, mark where the year was hardest: nine in Karnataka, six across Punjab, Haryana and Delhi, four in Bihar, three each in Jharkhand, Maharashtra, two each in Uttar Pradesh and Rajasthan.

Figure 6.11: No. of activities (FY 2025-26)



Source: MFIN Data Hub

Table 6.2: Field activities by State (FY 2025-26)

Region	State	State Chapter	SCC	District Forum	Special	RADAR	MFAP	Total
North	Uttar Pradesh	4	2	18	2	18	8	52
	Punjab, Haryana, Delhi	4	3	36	6	36	3	88
	J&K, HP	0	0	4	0	4	0	8
	Rajasthan	3	2	24	2	24	1	56
	Uttarakhand	1	0	4	0	4	0	9
South	AP, Telangana	5	4	22	0	12	9	52
	Tamil Nadu, Puducherry	5	4	26	0	12	16	63
	Karnataka	8	4	32	9	32	21	106
	Kerala	6	2	20	1	20	5	54
East & NE	Odisha	4	3	18	0	24	5	54
	West Bengal	3	3	20	0	20	11	57
	Assam, Northeast	4	3	24	0	26	1	58
	Bihar	5	5	40	4	40	18	112
	Jharkhand	5	4	28	3	28	4	72
West	Maharashtra, Goa	4	3	40	3	20	12	82
	Gujarat	4	1	33	1	21	9	69
Central	Madhya Pradesh	3	3	8	0	88	14	116
	Chhattisgarh	3	2	11	1	47	2	66
All	**Total**	**71**	**48**	**408**	**32**	**476**	**139**	**1174**

Source: MFIN Data Hub

6.5.2 The microfinance awareness programmes

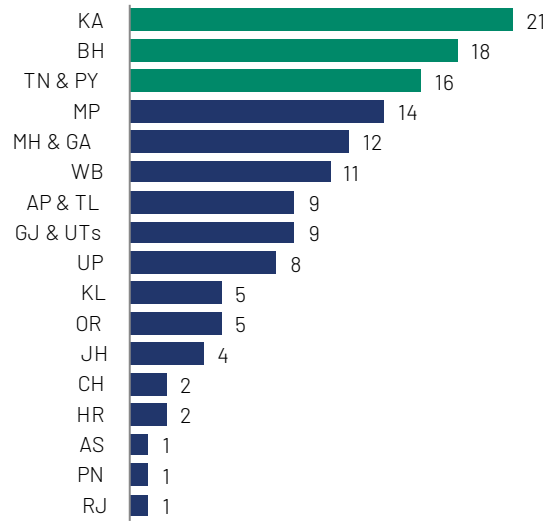
MFIN organised a record 139 MFAPs during the year, in 17 States across every Region. Each programme is hosted by the Member REs operating in the district and attended by the district administration, the Lead Bank, the District Development Manager of NABARD and the district police, usually from the Economic Offences or Cyber Security wing, together with 80 to 100 borrowers and was widely covered in the local print and electronic media. Piloted in the previous year to restore operations in the eastern Uttar Pradesh districts of Kushinagar, Maharajgunj and Gorakhpur, and well received by every stakeholder, the programme was institutionalised and scaled up during the year.

The presence of district officials at an MFAP confirms to borrowers the regulated standing of the Member REs. Borrowers present their own success stories, which in turn assures the district administration that the microfinance model is working in the district. The officials counsel borrowers on credit discipline, on the grievance redressal channels open to them and on the government schemes and benefits

they can access. MFIN distributes a brochure (refer to **Annex B**) in the local language listing the Member REs operating in the district, the MFIN CGRM toll-free number (1800 102 1080) and the do's and don'ts of credit discipline, protection of KYC documents, cyber safety and the avoidance of loan sharing).

Figure 6.12 shows the State-wise coverage. 21 programmes were held in Karnataka, to close the information gap on the total exemption of Regulated Entities from the Act (section 4.3.1); 18 in Bihar, between Apr'25 and Sep'25, ahead of the State election; and 16 in Tamil Nadu as a proactive measure to sensitise borrowers against unregulated and dubious lenders. Madhya Pradesh followed with 14, Maharashtra and Goa with 12, and West Bengal with 11.

Figure 6.12: MFAPs by state (FY 2025-26)



Source: MFIN Data Hub

6.5.3 Stakeholder engagement, the connecting instrument

MFIN undertook 183 stakeholder engagements in FY 2025-26, in 17 States and 74 districts. **Figure 6.13a** and **6.13b** gives the month and the break-up by the official with whom MFIN held meetings. The East and Northeast Region accounted for 98, of which West Bengal contributed 51 and Odisha 23, a measure of the volume of negative news, unauthorised loan waiver campaigns and unregulated entities in those two states, and Bihar 17, in the months of its legislation. The South accounted for 51, largely in Karnataka, to press home the total exemption of Regulated Entities from the Act. The Lead Bank or NABARD officer figured in 81 engagements, the District Collector or Magistrate in 73 and the police in 66, of which 30 involved cyber-crime officers. The Regional Offices of the Reserve Bank figured in 18 and the State Secretariats and Ministers in 17.

Several engagements undertaken by MFIN were in response to the incidents recorded in Section 4.3. MFIN held a meeting with the Supaul District Collector on 20th May'25 regarding unauthorised loan waiver yatra; the Collector summoned the campaigners and reprimanded them, and at her request, MFIN later held an MFAP in the Collectorate, which she attended and at which she counselled the borrowers. Jalpaiguri police meetings on 19 Jun'25 and 14 Jul'25 on the Jay Laxmi Agro fraud led to the summoning of nine members to the Matelli police station. Meeting took place with Azamgarh District Magistrate on 18th Jul'25 on the ZFM Foundation and Welfare Trust.

Figure 6.13a: Stakeholder engagements (FY 2025-26)

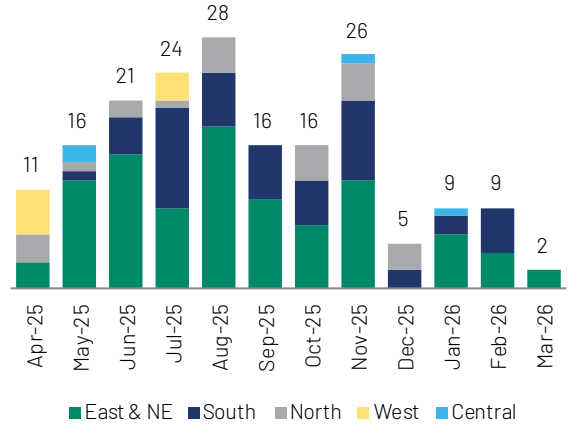
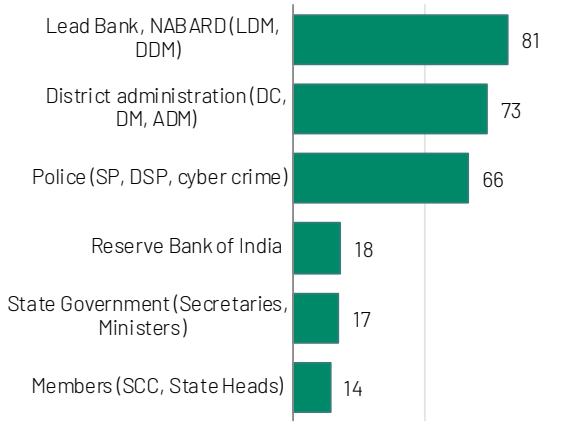


Figure 6.13b: Stakeholder engagements break-up



Source: MFIN Data Hub

MFIN met the Chief Secretary of Karnataka on 19th Aug'25 on the draft Rules, whose three definitions were subsequently dropped. An MFIN delegation met the Malkangiri District Magistrate and Sub-Collector on 03rd Sep'25 on All-India Democratic Women Association (AIDWA), after which the Sub-Collector directed the SDPO to act on the previous year's FIR, which was registered by the local police in response to the MFIN representation on unauthorised loan-waiver campaigns carried out by KMA. Engagement with the Principal Secretary, Finance, and the Chief Secretary of Bihar on 20th Feb'26 on the proposed Bill requesting for keeping the RBI REs out of the ambit of proposed legislation.

6.5.4 MFIN critical incident tracker

MFIN State Initiatives team maintains a dashboard and updates daily the activities undertaken. In the Critical incidents tab, incidents related to non-state action such as loan-waiver campaigns, protests, loan-pipelining, Commission Agents; Negative Press including suicides attributed to the sector, Robbery, Snatching, assault on field staff; unregulated and fake entities, among others. Each entry is followed by a desk enquiry with the State Heads of Member REs and, where the field is disturbed, by a field enquiry.

During the period under review the tracker logged 312 incidents in 21 states and 174 districts, of which non-state action accounted for 72 entries; reported suicides by media 58; fraud by member staff 53; adverse press 44; crimes against field staff (robbery, snatching, assault) 35; interventions by district administrations and the police 25; unregulated and fake entities trading on the sector's name 23; and State legislation 2. Newspapers were the source of 174 entries and members themselves of 65. **Figure 6.14a** provides critical incidents recorded by month and **Figure 6.14b** provides critical incidents recorded by state.

Figure 6.14a: No. of critical incidents logged (by month) during FY 2025-26

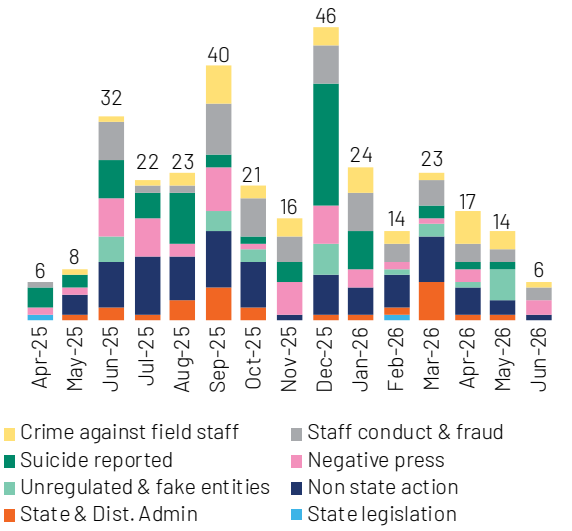
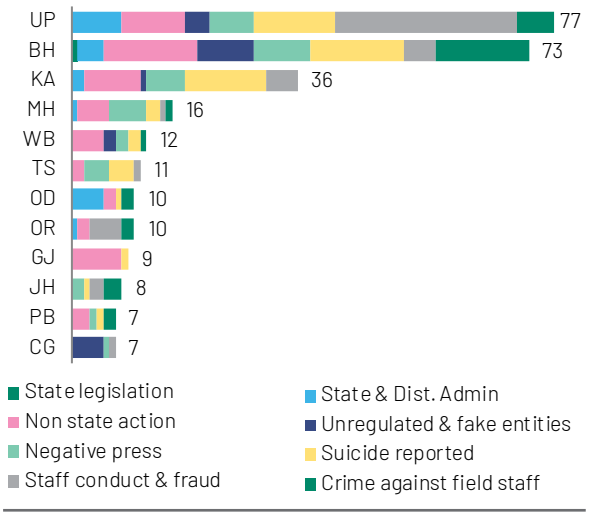


Figure 6.14b: No. of critical incidents logged (by state) during FY 2025-26



Source: MFIN Data Hub

In conclusion, the year's field outreach recorded 1,174 structured activities, 183 stakeholder engagements and 139 MFAPs across the Regions. In many cases the operational and reputational risk to Member REs was contained before it spread. That was possible as MFIN picked up signals early, through the State Chapter and District Forum Meetings and through its daily tracking of the print, electronic and social media, diagnoses them quickly, and intervened in time.

Annex A
Chronology of relevant policy and regulatory developments

April 01, 2025: **Master Circular on SHG-Bank Linkage Programme**

The Reserve Bank of India has issued a number of guidelines/instructions to banks on SHG-Bank Linkage Programme. The Master Circular dated April 01, 2025, consolidates the circulars issued by Reserve Bank on the subject up to March 31, 2025.

April 01, 2025: **Master Circular – Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)**

The Master Circular dated April 01, 2025, consolidates and updates all the instructions/ guidelines on the subject issued till date and replaces the earlier Master Circular issued on the subject.

May 07, 2025: **Policy Statement: Framework for Formulation of Regulations**

This Framework for Formulation of Regulations lays down the broad principles for formulation and amendment of Regulations by the Reserve Bank of India (hereinafter referred to as "the Bank"). The Framework seeks to standardize the process of making Regulations in a transparent and consultative manner after conducting impact analysis, as may be feasible.

May 21, 2025: **Withdrawal of Master Circular on Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NULM) and related circulars**

The Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NULM) officially concluded on September 30, 2024. Consequently, the Master Circular dated April 5, 2021 on DAY-NULM and other related circulars listed in the Annex stand withdrawn with effect from October 1, 2024.

July 20, 2025: **Review of Priority Sector Lending norms - Small Finance Banks**

Reserve Bank of India Vide this notification, reduced the additional component (35%) of PSL to 20 per cent, thereby making the overall PSL target as 60 per cent of ANBC or Credit Equivalent of Off-Balance Sheet Exposures (CEOBSE), whichever is higher. The SFB shall continue to allocate 40% of its CEOBSE to different sub-sectors under PSL as per the extant PSL prescriptions, while the balance 20% shall be allocated to any one or more sub-sectors under the PSL where the bank has competitive advantage. This notification will be applicable from financial year 2025-26 onwards.

September 15, 2025: **Master Direction on Regulation of Payment Aggregator (PA)**

Reserve Bank of India vide this Master Direction, issued detailed guidelines for governance of Payment Aggregators. The Master Direction includes detailed guidelines on Capital Requirements, Conduct of PA business, KYC and due diligence and Settlement of funds and Escrow Accounts.

September 25, 2025: **Reserve Bank of India (Authentication mechanisms for digital payment transactions) Directions, 2025**

All digital payment transactions in India are required to meet the norm of two factors of authentication. While no specific factor

was mandated for authentication, the digital payments ecosystem has primarily adopted SMS-based One Time Password (OTP) as the additional factor. In order to enable the payments ecosystem to leverage the technological advancements for implementing alternative authentication mechanisms RBI published this direction. The directions provide the broad principles which shall be complied with by all the participants in the payment chain, while using a form of authentication.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025**

RBI issued detailed directions for NBFC-MFI category outlining the role of board, qualifying asset criteria, prudential regulation, corporate governance and risk management among other things.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025**

This direction provides detailed instructions from RBI on the Scale Based Regulation for NBFCs. Detailed instructions on the registration requirements, exemption from the provisions of the RBI Act 1934 and reporting requirements are provided in the Directions.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies -Undertaking of Financial Services) Directions, 2025**

The Directions provide regulatory requirements from NBFCs entering into insurance business, mutual fund or sub-agent business.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies - Governance) Directions**

RBI issued detailed instructions on role of board, committees, appointment of KMPs, independent directors, and various facets of internal Corporate Governance guidelines in this direction.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025**

This Direction provides detailed instructions on regulatory capital requirement for NBFCs, adjustments, risk weighted assets and treatment of securitized exposures.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025**

This Direction of RBI provides details on various types of credit an NBFC offers. It contains detailed understanding on definition of microfinance, assessment of household income, limits on loan repayment obligations and pricing of microfinance loans.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Credit Information Reporting) Directions, 2025**

This Direction contains standardized framework for reporting and dissemination of credit information; safeguards the confidentiality and security of sensitive credit data; provide mechanisms for consumers to access their credit information and grievance redressal on matters related to credit information reporting. The Direction contains instructions on membership of CICs, data reporting formats, frequency of reporting, corrections in data reported, client grievance handling by CIs and CICs among other things.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Directions, 2025**

NBFCs are exposed to various financial and non-financial risks, of which credit risk is one of the most significant risks. Recognizing this risk, RBI has issued this Direction to strengthen credit risk management practices. The Direction includes detailed instructions on board approved policies, credit risk evaluation, regulatory restrictions among other topics.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Concentration Risk Management) Directions, 2025**

The concentration of exposures to a single counterparty or a group of connected counterparties poses significant risks. The RBI, while adopting a proportionate approach, recognized the imperative of robust risk management and therefore advised applicable NBFCs to address concentration of credit/ investment by imposing certain regulatory restrictions, fix internal exposure limits to avoid any undesirable concentration in specific geographical locations, and reckon exposure norms as per regulatory prescriptions. Building upon proportionate regulatory approach, the RBI later extended large exposure framework to NBFCs in upper layer.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Transfer and Distribution of Credit Risk) Directions, 2025**

Credit Risk Transfer and Distributions are resorted to by lending institutions for multitude of reasons ranging from liquidity management and rebalancing their exposures or strategic sales. RBI has been taking several steps towards its development through Directions/Guidelines on transfer of loan exposures, Co-lending arrangements, consortium arrangements and others. With this direction the Reserve Bank issued a comprehensive framework of regulatory guidelines governing different avenues of credit risk transfer and distribution.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Securitisation Transactions) Directions, 2025**

Securitisation involves transactions where credit risk in assets is redistributed by repackaging them into tradeable securities with different risk profiles which may give investors of various classes access to exposures which they otherwise might be unable to access directly. Present direction on securitization presents details of regulatory requirements on securitization.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Asset Liability Management) Directions, 2025**

The ALM direction provides instructions on regulatory expectations on liquidity risk management framework, asset liability management governance and liquidity coverage ratio.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025**

The RBI is statutorily mandated to operate the credit system of the country to its advantage. In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of NBFCs so as to move towards greater consistency and transparency in the published accounts. Accordingly, RBI has prescribed asset classification and provisioning requirements for various layers of NBFCs (Base, Middle and Upper layer).

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025**

These Directions are issued with a view to providing a framework for early recognition, reporting and time bound resolution of stressed assets. As compromise settlements are a valid resolution plan, these Directions also rationalise and harmonise the instructions on compromise settlements and technical write-offs, in order to provide impetus to resolution of stressed assets in the system.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Know Your Customer) Directions, 2025**

Under these directions, RBI has issued customer acceptance policy, customer identification procedure, risk management requirements, customer due diligence procedure, record management requirements, reporting requirements to the FIU and other specific instructions.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025**

Vide these directions, RBI has laid down clear requirements from board level to field force on how operations of NBFCs to be conducted with respect to clients. Fair Practices Code and guidelines on penal charges, requirement of KFS, conduct towards microfinance customers are part of the directions.

November 28, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Managing Risks in Outsourcing) Directions, 2025**

Instructions on management of outsourcing risk including role of board in policy formulation and risk management, which activities cannot be outsourced, governance framework, role of senior management, risk management, outsourcing process and redressal of grievance are provided in the directions.

November 28, 2025: **Reserve Bank of India (Credit Information Companies) Directions, 2025**

These directions lay down the complete set of regulatory guidelines for CICs operational in India.

December 04, 2025: **Reserve Bank of India (Credit Information Companies) Amendment Directions, 2025**

&

December 04, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Credit Information Reporting) Amendment Directions, 2025**

With this Amendment, RBI has mandated Credit Institutions (CIs) to submit credit information on minimum weekly frequency to CICs and mandated CICs to share DQI for all files ingested in the credit bureau within 3 days of submission.

December 29, 2025: **Reserve Bank of India (Non-Banking Financial Companies – Know Your Customer) Amendment Directions, 2025**

An explanation of para 63 was added via this amendment which is provided below:

"The RE that has last uploaded or updated the customer's KYC records in the central KYC registry (CKYCR) shall be responsible for verifying the identity and / or address of the customer, as applicable. Accordingly, any NBFC downloading and relying on such records from the CKYCR shall not be required to re-verify the authenticity of the customer's identity and / or address, provided the KYC records downloaded from CKYCR are current and compliant with the Prevention of Money Laundering (PML) Act, 2002 / PML Rules, 2005. The NBFC downloading and relying on KYC records downloaded from the CKYCR shall remain responsible for all aspects of customer due diligence (CDD) procedure and provisions of these Directions, except verification of identity and / or address of the customer."

January 05, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) – Amendment Directions, 2026**

Key definitions were added in the earlier directions. Other changes included provision in the credit policy, materiality threshold, recusal of interested parties, monitoring of loans to related parties, enforcement actions and others.

January 14, 2026: **Reserve Bank of India (Non-Banking Financial Companies - Internal Ombudsman) Directions, 2026**

These directions will be applicable on NBFC-MFIs above Rs 5000 Cr asset size. It includes detailed guidelines on operationalizing the Internal Ombudsman in the NBFC, including appointment, roles and responsibilities, procedural guidelines and regulatory oversight by RBI.

February 13, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026**

Key change brought about regarding treatment of Default Loss Guarantee (DLG) as mentioned below:

"**C1. Provisioning for portfolios covered by Default Loss Guarantee (DLG) arrangements**

36A. For loan portfolios covered DLG arrangements in terms of Chapter III of the Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 and Part B of the Reserve Bank of India (Non-Banking Financial Companies – Transfer and Distribution of Credit Risk) Directions, 2025 both dated November 28, 2025, an NBFC may consider the DLG for determining provisions under the Expected Credit Loss framework across all stages, subject to the requirements as laid down under Indian Accounting Standards, which inter alia require the DLG arrangement to be integral to the contractual terms of the loan and the DLG not being recognised separately.

36B. An NBFC shall comply with the disclosure requirements as prescribed under IndAS 1.

36C. Since upon every event of invocation of DLG, the DLG cover reduces to the extent of invocation, an NBFC shall recompute their ECL provisioning requirements across stages, after duly adjusting for the reduced DLG cover."

April 29, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Amendment Directions, 2026**

Vide this amendment, RBI altered the extant directions rationalising the extant prudential norms for implementation of resolution plans in respect of exposures affected by natural calamities, inter alia harmonising the regulatory instructions applicable to different REs.

April 29, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026**

RBI made changes in the extant directions related to classification of account slipping into NPA due to natural calamity and additional specific provisioning in case of resolution plan implemented under Chapter VI-A of the Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025.

April 29, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Amendment Directions, 2026**

The following specific amendment was made in the extant guidelines:

In Chapter IV – Miscellaneous, part E shall be inserted as under:

E. Measures in case of declaration of calamity

105A. A NBFC at its discretion, may provide relief measures such as waiver / reduction of various fees and charges in respect of customers in the areas where a calamity has been declared, for a period not exceeding one year.

April 29, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Second Amendment Directions, 2026**

Following specific amendment was made in the extant guidelines:

Paragraph 8A shall be inserted as under:

8A. Credit assessments carried out by a NBFC shall suitably factor in the possible impact of calamities on borrowers who may be impacted by such events.

June 15, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Second Amendment Directions, 2026**

In a major addition to the earlier directions on Responsible Business Conduct, RBI issued comprehensive instructions on advertising, marketing and sale of financial products/ services to all NBFCs with this amendment.

June 15, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Second Amendment Directions, 2026**

A major amendment issued by RBI on the extant directions focused on regulatory instructions on customer service and conduct aspects for NBFCs entering into agency business or sale of third-party products were included.

June 24, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Second Amendment Directions, 2026**

This amendment was issued in order to amend the Directions based on a review of instructions pertaining to methodology for identification of NBFCs in the Upper layer and placement of Government owned NBFCs in various layers as envisaged under the Scale Based Regulatory Framework for NBFCs. The amended direction contains detailed revised instructions.

June 24, 2026: **Reserve Bank of India (Non-Banking Financial Companies – Concentration Risk Management) Third Amendment Directions, 2026**

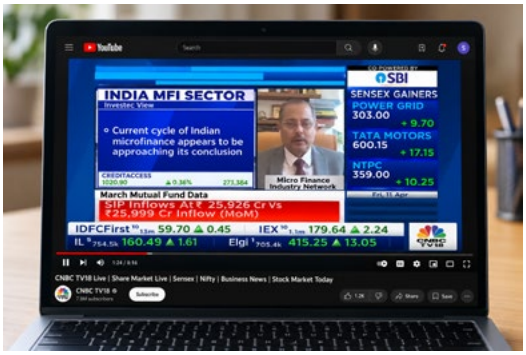
Based on a review of regulations applicable to NBFCs in the Upper Layer under the Scale Based Regulatory Framework for NBFCs and regulations on Concentration norms on Credit/ Investment applicable to Government owned NBFCs, RBI issued the third amendment to the original directions withdrawing exemption from concentration norms granted to Government owned NBFCs, deleting Chapter III - Guidelines Applicable to NBFC – Middle Layer and several other changes.

Annex B
MICROFINANCE IN NEWS AND MFIN INITIATIVES

1. CEO speaks

Dr Alok Misra, CEO & Director, MFIN, spoke to CNBC-TV18 on the improving credit quality trends in the microfinance sector, the industry's strong adoption of MFIN Guardrails and their positive impact on lending practices, as well as borrower overleveraging. (11 April 2025)

https://www.youtube.com/watch?v=VZ1BYyjj-fwx





Dr Alok Misra, CEO & Director, MFIN, spoke to NDTV Profit on how the microfinance sector is moving back towards normalcy and showing signs of recovery despite a liquidity crunch, supported by strong rural demand and buoyant consumer confidence that signal resilience. (18 August 2025)

https://www.youtube.com/watch?v=ARburH8tHHc

In an interaction with CNBC, Dr. Alok Misra highlighted the state of the sector, noting that portfolio quality and underwriting had improved and that the only constraint now was liquidity. (8 October 2025)

https://www.youtube.com/watch?v=BVVGKNOpp_c



In The Hindu's 'In Focus' podcast, titled 'How are the guardrails of India's microfinance sector helping it back to health?', Dr. Alok Misra spoke about the role of microfinance in India's fast-growing economy, how self-regulation has strengthened the sector, and why default rates still need closer attention. (5 November 2025)

https://www.thehindu.com/podcast/in-focus-podcast-how-are-the-guardrails-of-indias-microfinance-sector-helping-it-back-to-health/article70244093.ece


HOME / PODCAST

In Focus podcast | How are the guardrails of India's microfinance sector helping it back to health?

READ LATER

In Focus by The Hindu
How are the guardrails of India's microfinance sector helping it back to ...
00:01:09

Alok Misra speaks to us about the role of microfinance in India's fast-growing economy, how self-regulation has strengthened the sector, and why default rates still need closer attention.

Updated - November 05, 2025 04:49 pm IST

K. BHARAT KUMAR

2. Responsible lending, financial inclusion and sector resilience

Why microfinance still matters: Debunking myths and highlighting progress

https://economictimes.indiatimes.com/opinion/et-commentary/whymicrofinance-still-matters-debunkingmyths-and-highlighting-progress/articleshow/123049586.cms

विचार: मुख्यधारा के विकास से जुड़तीं महिलाएं

https://www.jagran.com/editorial/apnibaat-microfinance-empowersindian-women-drives-economicgrowth-40116220.html


There's Also Good of Small Things

Alok Misra

Micro, not just chips


मुख्यधारा के विकास से जुड़तीं महिलाएं

डा. आलोक मिश्रा

MFIN rolls out online certification program to empower microfinance workforce

MFIN launched ASCEND – The Education and Advancement Programme in Microfinance, an online certification initiative developed with the Bankers Institute of Rural Development (BIRD) and supported by NSEIT. Designed for field officers, branch managers and aspiring professionals, the programme covers microfinance operations, regulatory compliance, credit appraisal, customer engagement and responsible lending. (5 May 2025)

https://government.economictimes.indiatimes.com/news/mfin-rolls-out-online-certificationprogram-to-empower-microfinance-workforce/120897928

Bihar MFI Bill unlikely to hit RBI-regulated lenders, say experts

https://www.business-standard.com/economy/news/bihar-mfi-bill-seen-having-limited-impacton-rbi-regulated-lenders-126022701049_1.html



Bihar MFI Bill unlikely to hit RBI-regulated lenders: Experts

ANUPREKSHA JAIN
Mumbai, 27 February

The recently passed Bihar Micro Finance Institutions (Regulation of Money Lending and Prevention of Coercive Actions) Bill, 2026, is unlikely to have any material impact on lenders regulated by the Reserve Bank of India (RBI), with industry executives asserting that such entities will not be required to register at the state level.

Microfinance Institutions Network (MFIN), the self-regulatory organisation (SRO) for microfinance lenders, said the legislation is not applicable to RBI-regulated entities and that licensed entities will not need to seek registration under the state law.

"...RBI-regulated institutions already operate under one of the most stringent borrower-protection framework in the financial sector, supported by detailed RBI responsible business conduct guidelines, MFIN's industry Code of Conduct and MFIN guardrails, which together mandate fair conduct, transparent lending practices and responsible, non-coercive recovery mechanisms," the industry body said in a statement.

Bihar accounts for the largest share of the microfinance industry's exposure at around 15 per cent, followed by Karnataka and Tamil Nadu. Industry executives maintain that collection efficiency in the state has remained strong.

The Bill states that its provisions will apply to a wide range of entities engaged in advancing micro or small loans within Bihar, "irrespective of their place of incorporation, registration or domicile." These include individuals, partnership firms, limited liability partnerships (LLPs), companies, societies, trusts, digital lending platforms, mobile applications and other entities operating within the state's territorial limits.

Shares of several microfinance-focused lenders fell sharply on Friday following the passage of the Bill.

"If you refer to Clause 2, the legislation clearly states that the operational rules are not applicable to regulated entities. What applies to them is the prohibition of coercive practices, which is already in place. For regulated entities, it only says they have to curb coercive practices, which they are already doing. There is zero impact from this," said Sanjay Garyali, chief executive officer, Fusion Finance.

The Bihar legislation is seen as being on similar lines to measures introduced by the Karnataka and Tamil Nadu governments in 2025 to curb coercive recovery practices and usurious lending rates. While RBI regulated entities are exempt from registration and certain operational provisions, they remain subject to clauses relating to the prohibition of coercive recovery methods and borrower-protection measures.

"In fact, Bihar has behaved very well through elections and other challenges, including floods. It is one of the most disciplined markets for us and for the entire microfinance space. Bihar is among the top three states in collection efficiency, which continues to be upwards of 99.5 per cent on the entire book. Not just for us, but for all major players in the state, collection efficiencies have become very strong in the last three to four months. Post-elections and even during the election period, Bihar has emerged as a very disciplined state," Garyali added.

Top 10 states with active MFI loans

Gross loan portfolio in ₹ crore

All India 3,29,000

The top 10 states constitute 82.2% of the GLP

Sources: CRIF Highmark

3. Journey of growth

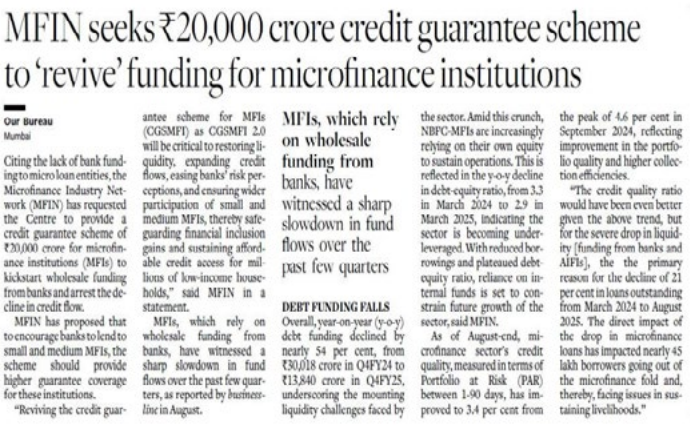
RBI's revised QA norms to boost compliance, broaden microfinance reach

The Reserve Bank of India revised the QA requirement for NBFC-MFIs from 75% to 60% of total assets. MFIN welcomed the move, stating that it would ease regulatory compliance, enable institutions to diversify their portfolios and improve long-term sector sustainability. The revised norms were also expected to help NBFC-MFIs serve the "missing middle" through products such as MSME and micro-housing loans while retaining their core microfinance focus. (9 June 2025)

https://www.business-standard.com/finance/news/rbi-revised-qa-norms-to-boost-microfinancecompliance-reach-mfin-125060901204_1.html

MFIN seeks Rs 20,000-cr credit guarantee from govt to boost NBFC-MFIs

https://www.business-standard.com/finance/news/mfin-seeks-credit-guarantee-support-toboost-nbfc-mfi-funding-125081201756_1.html



MFIN seeks ₹20,000 crore credit guarantee scheme to 'revive' funding for microfinance institutions

Our Bureau
Mumbai

Citing the lack of bank funding to micro loan entities, the Microfinance Industry Network (MFIN) has requested the Centre to provide a credit guarantee scheme of ₹20,000 crore for microfinance institutions (MFIs) to kickstart wholesale funding from banks and arrest the decline in credit flow.

MFIN has proposed that to encourage banks to lend to small and medium MFIs, the scheme should provide higher guarantee coverage for these institutions.

"Reviving the credit guarantee scheme for MFIs (CGSMFI) as CGSMFI 2.0 will be critical to restoring liquidity, expanding credit flows, easing banks' risk perceptions, and ensuring wider participation of small and medium MFIs, thereby safeguarding financial inclusion gains and sustaining affordable credit access for millions of low-income households," said MFIN in a statement.

MFIs, which rely on wholesale funding from banks, have witnessed a sharp slowdown in fund flows over the past few quarters, as reported by *businessline* in August.

MFIs, which rely on wholesale funding from banks, have witnessed a sharp slowdown in fund flows over the past few quarters

DEBT FUNDING FALLS

Overall, year-on-year (y-o-y) debt funding declined by nearly 54 per cent, from ₹30,018 crore in Q4FY24 to ₹13,840 crore in Q4FY25, underscoring the mounting liquidity challenges faced by the sector. Amid this crunch, NBFC-MFIs are increasingly relying on their own equity to sustain operations. This is reflected in the y-o-y decline in debt-equity ratio, from 3.3 in March 2024 to 2.9 in March 2025, indicating the sector is becoming underleveraged. With reduced borrowings and plateaued debt-equity ratio, reliance on internal funds is set to constrain future growth of the sector, said MFIN.

As of August-end, microfinance sector's credit quality, measured in terms of Portfolio at Risk (PAR) between 1-90 days, has improved to 3.4 per cent from the peak of 4.6 per cent in September 2024, reflecting improvement in the portfolio quality and higher collection efficiencies.

"The credit quality ratio would have been even better given the above trend, but for the severe drop in liquidity [funding from banks and AIFIs], the primary reason for the decline of 21 per cent in loans outstanding from March 2024 to August 2025. The direct impact of the drop in microfinance loans has impacted nearly 45 lakh borrowers going out of the microfinance fold and, thereby, facing issues in sustaining livelihoods."

Government unveils Rs 20000 crore credit guarantee plan for MFIs

The Government announced a Rs 20,000-Cr credit guarantee scheme for the microfinance sector to ease liquidity constraints and revive credit flow to the microfinance sector, particularly supporting small and medium NBFC-MFIs that faced difficulties accessing bank funding. Under the scheme, bank loans to eligible MFIs were to receive partial credit guarantees through the National Credit Guarantee Trustee Company (NCGTC). The initiative aimed to restore lender confidence, improve access to finance and support sustainable growth in the sector. (21 March 2026)

https://m.economictimes.com/news/economy/finance/government-unveils-rs-20000-crorecredit-guarantee-plan-for-mfis/articleshow/129700478.cms

Q1 FY25-26

As of 30 June 2025, the microfinance sector operated across 36 States/UTs and 721 districts, serving approximately 7.5 crore unique clients, with a portfolio of Rs 3,53,233 Cr. During the quarter, disbursements stood at Rs 56,677 Cr. Portfolio quality showed signs of improvement, with PAR in the 31–60-day bucket declining to 1.1% and PAR in the 61–90-day bucket to 1.4%, compared with 1.6% in each bucket in December 2024. NBFC-MFIs remained the largest lenders, accounting for 39% of the industry portfolio, while Eastern and North-Eastern states contributed 36.6% of sector outreach. NBFC-MFIs also recorded year-on-year growth of 8% in their branch network and 5.8% in their workforce.

Microfinance sector poised for revival as credit quality improves, says MFIN

https://bfsi.economictimes.indiatimes.com/articles/microfinance-sector-on-the-brink-of-revivalas-credit-quality-improves-mfin-reports/123725037

MFIs' disbursements drop 24% YoY to Rs 22,805 Cr in Q1: MFIN

https://www.thehindubusinessline.com/money-and-banking/mfis-disbursements-drop-24-y-o-y-to-22805-crore-in-q1-mfin/article70012720.ece/amp/

MFI disbursements drop 24% to ₹22,805 cr in Q1; credit quality on the mend from Q3FY25

Our Bureau
Mumbai

Microfinance institutions' (MFIs') disbursements fell 24 per cent year-on-year to ₹22,805 crore during the quarter ended June, data from MFIN showed.

Overall asset under management of MFIs were down 16 per cent to ₹1.34 lakh crore, while clients reduced to 3.8 crore in Q1 from 4.5 crore in the same period last year.

Bihar continues to be the largest State in terms of portfolio outstanding, followed by Tamil Nadu and Uttar Pradesh. Among the top 10 States, Tamil Nadu has the highest average loan outstanding per account of ₹31,363, followed by West Bengal at ₹30,435.

At this juncture, the sector is delicately poised and needs liquidity to sustain the improvement, according to MFIN

Portfolio at risk (PAR) of MFIs showed better trends in the 31-60 days bucket in comparison to last quarter, but the 61-90 days bucket remained static sequentially at around 1.4 per cent.

PORTFOLIO QUALITY

Alok Misra, CEO & Director, MFIN, said that it is a sign of relief that despite a severe drop in flow of bank funding and the adoption of tighter underwriting, which has led to a contraction in the Gross Loan Portfolio, the credit quality is on the mend.

"Over the last two quarters (Q3 FY25 onwards), there has been a significant improvement in portfolio quality in the early PAR buckets (PAR 31-60 and PAR 61-90), indicating that fresh disbursements are exhibiting healthier quality," Misra said.

"At this juncture, the sector is delicately poised and needs liquidity to sustain the improvement. I hope that the twin factors of the RBI's injection of liquidity and the improvement in credit quality, will together lead to better funding to the sector," he added.

Q2 FY25-26

As of 30 September 2025, the microfinance portfolio stood at Rs 3,39,510 Cr, down 16.8% year-on-year, amid continued funding constraints. Operations spanned 36 States/ UTs and 718 districts. Despite the portfolio contraction, asset quality improved, with PAR (31-90 days) declining to 1.09%. The press release also highlighted that 98% of clients remained within MFIN Guardrails, reflecting adherence to responsible lending practices. NBFC-MFIs continued to be the largest lenders in the sector, with a 39.2% share of the portfolio, followed by banks at 31.4%. MFIN emphasised the need for improved liquidity to sustain financial inclusion gains and support the sector's recovery.

Funding squeeze pushes 5 million out of formal finance: MFIN

https://www.financialexpress.com/business/banking-finance/funding-squeeze-pushes-5-millionout-of-formal-finance-mfin/4059630/

Funding squeeze takes a toll on microfinance

● 5 million pushed out of formal finance: MFIN

FE BUREAU
Chennai, November 28



MORE THAN FIVE million micro borrowers have been pushed out of formal finance as a continued funding squeeze in the microfinance sector has led to a sixth straight quarterly contraction in the portfolio, according to the 55th edition of Micrometer.

The sector's overall portfolio shrank 16.8% year-on-year to ₹3.40 lakh crore as of September 2025, down from ₹4.08 lakh crore a year earlier, the latest report from the Microfinance Institutions Network (MFIN), the industry's self-regulatory body, showed.

"Continued funding squeeze has resulted in the sixth consecutive quarterly fall in microfinance portfolio to ₹3.39 lakh crore. This has resulted in nearly 50 lakh clients going out of formal finance," Alok Misra, CEO and director, MFIN, said.

Microfinance loan disbursals declined 12% year-on-year to ₹59,974 crore in Q2 as lenders adopted a cautious stance and implemented MFIN guardrails, which limit the number of lenders per borrower and cap exposure to prevent overleveraging. As a result, loan accounts dropped to 117 million from 146 million a year earlier.

Sequentially, however, disbursals were higher than ₹56,677 crore in Q1. The average loan size rose to a multi-quarter high of ₹60,853, indicating lenders' preference for higher-quality borrowers over volumes.

NBFC-MFIs continued to dominate the industry's ₹3.39 lakh-crore gross loan portfolio with a 39.2% share, followed by banks (31.4%), small finance banks (17%), and NBFCs (12%). All lender categories witnessed portfolios shrinking in the range of 9-19%.

However, portfolio quality trends improved in most buckets. PAR 31–60 days eased to 0.9% from 1.1% in June 2025, while PAR 61–90 days improved to 1% from 1.4%. However, stress deepened in the long tail, with PAR 180+ rising to 16.2%, compared to 13.6% in Q1 and 8.5% a year earlier.

NBFC-MFIs, which rely heavily on bank funding, saw their outstanding borrowings fall 14% y-o-y to ₹95,724 crore as of September. Banks accounted for 62.5% of total borrowings, followed by external commercial borrowings (12.8%), non-bank entities (11.3%), AIFIs (7.2%), and others (6.2%). Misra said the funding crunch is "ironical" given that PAR 31–90 days has improved to 1.09% and 98% of clients are within the MFIN guardrails showcasing disciplined underwriting in the sector.

Lenders' MFI portfolio asset quality improves: MFIN

https://www.thehindubusinessline.com/news/lenders-mfi-portfolio-asset-quality-improves-mfin/article70335428.ece

'Asset quality of microfinance industry improves'

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After going through a bad credit cycle, the micro loan industry appears to have staged a comeback with better asset quality, according to MFIN, an RBI-recognised self-regulatory body for microfinance institutions (MFIs).

MFIN said MFIs' portfolio at risk or PAR level for 31-180 days buckets has improved to 4.1 per cent in Q2FY26 from 4.2 per cent in Q2FY25.

LOAN OUTSTANDING

As of September 2025, 3.5 crore clients had loan outstanding from NBFC-MFIs, which is 20.1 per cent lower than the number of clients as on September 2024.

Assets under management (AUM) of MFIs stood at ₹1.31 lakh crore, down 15 per cent on year. Alok Misra, CEO & Director, MFIN, said: "Continued funding squeeze has resulted in the sixth consecutive quarter fall in microfinance portfolio at ₹3.39 lakh crore. This has resulted in nearly 50 lakh clients going out of formal finance. It is ironical as portfolio at risk (31-90 days) has improved to 1.09 per cent and 98 per cent of the clients are within the MFIN guardrails, showcasing disciplined underwriting in the sector."

MFIs have presence in 26 States and 6 UTs and, in terms of regional distribution of portfolio (AUM), East and North-East account for 33 per cent of the total NBFC-MFI portfolio, South (28 per cent), North (15 per cent), West (15 per cent) and Central (9 per cent).

Q3 FY25-26

As of 31 December 2025, the industry portfolio stood at Rs 3,14,728 Cr, registering a 7.3% decline over the previous quarter. However, MFIN noted that the pace of contraction had moderated significantly, with a portion of the decline reflecting a shift from microfinance to retail portfolios, largely by banks. Quarterly disbursements increased to Rs 60,350 Cr, compared with Rs 56,677 Cr in Q1. Portfolio quality improved, with PAR (31–90 days) declining to 1.6% from 3.2% a year earlier, while PAR (91–180 days) fell to 2% from 3.3%. NBFC-MFIs strengthened their position as the largest lenders, accounting for 42.1% of the industry portfolio, although liquidity constraints continued to affect smaller MFIs.

India's microfinance portfolio shrinks 18.3% YoY; NBFC-MFIs hold 42.1% market share: Report

https://bfsi.economictimes.indiatimes.com/amp/articles/indias-microfinance-portfolio-shrinks-18-3-yoy-nbfc-mfis-hold-42-1-market-share-report/129155986

Microfinance portfolio continues to contract: MFIN

FE BUREAU
Mumbai, March 6

THE LOAN PORTFOLIO of the microfinance industry continued to shrink as it is yet to fully recover from the asset quality stress. The industry's assets under management declined by 7.3% quarter-on-quarter to ₹3.14 lakh crore as of December 2025, a report released by the Micro Finance Industry Network (MFIN) on Friday showed.

However, total disbursements grew marginally to ₹60,350 crore in the third quarter, compared with ₹56,677 crore in Q1.

The report has highlighted improvements in the asset quality. Portfolio at risk (PAR) 31-90 days declined to 1.6% as on December 2025, compared to 3.2% a year ago, while PAR 91-180 days was at 2%, against 3.3% last year.

"The moot point as of now is that despite normalisation of credit quality and strict implementation of MFIN guardrails to check any overindebtedness, the sector continues to face liquidity issues. Hopefully, the earnest advocacy by MFIN will bear fruit in Q4 with the likely launch of the guarantee scheme for wholesale lending, and the sector will enter the growth phase," said Alok Misra, chief executive and director of MFIN.

Q4 FY25-26

The sector recorded early signs of recovery in Q4, with the industry portfolio rising by over 3% quarter-on-quarter to Rs 3,25,174 Cr after seven consecutive quarters of contraction. Disbursements reached Rs 77,524 Cr, the highest level in seven quarters. Portfolio quality continued to improve, with PAR (31–90 days) declining to 0.8% and PAR (91–180 days) to 1.2%, both returning to pre-March 2024 levels. NBFC-MFIs remained the largest providers of microcredit, accounting for 44.2% of the industry portfolio, while the Eastern region continued to account for the largest regional share, at 36.6%.

MFI sector rebounds as AUM crosses Rs 1.47 Lk Cr; asset quality improves sharply in FY26: Report

https://bfsi.economictimes.indiatimes.com/articles/indias-microfinance-sector-sees-remarkable-recovery-in-fy26-with-improved-asset-quality/131683056

Dr Alok Misra spoke to CNBC TV18 on the sector's recovery after 7 quarters of contraction, supported by improving asset quality and higher disbursements. Monsoon risk and small MFI funding issues were also covered.

https://www.youtube.com/watch?v=H46U8qbMAn4

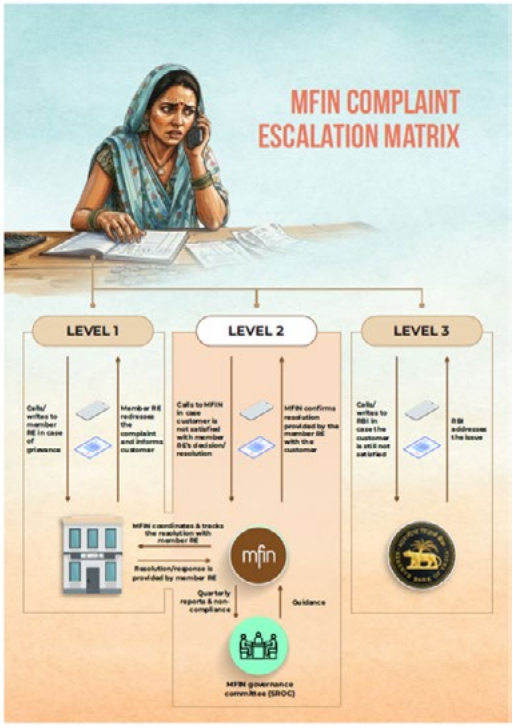


5. MFIN's financial awareness and responsible lending initiatives

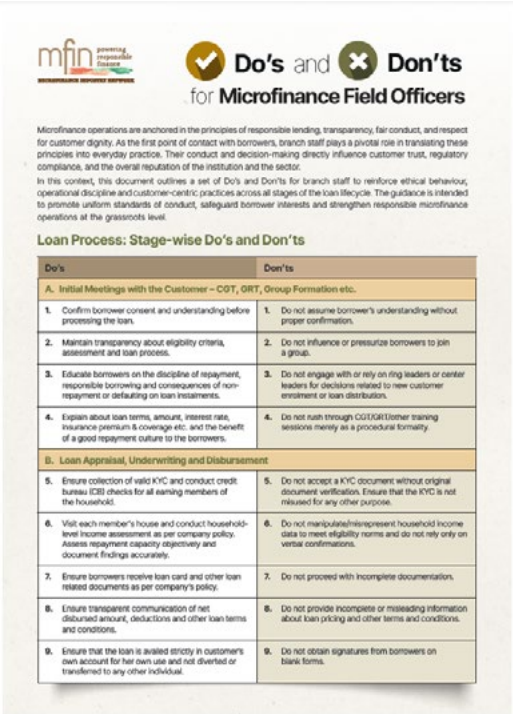
MFIN developed a range of awareness materials, brochures and flyers to promote responsible borrowing, financial literacy and borrower protection. These materials were translated into multiple regional languages to enhance accessibility and awareness among borrowers and field staff. Some of these initiatives are presented below.

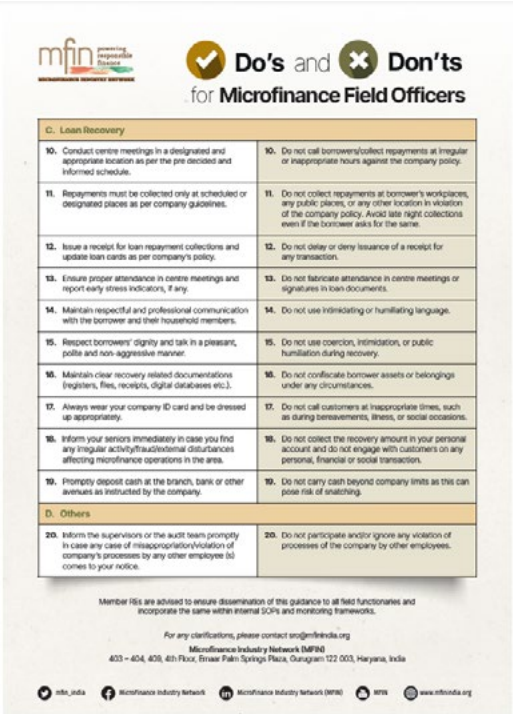
CGRM brochure





Do's and Don'ts for field officers





Borrower awareness flyer



NOTES

About MFIN

Micro Finance Industry Network is an industry association and an RBI-recognised Self-Regulatory Organisation. Its **Members** include NBFC-MFIs, banks, SFBs and NBFCs while the **Associates** comprise BCs, credit bureaus, insurance companies, fintech firms, as well as banks and NBFCs engaged exclusively in wholesale lending to MFIs.

MFIN works closely with regulators, government, microfinance providers and other stakeholders to foster an enabling environment for responsible finance, with a strong focus on customer protection and corporate governance. Through its members, microfinarice reaches low-income households across 36 states and union territories and 718 districts, expanding access to formal credit in remote and underserved areas.

For more information about MFIN and its work, visit
www.mfinindia.org

mfin powering responsible finance
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