



# Impact Assessment of Sa-Dhan's Sankalp Guardrails on Micro-lenders and Microfinance Borrowers

MARCH 2026

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# Acknowledgement

We are happy to present a report of a study carried out by Sa-Dhan with the help of Grant Thornton Bharat, regarding the impact of Sankalp 2.0 guidelines (guardrails) on the microfinance institutions as well as the borrowers.

The Sankalp guidelines were brought out in the light of growing stress in the microfinance sector on account of over-leverage and over-indebtedness, caused by unchecked lending in the field. The Sankalp guidelines have put some restrictions on getting the sector back on track. But these guidelines must have also put some constraints on both lenders and borrowers. Sa-Dhan, as a Self-Regulatory Organisation (SRO), wanted to assess its impact on the field and has engaged Grant Thornton Bharat to carry out this study.

We are happy that Grant Thornton Bharat has undertaken a undertaking this comprehensive and rigorous study with analytical depth, methodological strength, and sectoral understanding. Their efforts have enabled the development of a credible and evidence-based perspective on the implementation and impact of Sankalp 2.0.

We would like to thank all participating microfinance institutions for their valuable time, openness, and insights. The perspectives shared by leadership teams and operational staff have been critical in understanding both the achievements and challenges associated with the guidelines.

Our heartfelt thanks go to the borrowers who participated in the study across multiple states. Their experiences and feedback form the backbone of this assessment and provide important direction for strengthening borrower-centric practices.

We also acknowledge the contribution of Sa-Dhan member institutions and stakeholders who have consistently supported the Sankalp initiative and its objectives of promoting responsible lending and borrower protection.

Finally, my appreciation to the Sa-Dhan team – Mr Chandan Thakur, Mr Ardhendu Nandi, Mr Karthick Ramadas, Mr Souvik Saha, Mr Sunny Koshy, Mr Veneet Kalloor and Ms Shyamasree Nandan – in coordinating this study and supporting its execution at every stage. I hope that the findings of this report will further strengthen the microfinance sector and advance the shared goal of sustainable and inclusive growth.

**Jiji Mammen**  
ED & CEO  
Sa-Dhan



# Executive Summary

## Background and Study Purpose

The Indian microfinance sector serves as a critical enabler of financial inclusion, providing collateral-free credit to over 627 lakh active borrowers as of FY 2025, with a Gross Loan Portfolio of ₹3,75,122 crore. While the sector's rapid expansion has driven significant socio-economic impact, it has also exposed systemic vulnerabilities—rising borrower indebtedness, increasing delinquencies, inconsistent underwriting standards—that attracted heightened regulatory and public scrutiny during FY 2023–24.

In response, Sa-Dhan, an RBI-recognized Self-Regulatory Organization (SRO), introduced the Sankalp 2.0 Guidelines (revised April 2025), anchored around three pillars: over-indebtedness control, pricing transparency, and code of conduct and discipline. This study, commissioned by Sa-Dhan and conducted by Grant Thornton Bharat, represents the first comprehensive, evidence-based impact assessment of these guidelines, drawing on quantitative surveys of 1,200+ borrowers across six states and twelve districts, in-depth interviews with 16 MFI leadership teams (16 CXO-level discussions), and secondary data analysis of regulatory frameworks and portfolio trends.

## Key Findings

### Over-Indebtedness Control (Guidelines 1–4)

The guardrails have delivered measurable results.

Key Findings
Approximately 90% of borrower households operate within the three-lender cap,
The proportion of borrowers with four or more lenders declined from ~20% to less than 5% at the industry level as told by one lender.
98% of households remain within the ₹2,00,000 exposure ceiling, and nearly 89% maintain FOIR below 50%.
Debt levels have stabilized or reduced for 88% of borrowers surveyed, and 86% reported adequate financial conditions after meeting EMI obligations.
Household-level credit bureau checks are recalled by 91% of borrowers, indicating strong institutionalization of this practice.

### Pricing Transparency (Guidelines 5–6):

All 16 participating MFIs confirmed compliance with board-approved pricing structures, and the 1.5% processing fee cap<sup>1</sup> is broadly reflected in borrower experience. The Key Facts Statement (KFS) is increasingly distributed but is often treated as a compliance formality rather than a borrower education tool, with field staff quality serving as the de facto determinant of transparency.

Key Findings
Pricing governance has strengthened across institutions
Borrower understanding remains mixed:
<ul style="list-style-type: none"><li>~65% report adequate understanding of loan document.</li><li>~14% report partial understanding of loan document.</li><li>~21% struggle to understand the loan document.</li></ul>

<sup>1</sup>Important Guidelines for Responsible Lending – SANKALP 2.0 (Advisory), April 25, 2025, Sa-Dhan (RBI-recognized Self-Regulatory Organization for Microfinance Institutions) [Sankalp2.0 Advisory-1.pdf](#)



## Code of Conduct and Discipline (Guidelines 7–10)

The 60+ DPD lending restriction has strengthened repayment discipline, with 12 of 16 institutions endorsing the norm and four following even stricter thresholds. PAN-based KYC adoption remains nascent, averaging ~14% usage at origination, with significant regional variation (Maharashtra at 28% versus Rajasthan at 5%). End-use verification practices exist but are uneven; 11 of 16 MFIs flag operational infeasibility of 100% verification. Employee bureau checks are universally supported, though Equifax's monopoly position, cited by 9 of 16 institutions, raises cost and data quality concerns.

## Lender Perspective

All 16 institutions unanimously endorsed Sankalp 2.0 as a necessary and timely intervention. Six institutions were strong advocates of no dilution, six supported calibrated refinements, and two offered structural critiques while acknowledging the framework's value. Portfolio quality has improved across the board, with institutions reporting lower over-leveraging, reduced NPA accretion, better collection efficiency, and return to positive ROA. The dominant sentiment (10 of 16) is that guidelines should be retained without dilution for at least one more fiscal year.

## Critical Gaps and Areas of Concern

Despite strong directional progress, five structural areas require attention:

Area	Key Finding	Risk
<b>Field-Level Implementation</b>	Only 15% of borrowers recall credit report explanation; 35% report partial/no understanding of loan documents; grievance awareness is the weakest protection layer	Trust erosion; perceived arbitrary rejections
<b>Unintended Exclusion</b>	NTC borrowers declined from 15% to 4–5% at large MFIs; COVID-era defaulters remain permanently excluded; 4 of 16 MFIs flag displacement to informal/digital lenders	Two-tier credit system; invisible informal debt build-up
<b>Asymmetric Institutional Impact</b>	Smaller MFIs face cost of funds at ~16% vs. 10–12% for large players; operating costs up 100–150 bps; FO productivity down 30–40% at moderately impacted institutions	Reduced institutional diversity; viability pressure on smaller players
<b>Data Infrastructure</b>	Credit bureau data quality is the most discussed challenge (all 16 MFIs); SHG aggregation, 15–30 day data lag, inter-bureau discrepancies	False rejections; inaccurate exposure assessment

## Summary of Recommendations

The study's overarching recommendation is that Sankalp 2.0 should be retained as the core self-regulatory framework, with the focus shifting from rule expansion to clarification, calibration, and consistency of implementation. Key recommendations include:

Recommendation	Rationale
<b>Retain 3-lender cap without dilution (G1)</b>	91% compliance; 13 of 16 MFIs endorse retention; structural correction achieved
<b>Retain ₹2L exposure cap and 50% FOIR for at least one more fiscal year (G2)</b>	98% household compliance; 88% report stable/reduced debt; premature revision weakens credibility
<b>Mandate borrower-facing credit report explanation at appraisal (G1, G4)</b>	Only 15% recall explanation; communication gap erodes trust and leads to perceived arbitrary rejections
<b>Develop standardized KFS walkthrough and borrower communication protocols (G5)</b>	65% report adequate pricing comprehension; verbal explanation quality is the de facto transparency lever

<b>Adopt tiered, risk-based end-use verification (G9)</b>	11 of 16 MFIs flag infeasibility of 100% checks; sample-based for repeat borrowers, mandatory for first-time/high-value
<b>Introduce graduated re-entry for DPD-affected and COVID-era borrowers (G7)</b>	Binary exclusion pushes stressed borrowers to informal credit; millions carry pandemic-era adverse histories
<b>Constitute technical working group to review processing fee cap (G6)</b>	9 of 16 MFIs request modification; small-ticket loans face acute viability pressure; slab-based alternatives proposed
<b>Advocate for credit bureau data standardization (G4)</b>	Most discussed operational challenge across all 16 MFIs; SHG aggregation, data lag, and matching failures
<b>Transition SRO enforcement to proactive, technology-assisted monitoring</b>	8 of 16 MFIs flag enforcement gaps; complaint-driven model creates free-rider problem
<b>Commission annual Sankalp Compliance and Impact Report</b>	Strengthens Sa-Dhan's credibility; enables data-driven review of caps and thresholds over time

## Conclusion

Sankalp 2.0 has achieved its primary objective of restoring discipline to a sector that was experiencing systemic stress. Portfolio quality has improved, over-leveraging has reduced significantly, and the foundations for sustainable growth are being established. The framework functions as a necessary complement to the RBI's regulatory architecture—operationalizing its intent where specific prescriptions are absent and establishing higher standards where the base framework permits but does not mandate them.

The focus should now shift from rule expansion to three priorities: clarification of existing provisions to reduce inconsistency in interpretation, calibration to address disproportionate impacts on vulnerable borrower segments and smaller institutions, and consistency of enforcement to eliminate the free-rider problem. A consultative, evidence-led refinement process, anchored by Sa-Dhan and informed by periodic borrower and lender assessments, will sustain the balance between borrower protection, financial inclusion, and institutional viability that Sankalp 2.0 was designed to achieve.

*The ultimate measure of Sankalp 2.0's success will not be compliance rates alone, but whether responsible lending and inclusive access to credit reinforce each other—contributing to socio-economic development while preserving the financial health of microfinance institutions and the households they serve.*



# 1. Purpose of Study

## 1.1 Context

The Indian microfinance sector has emerged as a critical enabler of financial inclusion, extending **collateral-free** credit to millions of low-income households, particularly women in rural and semi-urban areas. Over the past decade, the sector has expanded significantly, with active borrowers nearly doubling from **330 lakh in FY 2014 to 627 lakh in FY 2025<sup>2</sup>**, while the Gross Loan Portfolio of MFIs growing from **₹2,65,646 crore in FY 2021 to ₹4,15,243 crore in FY 2024, before moderating to ₹3,75,122 crore in FY 2025** as the sector entered a consolidation phase. Physical delivery infrastructure also expanded in parallel, with MFI branches rising from 11,687 to 37,380 over the same period.

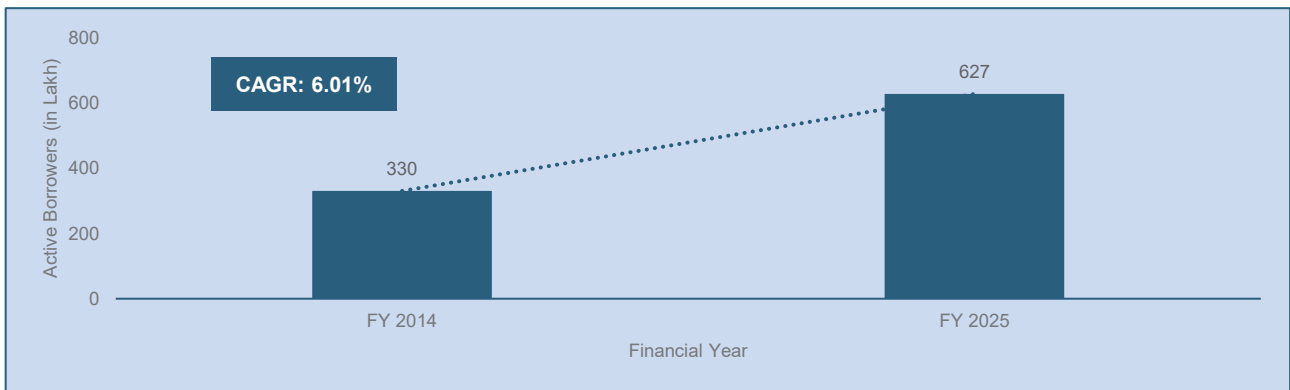


Figure 1 : Number of Active Borrowers from FY 2014 to FY 2025 in India

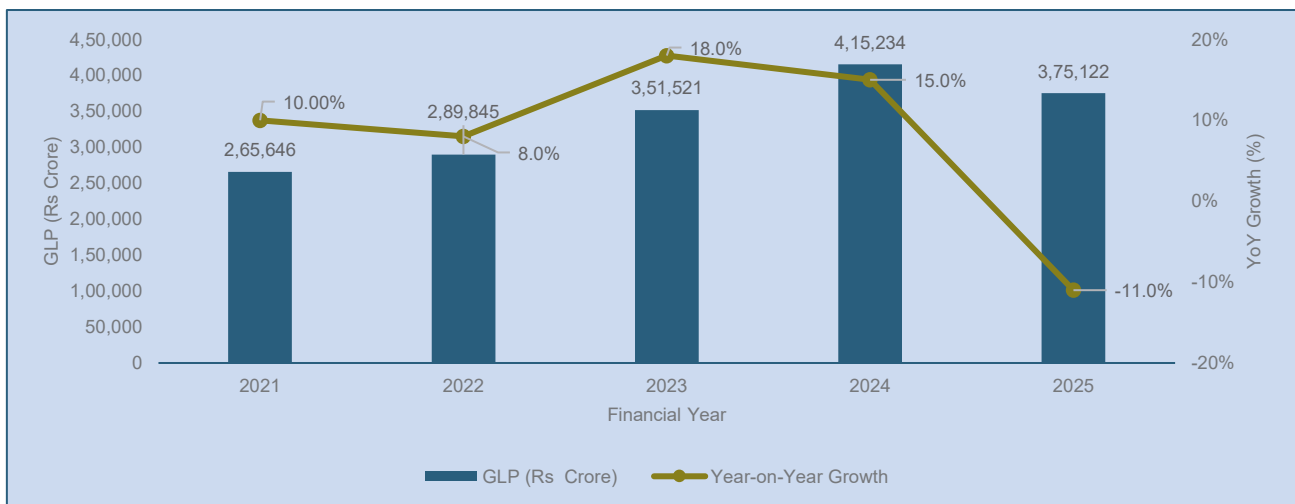


Figure 2: Gross Loan Portfolio of MFIs (Rs Crore) in India from FY 2021 to FY March 2025

However, this growth has also exposed systemic vulnerabilities. Rising levels of borrower indebtedness, increasing delinquencies, and inconsistent underwriting standards have attracted heightened regulatory and public scrutiny. During FY 2023–24, the delinquency levels rose in several states, and the RBI initiated enforcement actions against MFIs for non-adherence to fair practices and pricing norms. State-level legislative interventions in some regions further contributed to a more complex operating environment.

<sup>2</sup> Asset Quality of Scheduled Commercial Banks (SCBs) Witnesses Significant Improvement, Recovery Rate in NPAs Approximately Doubles from 13.2 per cent in FY18 TO 26.2 per cent in FY25, 29 JAN 2026, PIB Delhi / Ministry of Finance [Press Release:Press Information Bureau](#)

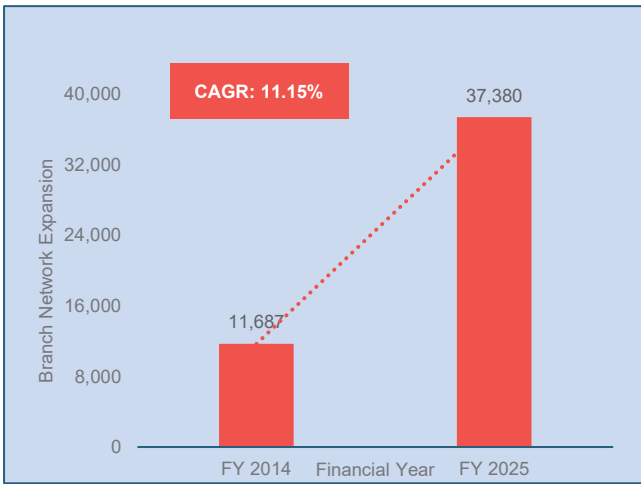


Figure 3: Branch Network Expansion from FY 2014 to FY 2025 in India

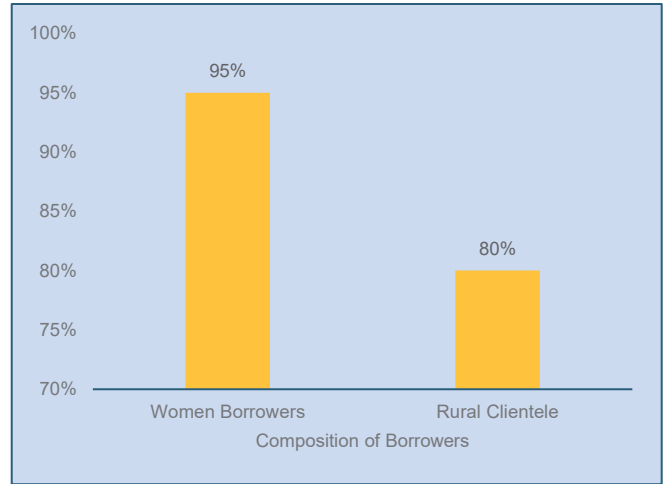


Figure 4: Composition of Borrowers in Microfinance Sector (Jan 2026)

### Institutional Composition and Market Share

In India, the microfinance sector is primarily driven by **NBFC-MFIs** (~39% of total microfinance portfolio) and **banks** (~32% of the total microfinance portfolio), together representing over three-fourths of the market. The dominance of NBFC-MFIs reflects their deep rural penetration, specialized focus on JLG lending, and operating models tailored for **small-ticket, unsecured** credit. Their long-standing presence in underserved geographies and ability to manage high-volume, low-value transactions efficiently has enabled them to retain a leading position in the sector.<sup>3</sup>

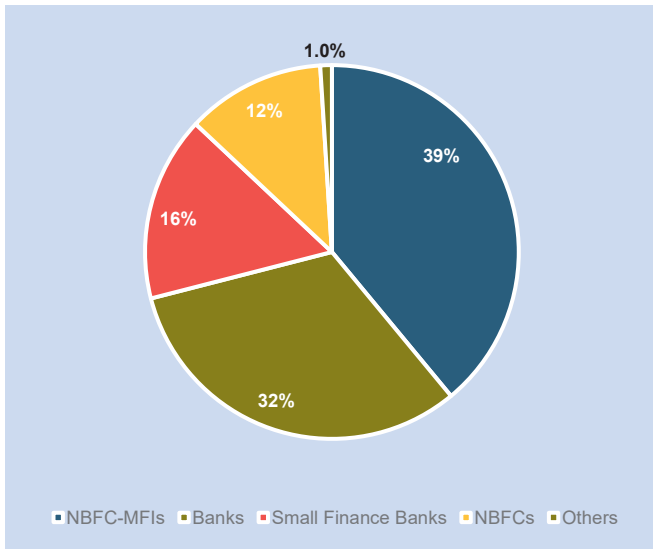


Figure 5: Institution Share (as on 31<sup>st</sup> March 2025)

Banks' large share is indicative of the increasing mainstreaming of microfinance within the formal banking system, supported by priority sector lending mandates, co-lending arrangements with MFIs, and banks' strategic push toward retail and inclusive finance. Small Finance Banks account for around **16% of the market**, leveraging their dual identity as regulated banks with a strong microfinance legacy, allowing them to combine deposit mobilization with last-mile credit delivery. Other NBFCs contribute about **12%**, reflecting selective participation in micro-lending alongside their focus on secured and higher-ticket segments, while other institutions together account for a **1%** share. Overall, this institutional composition underscores a diversified yet **NBFC-MFI- and bank-led ecosystem** that balances scale, specialization, and regulatory oversight in India's microfinance landscape.

<sup>3</sup>The Bharat Microfinance Report 2025 (FY 2024–25), October 2025, Sa-Dhan [cover page.cdr](#)

## Multiple Borrowing and Over-Indebtedness Indicators: Average Number of Lenders per Borrower

This section analyses trends in borrower distribution by number of active lenders to assess the extent and evolution of multiple borrowing and potential borrower-level credit concentration in the microfinance sector.<sup>4</sup>

- The share of borrowers associated with **two active lenders** has **increased steadily over the period**, indicating a growing prevalence of multi-lender borrowing relationships.
- Borrowers with **three active lenders** have remained broadly stable, suggesting **persistence of moderate multiple borrowing but without sharp escalation**.
- The proportion of borrowers with **four active lenders** shows a **gradual downward trend**, pointing towards some containment of higher-risk multiple borrowing.
- Borrowers with more than **five active lenders constitute a very small and declining segment**, indicating limited extreme over-leveraging at the system level.

Overall distribution trends suggest a shift from higher-order multiple borrowing (4+ lenders) towards lower-order multiple borrowing (2–3 lenders).

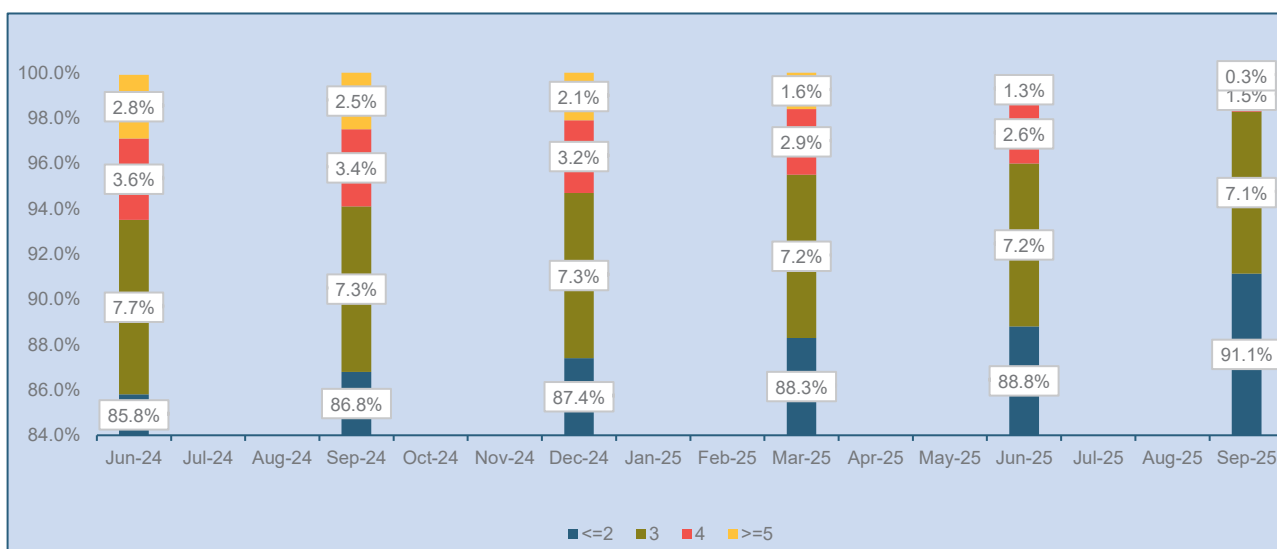


Figure 6: Distribution of borrowers by number of active lenders

### Key Observations:

- A consistently high proportion of borrowers **remain concentrated** in the two-lender category, which now represents the dominant borrower segment.
- The declining share of borrowers with four or more lenders may reflect the impact of:
  - tighter underwriting norms,
  - enhanced bureau usage, and
  - regulatory emphasis on borrower-level indebtedness.
- Stability in the three-lender segment indicates that while access to multiple sources of credit persists, it has not accelerated materially in recent months.
- The data points towards improved portfolio discipline, with limited evidence of rapid growth in high-risk borrower stacking.

However, the rising concentration in the two-lender segment highlights the continued importance of monitoring **cumulative borrower exposure** rather than only extreme cases of multiple lending.

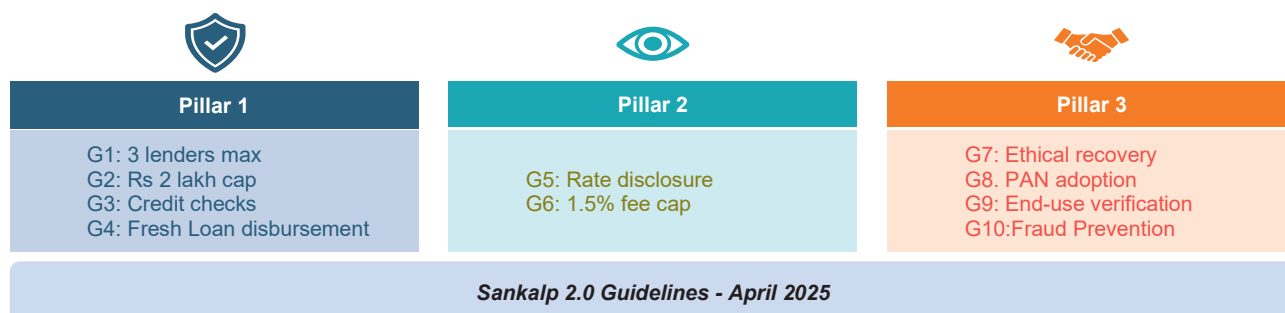
While this expansion reflects the sector's growing relevance, **it has also been accompanied by emerging systemic risks**. Rising levels of borrower, and signs of portfolio stress in select geographies have raised concerns regarding potential over-lending and borrower vulnerability. Additionally, instances of non-compliant recovery practices, limited pricing communication, and borrower distress has attracted heightened regulatory and public scrutiny.

Against this backdrop, Sa-Dhan, as an RBI-recognized Self-Regulatory Organization (SRO), introduced the Sankalp 2.0 Guidelines (revised in April 2025) to complement the RBI's regulatory framework and reinforce responsible lending practices across member institutions.

<sup>4</sup> Sa-Dhan Report GT Analysis

Sankalp 2.0 is anchored around three core pillars		
S.no.	Core Pillars	Description
1.	<b>Over-Indebtedness Control</b>	Introduction of exposure limits, restrictions on multiple lending, and mandatory comprehensive credit bureau checks to reduce the risk of debt traps.
2.	<b>Pricing Transparency</b>	Strengthening of fair and transparent pricing practices through clear disclosure of interest rate components and caps on processing fees.
3.	<b>Code of Conduct and Discipline</b>	Reinforcement of ethical recovery practices, promotion of PAN-based KYC adoption, verification of end-use of loans, and enhanced staff due diligence.

Table 1: Three core pillars of Sankalp 2.0



While these guidelines represent a proactive, sector-led effort to address structural vulnerabilities, the extent to which they have translated into measurable improvements in borrower protection, lender practices, and sectoral stability had not been systematically assessed. Experience with regulatory and self-regulatory interventions indicates that such measures often generate both intended and unintended effects, for instance, exposure caps may mitigate over-indebtedness but may also constrain access to credit for borrowers with legitimate livelihood requirements.

This study was commissioned by Sa-Dhan to address this critical knowledge gap and generate actionable insights that support the strengthening of responsible lending practices while sustaining the momentum of financial inclusion.

## 1.2 Specific Purpose and Objectives

The primary purpose of this study was to undertake a rigorous, evidence-based impact assessment of the Sankalp 2.0 Guidelines to determine their effectiveness in safeguarding microfinance borrowers and strengthening institutional lending practices. The study adopted a multi-stakeholder analytical lens, examining impacts at the borrower, lender, and market levels.

Sno.	Core Objectives	Description
1.	Assess Client Protection Outcomes	Assess the extent to which Sankalp 2.0 has improved borrower protection, including <b>reduction in over-indebtedness, prevention of debt traps, enhancement of borrower financial stability, and improvement in fair and transparent lending practices.</b>
2.	Measure Financial Inclusion Impact	Examine how guidelines have <b>influenced access to credit for legitimate livelihood and consumption needs</b> , particularly for first-time borrowers, underserved segments, and borrowers in vulnerable geographies.
3.	Analyze Operational Implications for Lenders	Assess <b>changes in underwriting, risk management, compliance processes, portfolio quality, operational efficiency, technology adoption, and human resource requirements</b> across lender types.
4.	Identify Gaps, Challenges, and Unintended Consequences	Identify <b>implementation challenges, operational bottlenecks, disproportionate borrower impacts, and areas</b> where guideline provisions may require <b>modification or additional enabling measures.</b>
5.	Formulate Evidence-Based Recommendations	<b>Develop actionable recommendations</b> to strengthen borrower protection, improve implementation efficiency, and refine Sankalp 2.0 provisions <b>through short-, medium-, and long-term measures.</b>

Table 2: Objectives of Assessment

Establish whether Sankalp 2.0 has achieved its core objective of preventing over-indebtedness and strengthening borrower protection	Assess the extent to which the guidelines have facilitated or constrained access to credit for different borrower segments	Identify geographies and population groups where the guidelines have produced positive outcomes, as well as those experiencing unintended exclusion	Quantify changes in borrower well-being, including debt burden, income stability, and levels of financial stress
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**These findings will enable Sa-Dhan to determine whether the balance between protection and inclusion is appropriately calibrated.**

### 1.3 Expected Outcomes

This study is designed to **generate credible, actionable, and policy-relevant evidence** for Sa-Dhan, participating in microfinance institutions, policymakers, and other sector stakeholders. The findings are expected to support informed decision-making, evidence-based policy refinements, and strengthened governance frameworks within the microfinance ecosystem.

#### a) Comprehensive Evidence Base on Guideline Effectiveness

The study is expected to generate a robust evidence base comprising the following:

#### b) Validated Assessment of Borrower Protection and Financial Inclusion Trade-offs

The study is expected to:

Quantitative findings from borrower surveys across six states, capturing compliance levels, borrower protection outcomes, and access-to-credit indicators	Qualitative insights from focus group discussions, case studies, and in-depth interviews documenting borrower experiences, perceptions, and behavioral changes	Institutional perspectives from participating MFIs representing diverse legal forms (NBFC-MFIs, NBFC, Small Finance Banks, and commercial banks) on operational challenges, compliance costs, and strategic responses	Secondary data analysis triangulating primary findings with trends in portfolio quality, delinquency patterns, and pricing practices
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**Collectively, this evidence base is expected to provide one of the most comprehensive assessments of Sankalp 2.0 to date and to serve as a credible foundation for policy action.**

#### c) Identification of Operational and Compliance Challenges

The study is expected to provide lenders with:

A structured understanding of field-level implementation challenges, including technology gaps, staff capacity constraints, and borrower communication issues	Evidence on compliance costs and resource requirements to support internal planning and external advocacy	Documentation of good practices adopted by MFIs that have successfully operationalized Sankalp 2.0	Identification of risk areas where non-compliance is more likely to arise from systemic constraints rather than deliberate negligence
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**These insights are expected to support MFIs in refining operational strategies and resource allocation.**



#### d) Actionable, Evidence-Based Recommendations

The study is expected to generate:

Policy recommendations for Sa-Dhan on provisions that may require strengthening, relaxation, or modification based on empirical findings	Operational recommendations for MFIs to improve compliance efficiency, reduce costs, and enhance borrower communication	Borrower-centric recommendations aimed at strengthening financial literacy, awareness, and grievance redressal mechanisms	Technology and capacity-building recommendations to address infrastructure and human resource gaps
<b><i>A phased implementation roadmap with short-, medium-, and long-term priorities and indicative ownership.</i></b>			

#### e) Strengthened Governance and Sectoral Stability

Through an independent and rigorous assessment of Sankalp 2.0, the study is expected to:

Enhance Sa-Dhan's credibility as a self-regulatory organization committed to evidence-based policymaking	Strengthening stakeholder confidence, including that of regulators, investors, and borrowers, in the sector's commitment to responsible lending	Inform future policy design by clarifying what works, what does not, and under what conditions	Contribute to systemic stability by enabling early identification and mitigation of emerging vulnerabilities
<b><i>Support sustainable financial inclusion by ensuring that borrower protection measures do not inadvertently exclude target populations.</i></b>			

#### f) Knowledge Contribution to the Microfinance Ecosystem

Beyond immediate stakeholders, the study is expected to:

Serve as a reference for other SROs, regulators, and development agencies designing or evaluating similar frameworks	Provide methodological insights on conducting mixed methods impact assessments in microfinance	Generate datasets and analytical outputs that can inform academic research, policy advocacy, and sector reporting	Contribute to global good practices in responsible microfinance by documenting India's experience with sector-led self-regulation
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#### Strategic Importance of This Study

In the context of heightened regulatory scrutiny, evolving borrower expectations, and continued sectoral expansion, this study is positioned at a critical juncture. It is expected to provide evidence to:

- Refine self-regulatory frameworks to ensure continued relevance, effectiveness, and balance.
- Demonstrate credible sector-led commitment to responsible practices, thereby mitigating risks of regulatory overreach.
- Protect borrower welfare without creating undue barriers to legitimate credit access.
- Support lender viability by ensuring that compliance requirements remain practical and proportionate.
- Advance inclusive growth by identifying and addressing persistent gaps in financial access.

Ultimately, the study seeks to support a framework in which responsible lending and inclusive access to credit reinforce each other, contributing to socio-economic development while preserving the financial health and sustainability of microfinance institutions.



## 2. Regulatory and Industry Context

This chapter outlines the regulatory architecture governing microfinance lending in India, positions Sa-Dhan's Sankalp 2.0 Guidelines within this framework and examines recent regulatory developments that shape the operating environment for the sector. The focus is on establishing the normative and institutional context within which the impact of Sankalp 2.0 is assessed in subsequent chapters.

### 2.1 RBI's Master Direction—Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025

RBI's Master Direction—Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025, issued by the RBI in November 2025, represents a fundamental shift in India's approach to microfinance regulation. It replaced the earlier differentiated regime and is applicable to every Non-Banking Financial Company – Microfinance Institution (**NBFC-MFI**) which is registered with the RBI.

These master directions have been structured around three overarching objectives:		
Harmonization	Borrower Protection	Finance Inclusion
Regulatory harmonization across institutional types	Borrower protection through strengthened underwriting and transparency norms	Continued facilitation of financial inclusion within prudential boundaries.

**Definition of Microfinance Loans:** Under the RBI's Master Direction—Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025, a microfinance loan has been defined as a collateral-free loan extended to households with annual income not exceeding ₹3,00,000, applicable uniformly across rural, semi-urban, and urban areas. Loans may serve income-generating activities, consumption needs, or other legitimate household purposes.

#### Core Regulatory Provisions

The RBI's Master Direction for NBFC – MFI (November 2025) has six core provisions that form the bedrock of microfinance regulation<sup>5</sup>:

S.No.	Core Regulatory Provisions	Description
1.	<b>Household Income Assessment</b>	The NBFC shall put in place a board-approved policy for assessment of household income for borrower eligibility, considering income from all earning members and multiple sources, including seasonal or irregular earnings, and apply reasonable verification beyond self-declarations.
2.	<b>Repayment Capacity and Debt Burden Norms</b>	Total household repayment obligations, including the proposed loan, must not exceed 50% of monthly household income.
3.	<b>Pricing and Transparency Requirements</b>	Lenders must follow a Board-approved pricing policy and ensure interest rates and charges are reasonable, with transparent disclosure of the all-in cost of credit to borrowers in vernacular language. RBI may intervene where pricing is excessive or unfair.
4.	<b>Borrower Assessment and Due Diligence</b>	NBFC Entities must assess repayment capacity, obtain credit bureau reports, avoid lending to over-indebted borrowers, and maintain documentation supporting income and credit appraisal.
5.	<b>Fair Practices Code</b>	NBFC must ensure transparent disclosure of loan terms, provide agreements in vernacular language, maintain grievance redressal mechanisms, prohibit coercive recovery, and clearly communicate borrower rights and obligations.
6.	<b>Reporting and Compliance</b>	NBFC shall maintain records for supervisory review, train field staff on regulatory and fair practices, and establish internal audit and compliance mechanisms.

Table 3: Core regulatory provisions

<sup>5</sup> Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 (Updated as on February 13, 2026), November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#); Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025, November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#); Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025, November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)



## Prudential Norms Applicable to NBFC-MFIs

Beyond the RBI's Master Direction—Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025, NBFC-MFIs are subject to additional requirements that shape their operational and financial conduct:

- **Minimum Net Owned Funds:** NBFC-MFIs are required to maintain a minimum NOF of ₹10 crore by 2027<sup>6</sup>, serving as cushion capital to absorb losses.
- **Qualifying Asset Requirement:** At least 60% of net assets must be deployed in qualifying microfinance loans, ensuring institutional focus on core microfinance activities and this requirement must be maintained on an ongoing basis; in case of failure for four consecutive quarters the NBFC-MFI must approach the Reserve Bank of India with a remediation plan.<sup>7</sup>
- **Capital Adequacy (CRAR):** A minimum CRAR of 15% is prescribed, ensuring sufficient capital buffers against credit and operational risks inherent in unsecured lending.<sup>8</sup>
- **Asset Classification and Provisioning:** Loans overdue beyond 90 days require provisioning of at least 50%, escalating to 100% beyond 180 days. Standard asset provisioning floors also apply.<sup>9</sup>
- **Pricing Guidance (Legacy Influence):** While RBI does not currently impose a fixed interest rate cap, the Malegam Committee (2011) recommendations on margin caps of 10–12% depending on portfolio size continue to influence sectoral pricing norms and serve as historical benchmarks.<sup>10</sup>

## Implementation Challenges

The various RBI Master Directions for NBFC – MFIs together, while comprehensive, present operational challenges that are relevant to interpreting Sankalp 2.0 outcomes:

Complexity of income assessment in informal and cash-based livelihoods	Data integration challenges for calculating consolidated repayment obligations	Credit bureau coverage gaps for first-time and rural borrowers	Increased compliance costs, particularly for smaller NBFCs
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## 2.2 Regulatory Positioning of Sankalp 2.0 Guidelines

While all ten guidelines originate from Sa-Dhan's self-regulatory code, their legal and supervisory standing varies based on the extent of overlap with existing RBI regulations and directives. Accordingly, for the purpose of this report, the guidelines have been classified into three categories:

Regulatory	Directive	Advisory
Those that directly align with binding RBI regulations	Those that operationalize RBI's supervisory intent through sector-level standards	Those that represent purely self-regulatory or advisory good practices

The table below summarizes the classification of the ten Sankalp 2.0 Guidelines across regulatory-aligned, directive, and advisory categories, along with corresponding RBI references.

Nature	Nature of Guideline	RBI Reference
1. Max 3 lenders per borrower.	Directive	No specific lender count is prescribed by RBI. However, following recent regulatory scrutiny, MFIs are capping borrower exposure to a maximum of three lenders <sup>11</sup> , with industry-led compliance timelines, including those set by other SRO's, running into early 2025. <sup>12</sup>

<sup>6</sup> Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025, November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)

<sup>7</sup> Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025, November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)

<sup>8</sup> Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025 (Updated as on March 10, 2026), November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)

<sup>9</sup> Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025, November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)

<sup>10</sup> Sub-Committee Constituted by RBI under Shri Y.H. Malegam Submits its Report regarding Micro Finance Sector, 25 November 2011, Ministry of Finance, Press Information Bureau (Government of India) [Sub-Committee Constituted by RBI under Shri Y.H. Malegam Submits its Report regarding Micro Finance Sector](#)

<sup>11</sup> MFIN Extends Deadline for Adhering to Maximum Three-Lenders-Per-Borrower Rule by Three Months, January 02, 2025, The Economic Times (ET Bureau) [Three-lender cap rule for microfinance | The Economic Times](#)

<sup>12</sup> MFIN Extends Deadline for Adhering to Maximum Three-Lenders-Per-Borrower Rule by Three Months, January 02, 2025, The Economic Times (ET Bureau) [MFIN rule for maximum three-lenders per borrower | The Economic Times](#)

2. Households with a combined exposure in microfinance and retail loan, shall not exceed Rs 200,000.	Directive And Regulatory	RBI's Master Direction—Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 require assessment of household income & indebtedness and repayment obligation limit for microfinance loans <sup>13</sup>
3. No fresh loan may be issued to a borrower with an existing outstanding loan unless 12 months have passed since disbursement or at least 50% of the principal has been repaid.	Directive	NBFC-CF Directions, 2025 does not specifically prescribe a 12-month cooling-off period or 50% repayment before fresh credit, only that household repayment obligations should be within the limit <sup>14</sup>
4. A Credit Bureau report for the client and spouse / co-applicant is also mandatory to check on retail and microfinance loan obligations.	Regulatory	NBFC-CF Directions, 2025 mandates household income and indebtedness assessment (income & debt data), NBFCs must put board-approved policy for household assessment. <sup>15</sup>
5. Lending Institutions should follow transparent practices when pricing loans.	Regulatory	The RBI Master Directions require that a board approved pricing be followed that is transparent and uses calculation based on 4 components for interest rate. Also, every borrower is provided with a loan card disclosing simplified factsheet on pricing, insurance charges, repayment details and grievance redressal contacts. <sup>16</sup>
6. Processing fee to be capped at 1.5% (excluding applicable taxes)	Advisory	RBI does not prescribe any numerical cap on processing fees for microfinance loans. RBI only requires that all charges be transparently disclosed to borrowers through loan cards and factsheets
7. No loan should be given to any client who is in default for more than 60 days (60+ dpd) with any lender and the total outstanding loan exceeds Rs 3,000.	Advisory	RBI does not specify any delinquency-based numerical thresholds (such as 60+ DPD or Rs 3,000 outstanding) for determining borrower eligibility for fresh microfinance loans.
8. The MFIs should move towards making PAN Card as the first ID for KYC and Credit bureau reporting.	Advisory	RBI does not mandate PAN as the primary or first identification document for KYC of microfinance borrowers. RBI permits the use of multiple officially valid documents for customer identification.
9. The end use of loans is to be verified to ensure proper utilization of loans for the requested purpose.	Advisory	RBI requires lenders to undertake end-use verification for microfinance loans.
10. It is mandatory to do employee bureau checks for each staff member before hiring. Any staff hired from the microfinance industry should only be given three months to produce a relieving letter.	Advisory	RBI does not prescribe any requirement for employee credit bureau checks or background screening as part of microfinance regulations.

**Table 4: Classification of the ten Sankalp 2.0 Guidelines across regulatory aligned categories, along with corresponding RBI references**

This mapping reveals that the four guidelines (G6, G7, G8, G9, G10) are purely advisory, addressing operational and conduct-related gaps that RBI norms leave unspecified. Two guidelines (G1, G2, G3) are directive in nature, operationalizing RBI's broader intent through specific quantitative thresholds. Three guidelines (G2, G4, G5) align closely with existing regulatory requirements. This layered positioning underscores Sankalp 2.0's role as a complementary self-regulatory instrument rather than a parallel regulatory framework.

<sup>13</sup> Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 (Updated as on February 13, 2026), November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)

<sup>14</sup> MFIs to Implement Revised Guidelines for Pricing of Loan, Exposure Limit from June 1, April 28, 2025, The Hindu Business Line [Pricing of Loan guideline by MFIs | Business Line](#)

<sup>15</sup> Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 (Updated as on February 13, 2026), November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)

<sup>16</sup> Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 (Updated as on February 13, 2026), November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#); Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025, November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)



## 2.3 Recent Regulatory Developments (2023-2025)

The microfinance sector has witnessed significant regulatory activity since 2023, creating a dynamic operating environment that both validates and tests the relevance of self-regulatory frameworks like Sankalp 2.0.

### RBI Enforcement Actions (2023–2024)

Between 2023 and 2024, RBI intensified supervisory scrutiny of microfinance lending practices, resulting in a series of enforcement actions and supervisory interventions.<sup>17</sup>

Enforcement actions against MFIs	Key violations identified by the regulator
<ul style="list-style-type: none"> <li>• Issuance of show-cause notices to several NBFC-MFIs for violations of the Fair Practices Code</li> <li>• Imposition of monetary penalties for excessive interest rates and non-transparent pricing practices</li> <li>• Placement of business restrictions on institutions found engaging in coercive recovery practices.</li> <li>• Issuance of supervisory directives to strengthen internal controls, governance structures, and compliance functions</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rates not approved by Boards or lacking documented justification.</li> <li>• Processing fees and ancillary charges exceeding reasonable limits.</li> <li>• Inadequate household income assessment and credit appraisal</li> <li>• Failure to obtain credit bureau reports prior to disbursement.</li> <li>• Instances of aggressive or coercive recovery practices</li> <li>• Deficiencies in grievance redressal mechanisms</li> </ul>

Table 5: RBI Enforcement Action (2023-2024)

These enforcement actions signal that regulatory tolerance for lax compliance is diminishing, reinforcing the case for proactive self-regulation through instruments like Sankalp 2.0.

### State-Level Legislative Interventions

Several state governments enacted or proposed legislation to regulate microfinance activities within their jurisdictions, contributing to a more complex operating environment.

States	Key Actions Included
Karnataka (2025)	The Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Act, 2025 mandates registration of MFIs with state authorities, interest rate caps, and enhanced borrower protection mechanisms <sup>18</sup>
Tamil Nadu (2025)	Establishing statutory rules for microfinance institutions and money-lending entities, prohibits any coercive recovery measures thus ensuring borrower protection. <sup>19</sup>
Assam (2023)	Enacted to curb rising rural indebtedness and coercive recovery methods which was amended in 2023 to better align with RBI guidelines while retaining key state-level borrower protections. <sup>20</sup>

Table 6: State wise legislation to regulate microfinance activities

Industry concerns arising from these interventions included:			
Regulatory fragmentation resulting from divergent state-level norms	Constitutional questions regarding state jurisdiction over lending, which is a Union subject	Increased operational complexity and compliance costs for multi-state lenders	Legal uncertainty due to pending judicial review of certain state legislations

<sup>17</sup> Action Against Select NBFCs Including NBFCs-MFIs, October 17, 2024, Reserve Bank of India (RBI) [Press Releases - Reserve Bank of India](#); RBI takes action against 4 NBFCs over excessive interest rates, non-compliance with financial regulations on loans, October 17, 2024, ANI News (Asian News International) [RBI takes action against 4 NBFCs over excessive interest rates, non-compliance with financial regulations on loans](#)

<sup>18</sup> The Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Act, 2025, March 25, 2025 (First published in the Karnataka Gazette Extraordinary), Government of Karnataka (Department of Parliamentary Affairs & Legislation) [media\\_to\\_upload1748340143.pdf](#); Karnataka MFI Ordinance: New Law Imposes Tough Conditions for MFIs; Coercive Loan Recovery to Invite Fine and Jail Term, February 12, 2025, The Economic Times (ET) [Karnataka MFI Ordinance: New law imposes tough conditions for MFIs to operate, coercive loan recover will invite fine, jail term - The Economic Times](#)

<sup>19</sup> Tamil Nadu Money Lending Entities (Prevention of Coercive Actions) Act, 2025, June 9, 2025 (Tamil Nadu Government Gazette Extraordinary No. 265; received Governor's assent on June 9, 2025), Government of Tamil Nadu (Law Department / Legislative Assembly+D19) [Money-Lending-Act-265\\_Ex\\_IV\\_2\\_2025.pdf](#)  
Tamil Nadu Government Notifies Law to Prevent Coercive Recovery of Micro-Loans, June 15, 2025 (Updated June 16, 2025), The Hindu [Tamil Nadu government notifies law to prevent coercive recovery of micro-loans - The Hindu](#)

<sup>20</sup> The Assam Micro Finance Institutions (Regulation of Money Lending) Amendment Act, 2023, October 9, 2023 (Notified in the Assam Gazette Extraordinary; received Governor's assent on October 3, 2023), Government of Assam, Legislative Department [D:\Lagislative Assembly & Others\2023\ACT\No. LGL 125-2020-20 \(9th October-23\) Micro Finance.pmd](#)



Sa-Dhan's response has included the following		
Engagement with state governments to explain the existing RBI regulatory framework	Advocacy for a harmonized approach consistent with federal principles	Emphasis on strengthened self-regulation through Sankalp 2.0 to proactively address borrower protection concerns

### Qualifying Asset Norms (RBI's Master Direction—RBI (NBFC-MFI) Directions, 2025)

In November 2025<sup>21</sup>, RBI issued revised norms for the classification of Qualifying Assets for NBFC-MFIs, with material implications for product design and borrower eligibility.

**Background:** NBFC-MFIs are required to maintain at least 60 percent of their net assets as Qualifying Assets, defined based on borrower income, loan size, tenure, and end-use criteria. These requirements are intended to ensure continued focus on the core microfinance mandate.

### Interaction with Sankalp 2.0

The revised regulatory environment reinforces the relevance of Sankalp 2.0 in the following ways:

- The Rs 2,00,000 household exposure cap remains critical in light of higher individual loan limits.
- The three-lender rule gains importance as per-lender exposure potential increases
- Mandatory household-level credit bureau checks become even more essential.
- Repayment discipline assumes greater significance given larger loan sizes.

## 2.4 Regulatory Gaps Addressed by Sa-Dhan Sankalp 2.0

While the various RBI Master Directions for NBFC – MFIs together provide a robust regulatory foundation, certain operational and conduct-related areas remain insufficiently specified. Sankalp 2.0 was designed to address these specific gaps:

Gaps	RBI Regulation (NBFC-MFI) Gaps	Sankalp 2.0 Guideline Addressing the Gap
Lender multiplicity	No limit on number of lenders per borrower. High multiplicity correlated with delinquency; not regulated	<b>Guideline 1:</b> Caps lenders per borrower at <b>three</b>
Absolute exposure limits	Uses <i>income-based repayment capacity</i> thresholds only. No hard ceiling on household indebtedness	<b>Guideline 2:</b> Sets an <b>absolute cap of ₹2,00,000</b> per household
Repeat borrowing discipline	No mandatory cooling-off period or partial repayment requirement. Cannot prevent rapid debt cycling	<b>Guideline 3:</b> Requires <b>12 months seasoning</b> or <b>50% principal repayment</b> before new loan
Processing fee cap	No regulatory cap on fee percentage. Only requires transparency and disclosure	<b>Guideline 6:</b> Caps processing fee at <b>1.5%</b>
Delinquency-based eligibility	Borrowers with high delinquency may still access loans. No DPD-based restrictions for fresh lending	<b>Guideline 7:</b> Prohibits fresh loans to borrowers with <b>60+ DPD</b>
Operational discipline measures	Risk of misuse of funds or misreporting. Operational risks, fraud potential unaddressed. Not covered under multiple RBI Master Directions for NBFC - MFIs.	<b>Guideline 8:</b> Mandates <b>PAN adoption</b> <b>Guideline 9:</b> Requires <b>end-use verification</b> . <b>Guideline 10:</b> Requires <b>employee due diligence</b> .

Table 7: Gaps and Sankalp 2.0 Guidelines addressing the gap

These gaps collectively demonstrate that Sankalp 2.0 functions as a necessary complement to the regulatory framework, operationalizing its intent where specific prescriptions are absent and establishing higher standards where the base framework permits but does not mandate them.

<sup>21</sup> Note: The RBI circular dated June 6, 2025 (Review of Qualifying Assets Criteria) was withdrawn, and its provisions were subsumed within the consolidated NBFC-MFI Directions issued on November 28, 2025. Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025, November 28, 2025. Reserve Bank of India (RBI) Master Directions - Reserve Bank of India



### 3. Study Design and Methodology

This chapter describes the research design, sampling approach, data collection methods, quality assurance processes, and analytical techniques used to assess the impact of the Sankalp 2.0 Guidelines on the borrowers as well as the lenders.

#### 3.1 Research Design and Evaluation Framework

The study adopted a mixed-methods impact assessment approach to evaluate the implementation and early effects of Sankalp 2.0 on microfinance borrowers and lending institutions. The assessment is cross-sectional and was conducted following the rollout of the revised guidelines (April 2025). In the absence of a formal baseline, findings are based on comparative assessment of pre- and post-implementation conditions, drawing on borrower recall, institutional insights, and portfolio trends. A triangulated approach was used, combining multiple data sources to strengthen the robustness of the study and minimize reliance on any single perspective.

The evaluation is structured around the three core pillars of the Sankalp 2.0 Guidelines:



Figure 7: Three core pillars of the Sankalp 2.0 Guidelines

Each pillar was assessed across three analytical dimensions:

Implementation	Outcomes	Perceptions and Experience
The extent to which guidelines had been operationalized by lenders, including changes in systems, processes, and staff practices.	Observable changes in borrower behavior, access to credit, portfolio quality, and key operational metrics.	Borrower and lender perspectives on fairness, feasibility, implementation challenges, and unintended consequences.
All findings were explicitly mapped to the relevant Sankalp 2.0 guideline provisions to ensure clear traceability between evidence and recommendations.		

#### 3.2 Sampling Strategy and Geographic Coverage

The study adopted a purposive and stratified sampling strategy to ensure representation across institutional types, borrower profiles, and geographic contexts.

**Participating lenders:** A total of 16 microfinance institutions were selected, comprising 13 NBFC-MFIs, 1 SFB, 1 microfinance-focused NBFC, and 1 commercial bank. Selection criteria included institutional type, scale of operations (large, mid-sized, and small), geographic footprint, and operational maturity.

**Geographic Coverage:** Primary data collection was undertaken across six states and twelve districts, capturing regional diversity across western, southern, eastern, and northern India, as well as variations in microfinance market maturity and competitive intensity.

State	District 1	District 2
Maharashtra	Nagpur	Solapur
Karnataka	Mysuru	Vijayapura
Tamil Nadu	Cuddalore	Kanyakumari
Bihar	Muzaffarpur	Madhepura
Rajasthan	Sri Ganganagar	Udaipur
West Bengal	Murshidabad	Hooghly



**Borrower-Level Sampling:** Respondents were drawn from the client base of participating lenders, with efforts to include new and repeat borrowers, male and female respondents (with a primary focus on women in line with sectoral norms), borrowers at different lifecycle stages, varying loan sizes and livelihood profiles, and varying degrees of exposure to multiple lenders.

While the sampling design does not aim for national statistical representativeness, it provides robust analytical coverage of key dimensions influencing Sankalp 2.0 implementation. Findings should be interpreted as indicative of sector-wide patterns rather than precise population estimates.

### 3.3 Data Collection Methods

The study employed three primary data collection methods, all aligned with the three core pillars of Sankalp 2.0.

1. **Quantitative Borrower Survey (1,200+ respondents):** A structured survey was conducted across six states and twelve districts, covering changes in borrowing patterns, indebtedness levels, repayment behaviour, awareness of loan terms, and borrower experiences. Respondents had availed at least one microfinance loan in the preceding 24 months and represented a mix of loan cycles, ticket sizes, and livelihood activities. Surveys were conducted through face-to-face interviews in local languages by trained enumerators.
2. **Lender Interviews (16 lenders):** Structured in-depth interviews were conducted with senior and mid-level management across 16 lenders, covering underwriting and appraisal changes, business volume impacts, operational and cost implications, portfolio quality trends, technology adoption, and areas requiring refinement. Interviews were conducted in-person and virtually, typically lasting 60–90 minutes. A total of 16 CXO-level discussions were held, covering 9 Chief Executive Officers, 3 Chief Operating Officers, 3 Business or Credit Heads, and 1 Managing Director/Founder.
3. **Secondary Data Review:** A systematic review of regulatory and industry sources provided contextual grounding, including 'RBI Master Directions for NBFC-MFIs (November 2025)', Sa-Dhan's Sankalp 2.0 guidelines, and industry reports from Sa-Dhan, MFIN, SIDBI, and NABARD covering portfolio quality, pricing trends, and delinquency patterns.

Data collection was carried out by trained enumerators with prior microfinance sector experience, observing informed consent, respondent confidentiality, and use of local languages. Findings from borrower surveys, lender interviews, and secondary data were systematically cross-validated; divergences were examined analytically.

### 3.4 Quality Assurance and Analytical Approach

Standard quality assurance protocols were applied across all stages of the study, including tool pre-testing, field supervision, and systematic data validation.

Data analysis followed a mixed-methods approach:

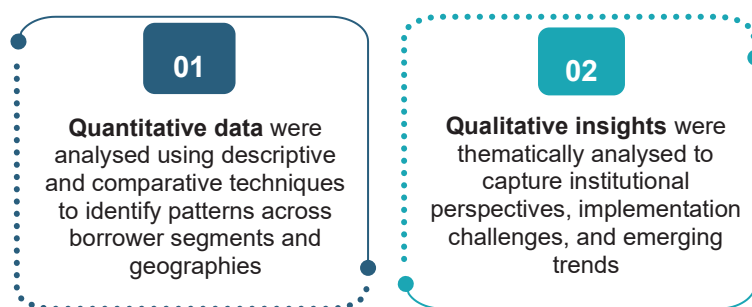


Figure 8: Mixed methods approach for data analysis

Findings were integrated through cross-verification across borrower, lender, and secondary data, enabling identification of both convergent trends and divergent experiences.

### 3.5 Study Limitations

Four limitations should be considered when interpreting the findings. First, the analysis relies significantly on self-reported data, which may be subject to recall and social desirability biases; where possible, borrower responses were cross validated with lender interviews and secondary data. Second, the sample may not be statistically representative at the national level, and certain regions or borrower segments may be under-represented; findings should therefore be read as indicative of broader sector patterns. Third, the study captures impacts within a limited post-implementation window, and some effects — particularly those relating to long-term borrower behaviour and institutional sustainability — may evolve further over time. Fourth, in some graphs, the sample size is 1,174 (less than the total sample size of 1264) because data from the pilot study did not include all data points; additional data points were incorporated after the pilot phase. Despite these limitations, the study provides credible directional insights into sector-wide trends and implementation dynamics.



## 4. Implementation and Impact Assessment of Sa-Dhan Sankalp Guidelines

This chapter assesses the implementation of the SANKALP 2.0 Guidelines across participating lenders and their influence on borrower protection practices. Using primary survey data, field interactions, and borrower-level insights, it evaluates both compliance with the guidelines and their practical impact on lending processes. The chapter describes the methodology, identifies key indicators of adherence, and analyzes variations across states and operating contexts. By linking implementation practices with borrower experiences, it offers an evidence-based assessment of the guidelines' effectiveness.

### 4.1 Borrower Demographics and Socio-Economic Profile

#### 4.1.1 Gender Profile of Borrowers

The borrower profile is predominantly female, with 1143 women accounting for 90 percent of respondents and 121 men comprising the remaining 10 percent. This distribution aligns with established microfinance lending patterns, where credit is intentionally directed toward women-led households.

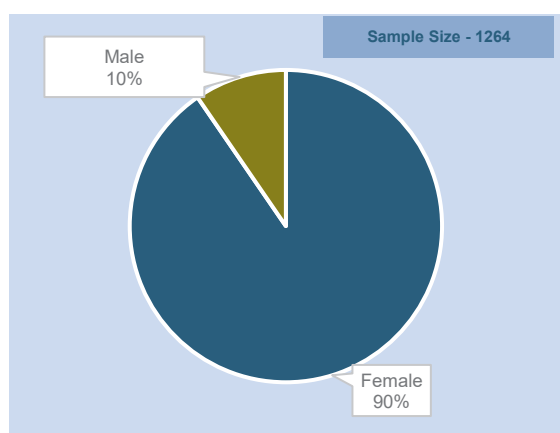


Figure 9: Gender distribution among borrowers

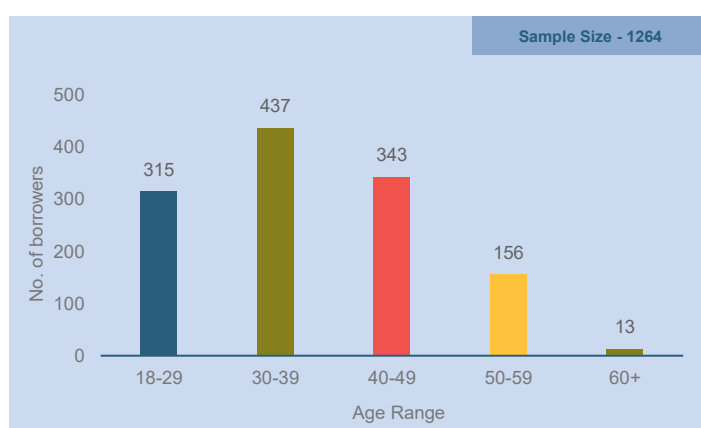


Figure 10: Age distribution among borrowers

#### 4.1.2 Age Distribution

The borrower base is concentrated within the economically active population, reinforcing that microfinance lending predominantly supports individuals engaged in income-generating activities or contributing to household livelihoods. Observed patterns suggest that a strong concentration (62%) was in the 30-49-year age bracket. A smaller (13%) but meaningful share of borrowers was above 50 years, often associated with long-term borrowing relationships; and moderate representation 25% was of very young borrowers, consistent with eligibility norms.

#### 4.1.3 Household Income Profile

Income data from surveyed borrowers shows that most households fall within the low to lower-middle-income range (10,000 to 30,000 monthly income), consistent with typical microfinance client profiles. Incomes are largely informal, marked by variability, seasonality, and limited documentation, which significantly influence how households experience FOIR norms, exposure caps, and repayment discipline. These income characteristics are central to understanding borrower behaviour under regulated lending constraints.



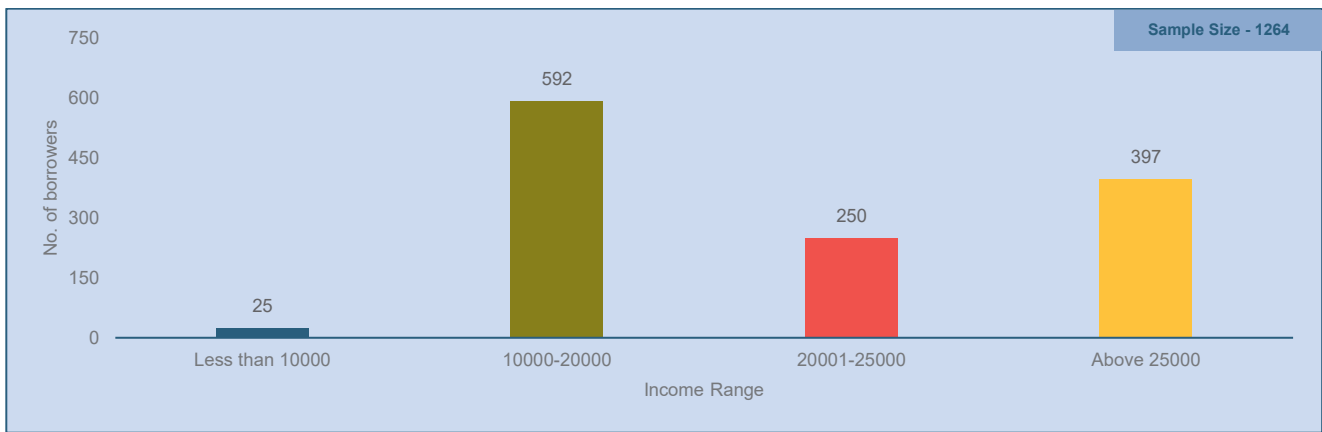


Figure 11: Monthly household income of borrowers

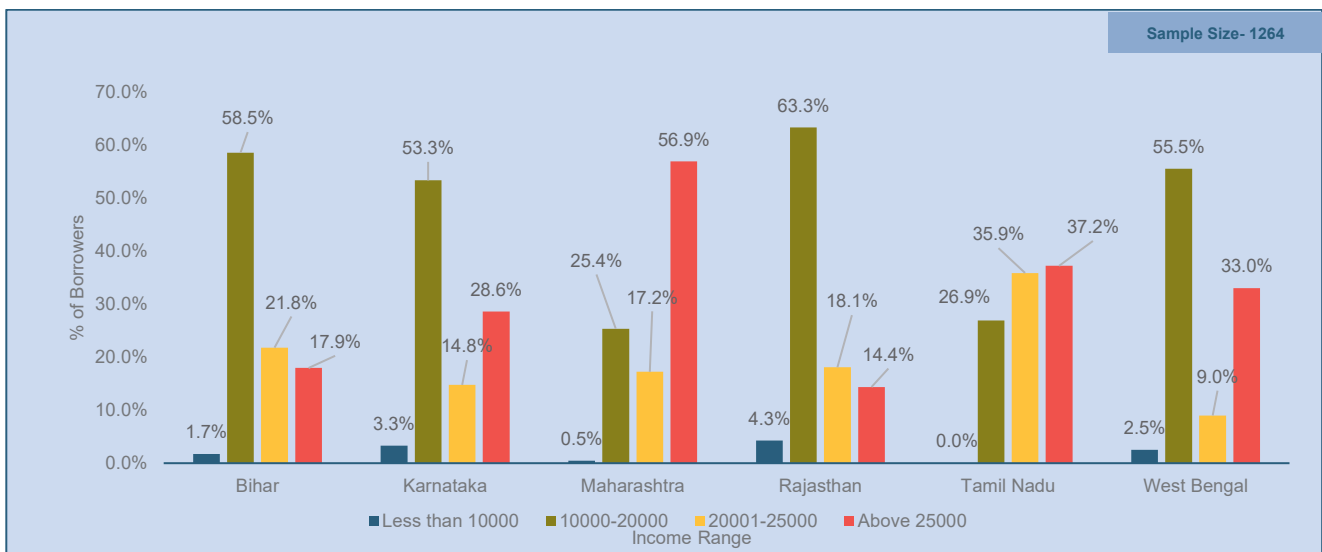


Figure 12: Monthly household income of borrowers by state

Livelihood activities	% of borrowers	No. of borrowers
Farming	14%	30
Labourer	27%	56
Private service	10%	21
Self-employed	41%	85
Other	8%	17
Total	100%	209

Table 9: Primary Livelihood Activities for Maharashtra

Borrowers in Maharashtra showed a higher share of monthly household incomes above ₹25,000 than those in Rajasthan, West Bengal, and Bihar. This reflects the peri-urban nature of survey districts such as Nagpur and Solapur, where non-farm livelihoods and small businesses generate more stable cash flows. Stronger local infrastructure further supports higher-value economic activity, which is reflected in Maharashtra's healthy FOIR profile (section 4.3.2.2), with 94–98% of households below the 40% threshold.

#### 4.1.4 Borrower Comfort with Reading Loan Documents

Captured through a direct question on whether borrowers can read and understand their loan documents (Yes/Partially/No), the responses suggest varying levels of functional literacy across the sample. These conditions influence how borrowers interpret loan terms and pricing, increase reliance on verbal explanations from field officers, and limit awareness of borrower rights, grievance mechanisms, and credit bureau processes.

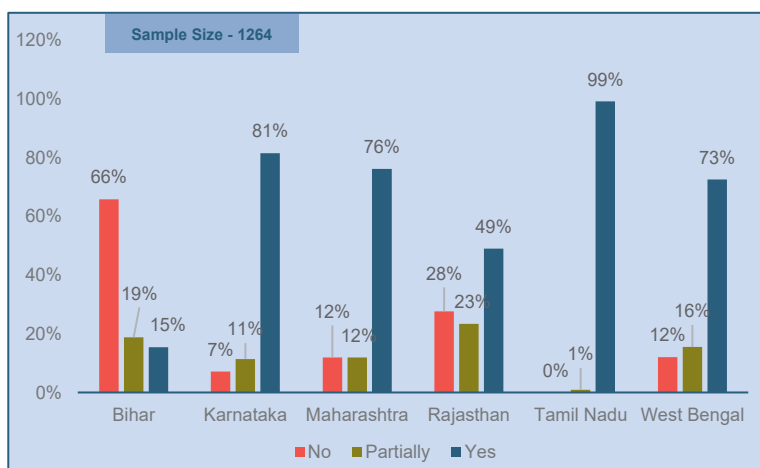
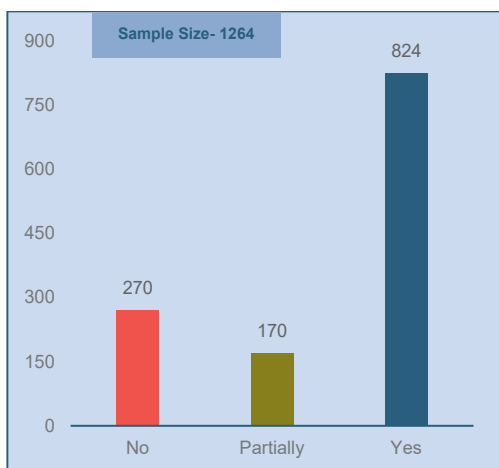


Figure 13: Borrower Comfort with Reading Loan Documents    Figure 14: Borrower Comfort with Reading Loan Documents by State

#### Key Observations:

- **824 of 1264 borrowers** reported that they can read and understand loan documents fully (“Yes”), suggesting functional literacy among a significant portion of the sample.
- A smaller segment of **270** indicates partial understanding (“Partially”), pointing to the need for clearer explanations or simplified documentation.
- **170 borrowers** state that they are unable to read or understand the documents (“No”), which underscores dependence on verbal guidance from field officers.
- Borrowers in **Bihar and Rajasthan** need the most support for understanding the loan documents.
- Partial understanding is notable in **Rajasthan (23%)** and **West Bengal (16%)**, suggesting targeted clarifications could convert many to “Yes”.

#### 4.1.5 Summary Profile of Borrowers:

Dimension	Key Characteristics
<b>Gender</b>	Predominantly female
<b>Age</b>	Mostly 30 - 49 years
<b>Income</b>	Informal, variable, low to moderate
<b>Education/Literacy</b>	Majority of borrowers report being able to read and understand loan documents, with some requiring partial or full verbal support

Table 10: Profile of Borrowers

## 4.2 Livelihood Activities and Purpose of Loans Taken

This section presents the livelihood profile of borrowers and the composition of their loan portfolios, based on interim data from the quantitative borrower survey. The analysis draws on borrower-reported occupation, farming activity, and loan purpose to understand how microfinance credit is deployed across productive and household uses.

#### 4.2.1 Primary Livelihood Activities of Borrowers:

Survey data indicates that borrower livelihoods are predominantly informal and self-driven, with limited participation in formal salaried employment. Borrowers reported engagement across multiple livelihood activities, with the largest concentration in self-employment (41%), followed by casual labour and service-based work (19%), and farming (18%). **8% of borrowers** report engagement in private salaried employment, reflecting the **sector’s focus on households outside formal wage employment**.

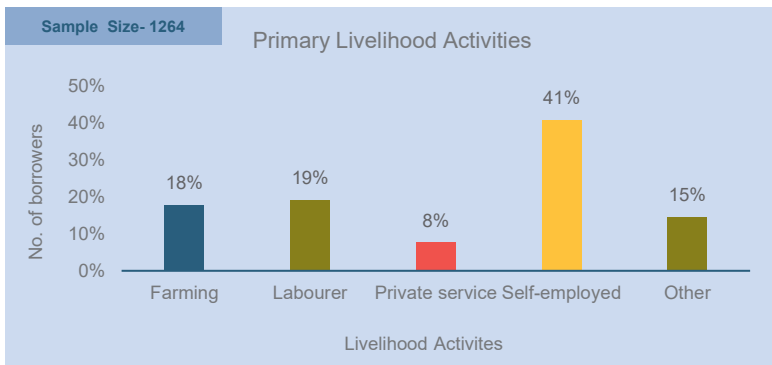


Figure 15: Primary Livelihood Activities

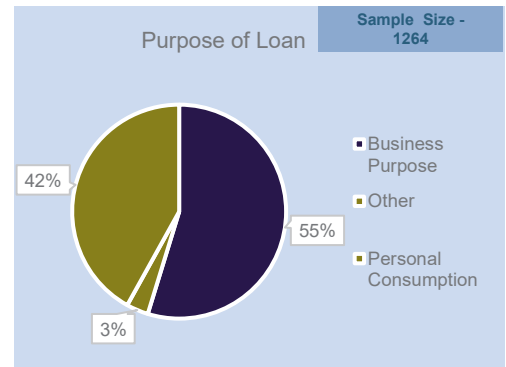


Figure 16: Purpose of Loan

### 4.3 Over-Indebtedness Control

To safeguard low-income households from falling into unsustainable debt cycles, the regulatory framework establishes a set of checks designed to ensure responsible lending, improve transparency, and maintain the financial health of borrowers. Each guideline is rooted in the broader intent of preventing over-indebtedness and promoting long-term credit discipline.

#### 4.3.1 Guideline 1: Maximum Three Lenders per Borrower

Guideline 1 restricts microfinance borrowers to a maximum of **three lenders across all regulated lending institutions**. The **key objective** is to curb multiple borrowing, reduce repayment stress, keep EMIs manageable, reduce delinquency risk and prevent loan stacking at the household level. Lenders are expected to verify the lender count prior to sanction. This section assesses the extent to which this guideline is reflected in borrower-level outcomes, using evidence from the quantitative borrower survey and supported by qualitative insights.

##### 1.3.1.2 Borrower-Level Compliance with Lender Cap

Analysis of survey data shows that 1139 households have loans from up to three lenders, reflecting strong alignment with the guideline. Only 125 borrower households exceed this limit.

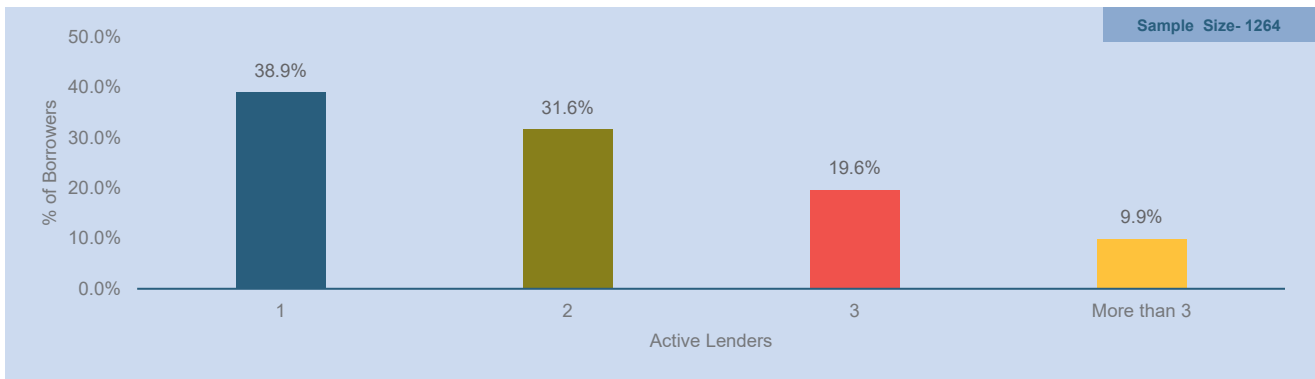


Figure 17: No. Of Lenders Per Household



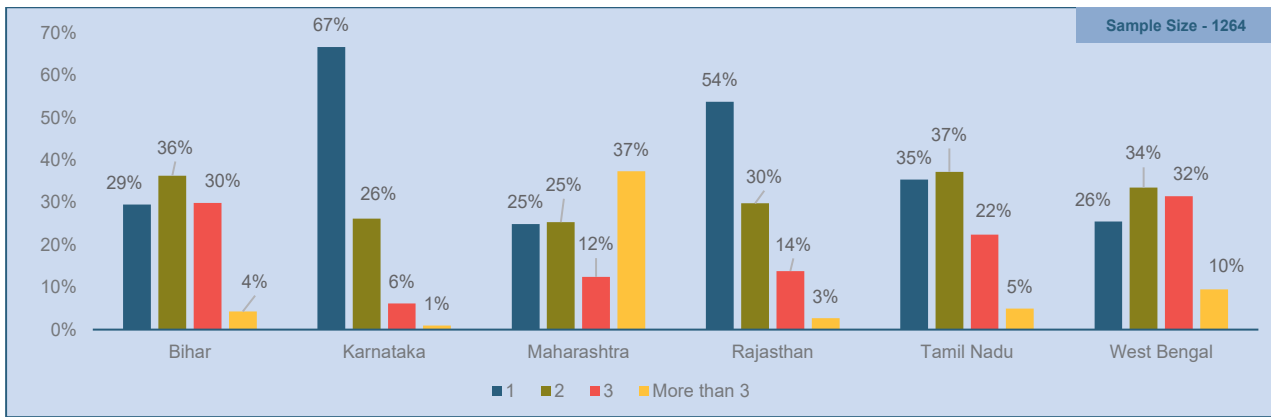


Figure 18: No. of Lenders Per Household by State

### Key Findings

The three-lender limit has been largely internalized by lenders, with most households remaining within the prescribed threshold. However, borrower narratives reveal that **breaches are often unintentional** and arise when **multiple members of a household independently access credit** from different institutions. In the absence of explicit household-level checks, aggregate indebtedness remains inadequately captured, despite borrower-level credit bureau pulls.

This issue is particularly evident in Maharashtra, while Karnataka demonstrates stronger adherence, suggesting more effective aggregation practices. The variation underscores a key ambiguity in **Guideline 1**, which does not clearly **specify whether the lender limit is to be assessed** at the borrower level or household level. Consistent with RBI's emphasis on preventing household over-indebtedness and ensuring uniform application of regulatory intent, a **clarification or guidance note is recommended**.

#### 4.3.1.2 Borrower Experience and Access Implications

Borrower experience with lenders is predominantly positive, with approvals prevailing for most applicants. In cases where loans were rejected, the leading causes were existing overdues (25.00%), above-threshold exposure (18.2%), bureau mismatches (15.9%), income instability (13.6%), insufficient documentation (13.6%), and smaller shares for verification failures (4.5%), exceeded number of lenders (4.55%) and missed payments (4.55%). Taken together, 43.18% of rejections (overdues, above-threshold, missed payments) were directly tied to repayment behaviour and capacity, indicating that Sankalp guardrails are actively screening financial stress while still leaving room to improve documentation readiness

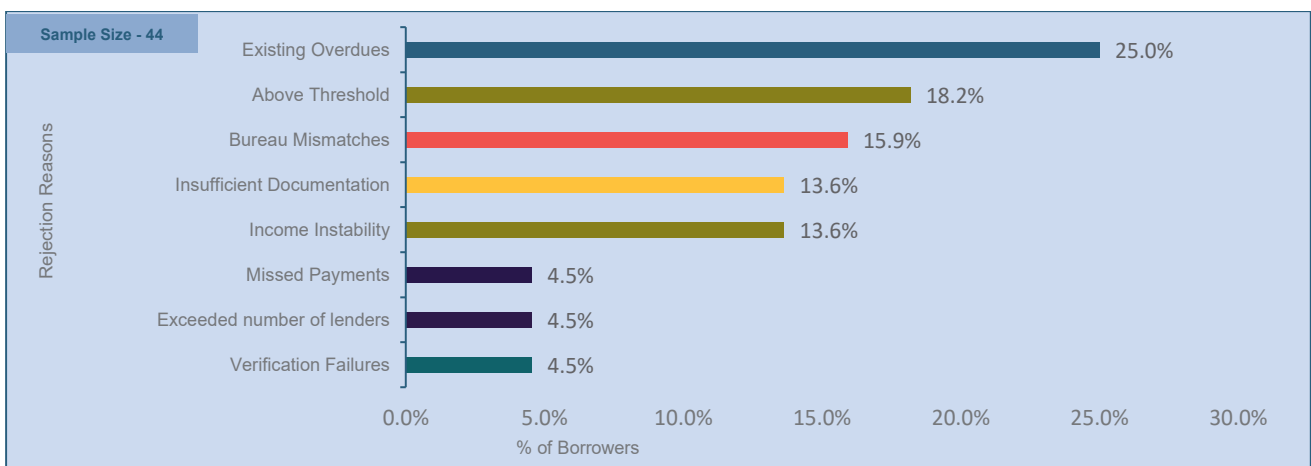


Figure 19: Reasons for Rejection of Loan

#### 4.3.1.3 Observations and Emerging Patterns

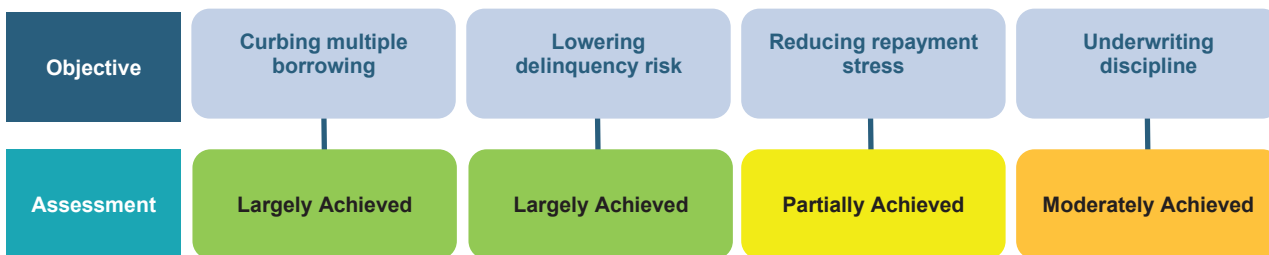
Based on data and borrower narratives, the following patterns emerged:

- The three-lender cap appears to be effective in limiting aggressive multiple borrowing among a large share of borrowers.



- Borrowers breach the cap unknowingly.
- Compliant lenders are forced to reject borrowers due to lending by other entities.
- Borrowers with genuine short-term liquidity needs may face exclusion from formal credit, increasing the risk of migration to informal sources.

#### 4.3.1.4 Assessment Against Guideline Objectives



Guideline 1 is largely effective, with most households borrowing from three or fewer lenders. The assessment indicates that the three-lender cap has been effective in curbing multiple borrowing primarily because it has been uniformly embedded into lender underwriting systems, resulting in nearly 90% of households remaining compliant. Repayment stress has reduced only partially, as borrower experiences have improved but household-level exposure continues to be masked when lending decisions rely on individual-level checks. Delinquency risk has declined as a direct outcome of fewer highly leveraged borrowers, with the share of households having four or more lenders falling sharply. While underwriting discipline has strengthened with all 16 lenders enforcing the cap residual gaps persist due to non-compliant lenders operating outside the framework and time lags in credit bureau data, which limit real-time visibility of total indebtedness.

#### 4.3.2 Guideline 2: Household Exposure Cap of Rs 200,000

Guideline 2 under the Sankalp 2.0 framework caps total household loan exposure at Rs 200,000, covering both microfinance and retail loans, and aligns with the RBI-mandated FOIR ceiling of 50% of monthly household income. The core intent of this guideline is to prevent households from taking on unsustainable levels of debt that could compromise basic consumption needs and undermine financial stability. This study used survey data to examine:

Household-level exposure patterns	How borrowers perceive the guideline's impact on credit access	Early indicators of financial stress within borrower households
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##### 4.3.2.1 Household Loan Exposure Levels

**Question asked to borrowers:** What is the total outstanding amount of all loans taken by your household (combined across all lenders and all loan types)? (Amount in ₹): \_\_\_\_\_

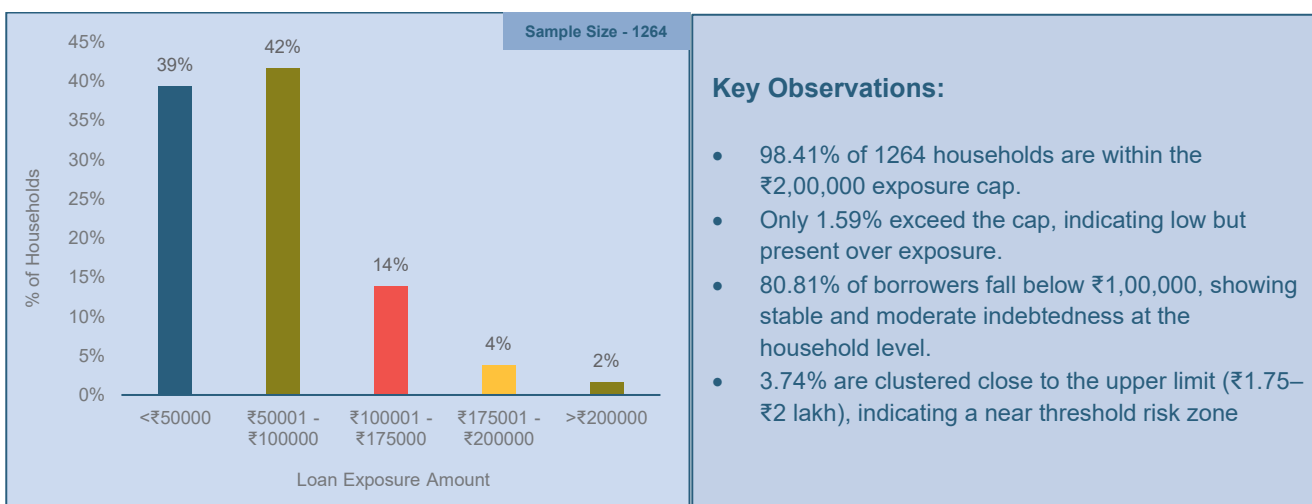


Figure 20: Total household loan exposure<sup>22</sup>

<sup>22</sup> For the purpose of this analysis, all loans have been treated as unsecured, as the interviews were conducted with microfinance borrowers. The survey did not include an explicit question on whether the loan was retail or secured.

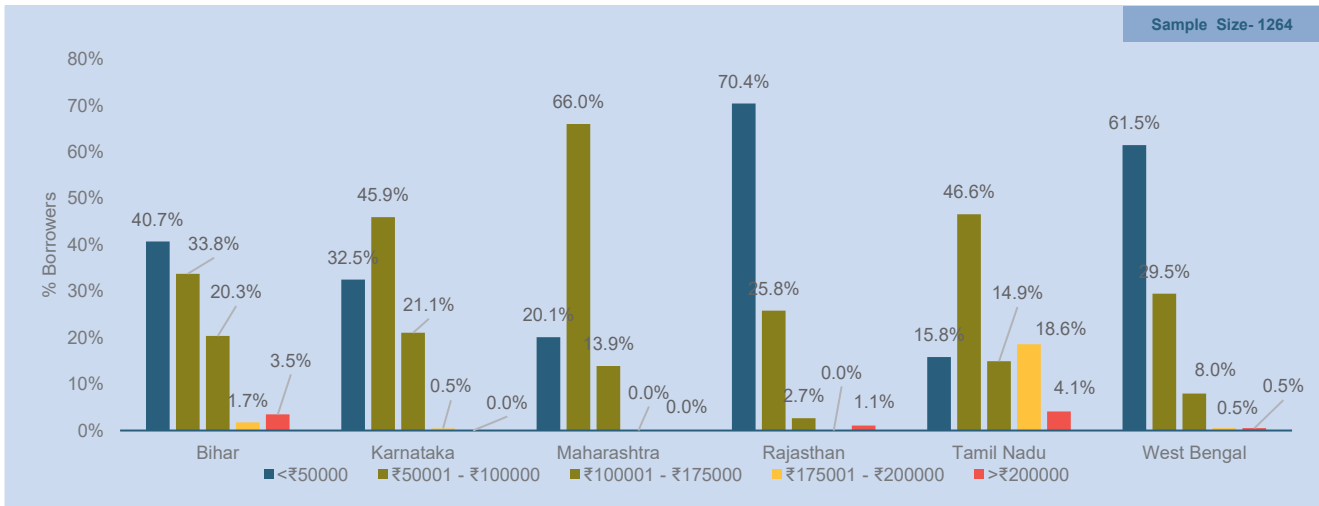


Figure 21: Household Loan Exposure Amount by State

### Key Findings:

- **Rajasthan** (70.43% of 188) and **West Bengal** (61.50% of 200) showed the highest concentration of low-exposure households (<₹50k).
- **Maharashtra** (66.03% of 209) and **Karnataka** (45.93% of 210) had the largest proportions in the ₹50k–₹1 lakh exposure band, reflecting **higher loan utilization**.
- **Tamil Nadu** had the highest share of borrowers near the cap 18.55% (of 223) in ₹1.75–2 lakh, signaling potential future vulnerability.
- Over-exposure (>₹2 lakh) is rare but present in Bihar (3.46% of 234) and Tamil Nadu (4.07%).

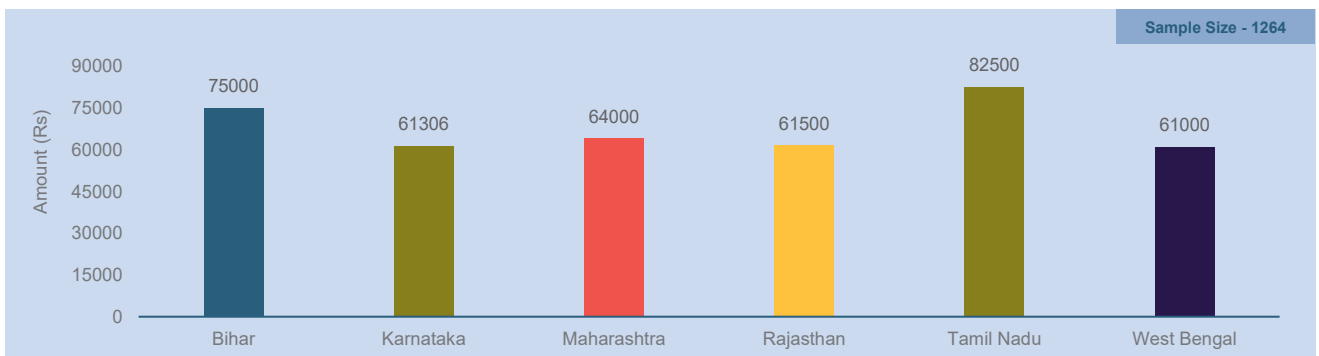


Figure 22: Median Loan Taken Per Household

### Key Findings

- **Tamil Nadu** had the highest median loan amount at ₹82,500, marking the largest typical ticket size across all surveyed states.
- **West Bengal** showed the lowest median at ₹61,000, creating a ₹21,500 gap compared to Tamil Nadu.
- Tamil Nadu's median is ~34.6% higher than Karnataka's (₹61,306), indicating substantial differences in typical borrowing levels between the two southern states.
- Bihar's median loan (₹75,000) is notably higher than those of Rajasthan (₹61,500) and Maharashtra (₹64,000).
- Most other states Maharashtra, Rajasthan, Karnataka, and West Bengal cluster tightly around ₹61,000–₹64,000, indicating similar borrower ticket sizes across these regions.
- **Overall pattern:** Tamil Nadu and Bihar stand out with noticeably higher typical loan sizes, while the remaining states maintain more moderate and consistent median levels, reflecting differences in economic activity and borrower credit appetite.



### 4.3.2.2 Fixed Obligation to Income Ratio (FOIR) and Repayment Burden

The Fixed Obligation to Income Ratio (FOIR) is a key indicator used to assess borrower repayment capacity and the risk of over-indebtedness. In line with RBI microfinance framework, microfinance lenders are expected to ensure that a household's total monthly loan repayment obligations **do not exceed 50%** of its monthly income, considering all loans across lenders. The borrower questionnaire captured both total household income and aggregate monthly EMI obligations, enabling computation of FOIR at the household level.

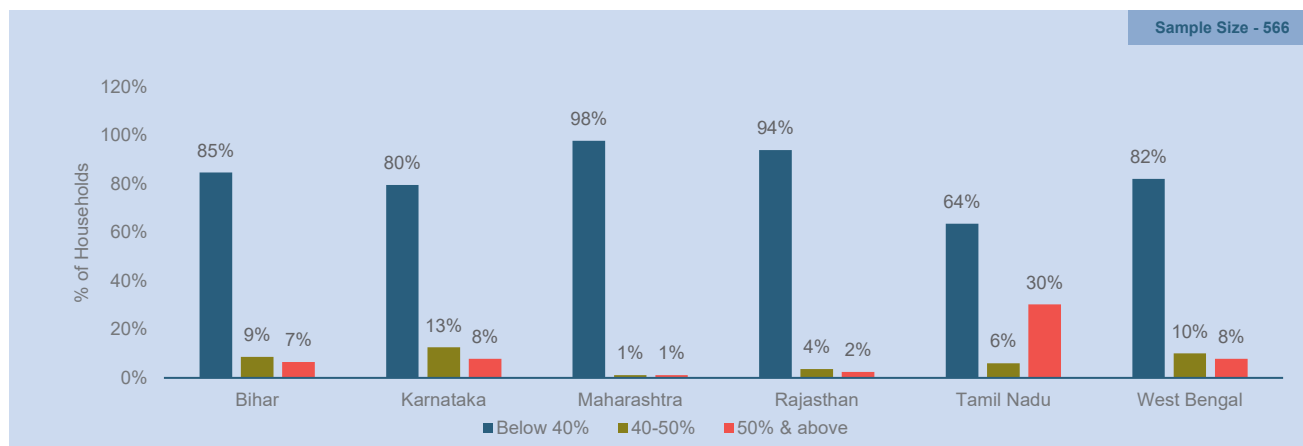


Figure 23: Distribution of FOIR Across Households by State

#### Key Findings:

- 82% exhibit FOIR below 40% (manageable), 7% fall within 40–50% (moderate stress), while 11% exceed 50% (high stress).
- Maharashtra and Rajasthan show the healthiest profiles, with 94–98% households below 40% FOIR.
- West Bengal (10%) and Karnataka (8%) show moderate high-FOIR levels but remain far below Tamil Nadu.
- Overall FOIR patterns signal low over-indebtedness risk in most states, with Tamil Nadu requiring targeted intervention.

### 4.3.2.3 Assessment Against Guideline Objectives

Objective	Capping household exposure	Maintaining financial stability	Keeping FOIR within limits	Preventing debt escalation
Assessment	Largely Achieved	Largely Achieved	Moderately Achieved	Moderately Achieved

The analysis of household-level exposure and repayment capacity indicates that Guideline 2 of the Sankalp 2.0 framework is largely effective in curbing excessive indebtedness. A significant majority of borrower households remain within the mandated exposure ceiling of **Rs 200,000**, and **FOIR distributions** show that most households maintain a healthy repayment burden, with nearly **89% operating below the 50% FOIR mark**. While this reflects strong adherence to responsible lending norms, the presence of households clustered near the exposure cap and nearly 11% exceeding the 50% FOIR threshold highlights pockets of vulnerability. These cases underscore the need for continued monitoring and targeted interventions to prevent repayment stress from escalating.

### 4.3.3 Guideline 3: Fresh Loan Restrictions (12-Month/50% Repayment Rule)

Guideline 3 restricts the sanction of a fresh microfinance loan to a borrower unless either 12 months have elapsed since the disbursement of the previous loan or **at least 50% of the existing loan** has been repaid. The objective of this guideline is to discourage rapid loan cycling, prevent premature top-ups, and ensure that borrowers demonstrate repayment discipline before taking on additional liabilities. This section examines borrower-level compliance with this restriction, its implications for access to credit, and early signals on borrower experience using survey data.



### 4.3.3.1 Borrower Loan Vintage and Repayment Status

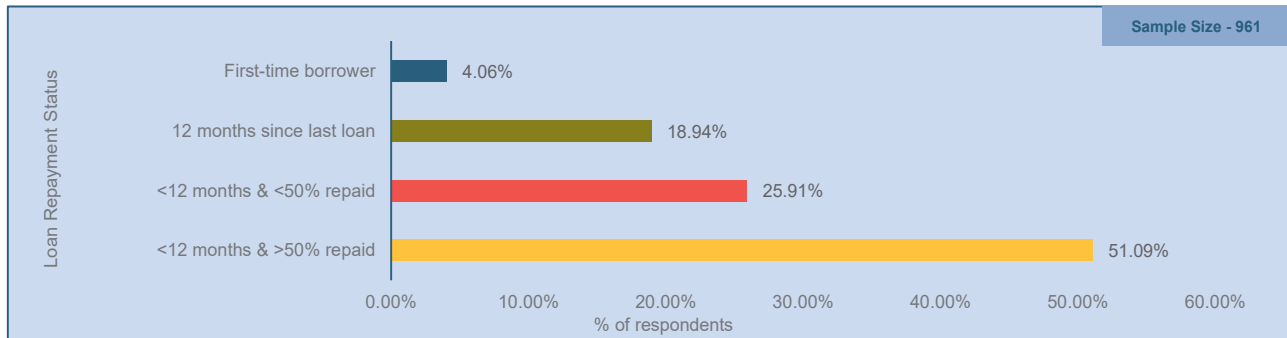


Figure 24: Borrower Distribution by Loan Repayment Status

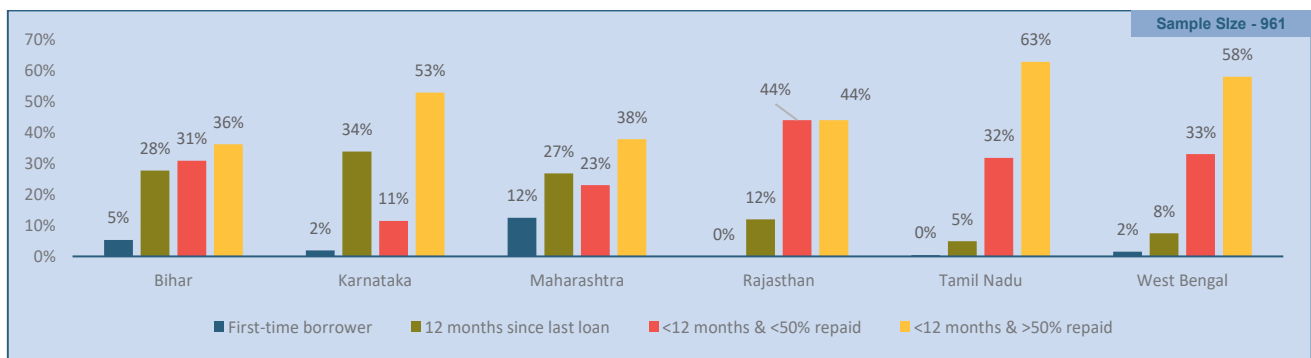


Figure 25: Borrower Distribution by Loan Repayment Status by State

#### Key Findings:

- Survey's responses indicate that **25.91% of borrowers fall within the 12-month window** of their most recent loan and have not paid 50% of the previous loan taken.
- Repayment performance is strongest in Tamil Nadu, Karnataka, and West Bengal, while Rajasthan and Bihar exhibit higher levels of early-stage stress, with Maharashtra falling in the middle range.

### 4.3.3.2 Impact on Access to Repeat and Top-Up Loans

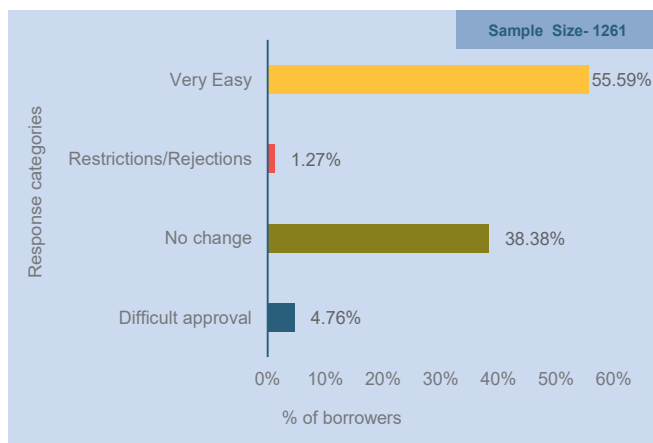


Figure 26: Impact on Access to Repeat and Top Up Loans

#### Key Findings:

- **56%** of borrowers (out of 1264) found it very easy to get repeat loans, indicating strong approval rates for returning customers.
- **38.38%** reported no change in their loan approval experience, suggesting stability for a significant portion of borrowers.
- Only **4.76%** experienced difficult approval, representing a small minority facing challenges.
- Restrictions or rejections were minimal (1.27%), showing that very few borrowers encountered negative outcomes.

### 4.3.3.3 Borrower Coping Mechanisms During Restriction Period

Analysis of survey data shows that 75.00% of borrower households cope with the restriction period by turning to other regulated financial institutions (primarily NBFCs), indicating that three-fourths of restricted borrowers continue to rely on stable, formal credit channels even when their primary lender cannot extend a new loan. Meanwhile, 12.50% of households depend on friends and relatives, and 4.17% rely on miscellaneous informal sources, illustrating limited but present use of softer, socially-driven coping avenues. However, 8.33% of borrowers turn to moneylenders, a category associated with higher interest rates and stronger repayment pressure. These combined informal and semi-informal channels represent 24.99% of all coping responses, pointing to pockets of financial strain and signaling that the enforcement of the



12-month/50% repayment rule can push a meaningful minority of households toward costlier or less stable borrowing options. Interviews with regional managers of lenders across six states revealed that borrowers rejected under Sankalp guardrails—especially the 12-month/50% repayment rule and FOIR caps—are being redirected elsewhere. Managers reported a shift toward local moneylenders, with some borrowers relying on family or relatives. The managers also observed lateral movement to individual loans, gold loans, or other NBFC products. This pattern suggests that otherwise viable borrowers are being pushed into costlier, higher-risk informal credit channels.

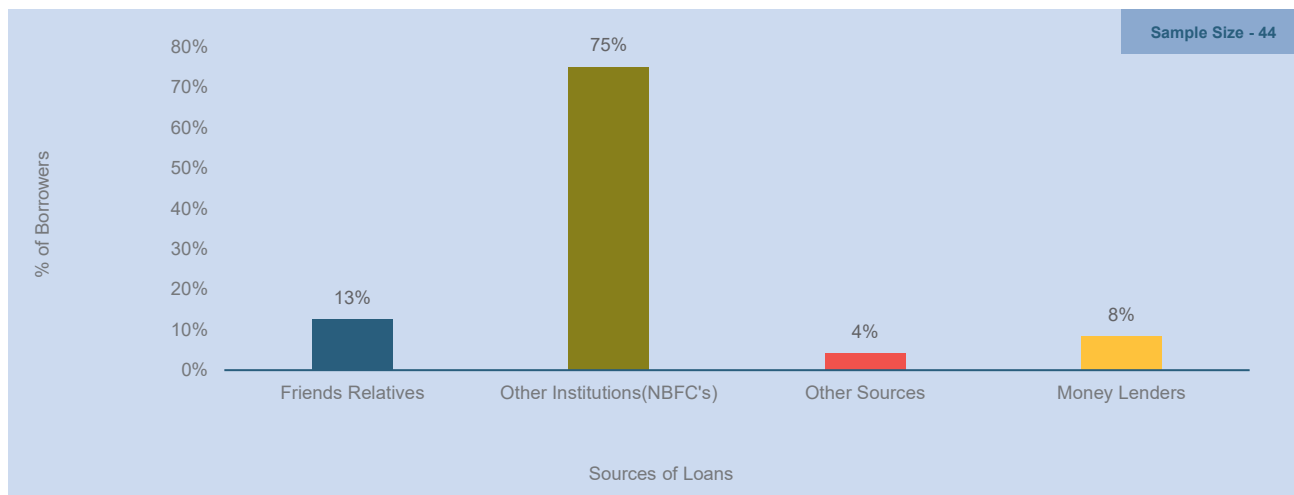
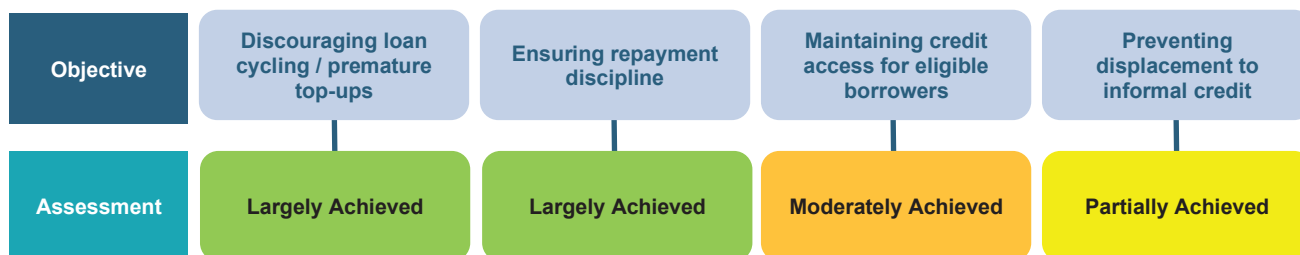


Figure 27: Alternate Sources of Loan

#### 4.3.3.4 Assessment Against Guideline Objectives



#### 4.3.4 Guideline 4: Mandatory Credit Bureau Checks at Household Level

Guideline 4 of the Sankalp 2.0 framework mandates that all microfinance loans undergo a comprehensive credit bureau check at the household level, including checks for the borrower, spouse, and other relevant household members. The intent of this guideline is to improve visibility into total household indebtedness, prevent circumvention of exposure norms through multiple household members, and strengthen underwriting discipline across lenders. This section assesses the extent to which household-level bureau checks are reflected in borrower experience, awareness, and lending outcomes, based on interim survey data.



#### 4.3.4.1 Borrower Recall of Household-Level Credit Checks

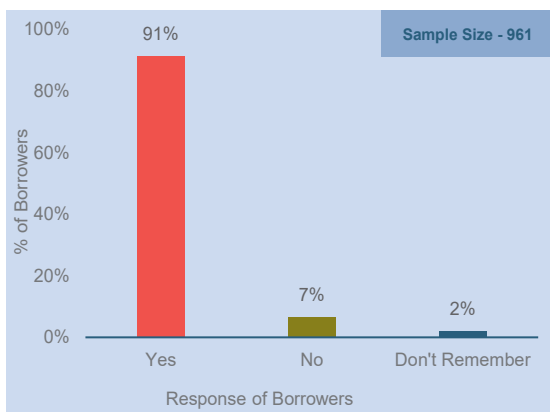


Figure 28: Borrower Recall of Household-Level Credit Checks

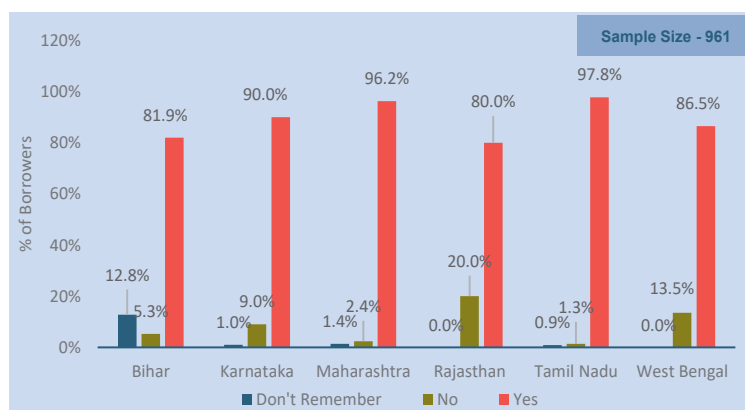


Figure 29: Borrower Recall of Household-Level Credit Checks by state

#### Key Findings:

- **91% of borrowers recall** being asked about loans taken by spouses or other household members, indicating that lenders are consistently applying household level due diligence.
- **7% report** not being asked about household loans, suggesting that deviations from the guideline exist but are limited.
- **2% of borrowers do not remember**, implying that borrower awareness of household level checks is high and the process is generally memorable and explicit.
- **Tamil Nadu (97.76%) and Maharashtra (96.17%)** exhibit the **strongest recall**, showing near universal compliance.
- **Rajasthan had the highest share of “No” responses at 20.00%**, suggesting inconsistencies in implementation or borrower understanding.
- **Bihar had the highest share of borrowers who “don’t remember” (12.77%)**, possibly reflecting lower communication clarity or borrower literacy in this context.

#### 4.3.4.2 Borrower Understanding of Credit Bureau Usage

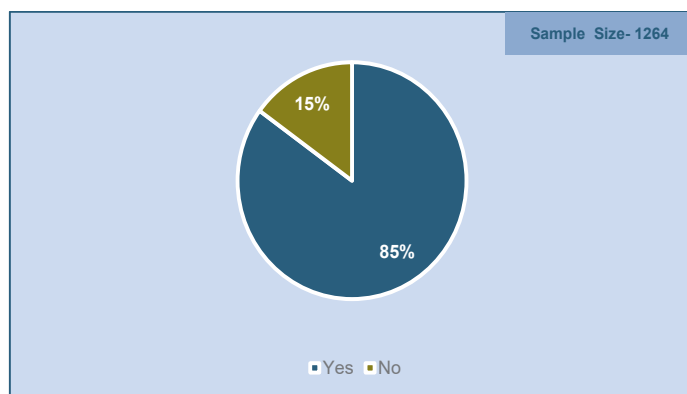


Figure 30: Borrowers Recall Credit Bureau Report Being Explained

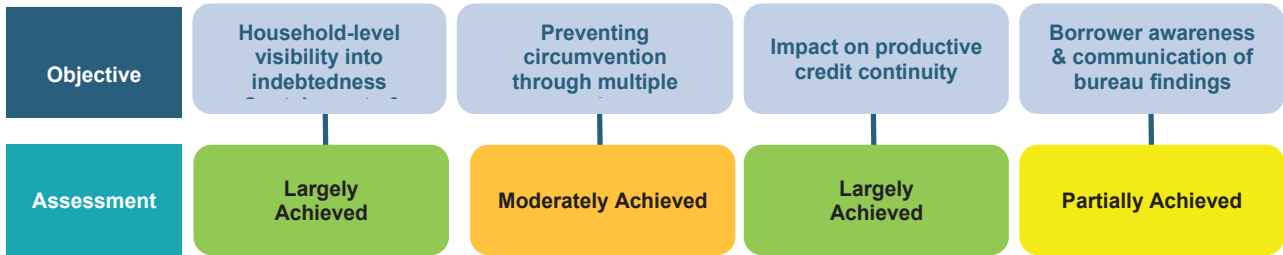
Analysis of survey data indicates that most borrowers (85%) report understanding that lenders use credit bureau information during loan assessment, suggesting broad awareness of the role of credit history in determining eligibility and loan terms. However, a non-trivial proportion of borrowers (15%) indicates that they are not aware of credit bureau usage, highlighting persistent information gaps and underscoring the need for financial literacy efforts.

#### 4.3.4.3 Observations and Emerging Patterns

Based on data and borrower narratives, the following patterns emerged:

- Household-level bureau checks have strengthened the detection of aggregate indebtedness.
- Borrowers often underestimate or are unaware of how spouse or family member loans affect eligibility.
- Inadequate communication can lead to perceptions of arbitrary rejection, even when rules are applied consistently.
- Household-level checks are most effective when paired with clear borrower explanation and counselling.

#### 4.3.4.4 Assessment Against Guideline Objectives



#### 4.3.5 Impact on Borrower Debt Levels and Financial Stability

This section synthesizes borrower-level evidence to assess whether the combined application of over-indebtedness guardrails (Guidelines 1–4) has translated into **tangible improvements in borrower debt levels and financial stability**. The analysis draws on survey responses related to outstanding debt, repayment burden, income trends, and post-EMI household financial conditions.

##### 4.3.5.1 Changes in Overall Borrower Debt Levels

Analysis of borrower data indicates that overall outstanding debt levels have begun to moderate following the implementation of the Sankalp over-indebtedness guardrails. **Most households (64%) reported** either stable or reduced loan exposure compared to the previous cycle, suggesting that the combined effect of lender-wise caps, household-level checks, and fresh-loan restrictions is helping contain excessive debt build-up. However, a non-trivial segment of borrowers (12%) continues to exhibit high or rising outstanding amounts often driven by income shocks, repeated refinancing needs, or borrowing outside the formal network highlighting that while the guidelines are exerting downward pressure on debt levels, pockets of vulnerability and residual over-indebtedness risks remain.

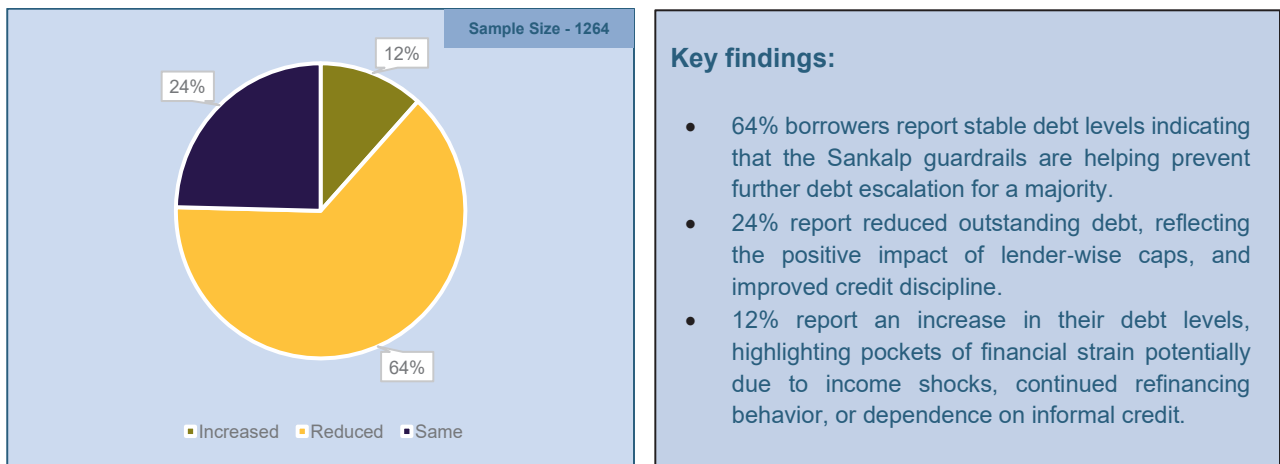


Figure 31: Changes in Overall Borrower Debt Levels

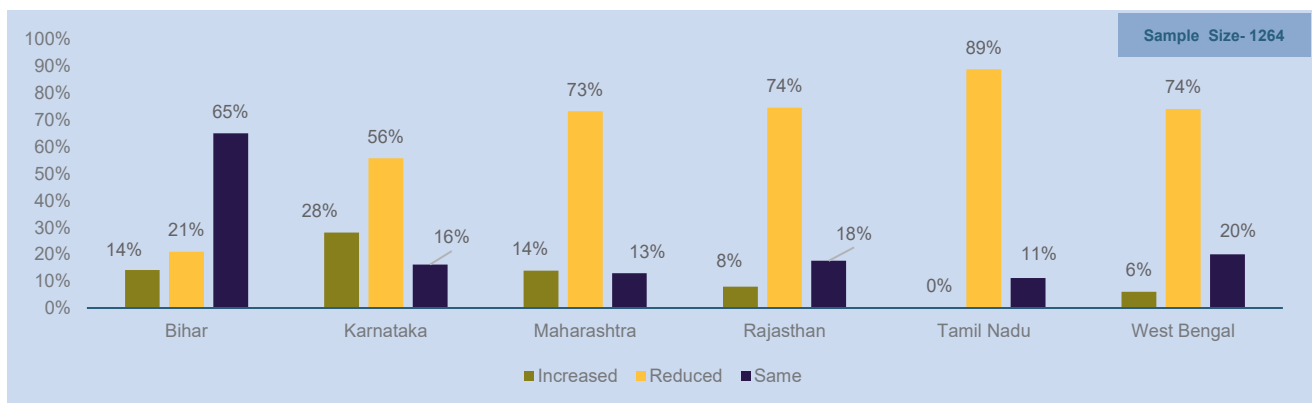


Figure 32: Changes in Overall Debt Levels by State

## Key Findings:

- Tamil Nadu demonstrates the strongest alignment with the intent of the guidelines, with 0% of borrowers report an increase, and 88.79% report reduced debt.
- Maharashtra, Rajasthan, and West Bengal also show strong downward shifts, each with over 70% of borrowers reporting reduced debt burdens.
- Bihar is the only state where a plurality (65 %) reports no change in debt, indicating a more stable but less dynamic shift relative to others.

### 4.3.5.2 Post\_EMI Household Financial Stability

Analysis of survey responses indicates that **most borrower households (86%)** report being able to manage their monthly expenses comfortably after meeting EMI obligations, suggesting that the over-indebtedness guardrails are helping maintain basic financial resilience. This points to early signs of improved stability, particularly among borrowers whose debt levels have remained stable or declined. However, a notable **proportion of households (13%)** continue to experience strain in meeting essential expenditures post-EMI often citing reduced disposable income, reliance on short-term adjustments, or occasional informal borrowing.

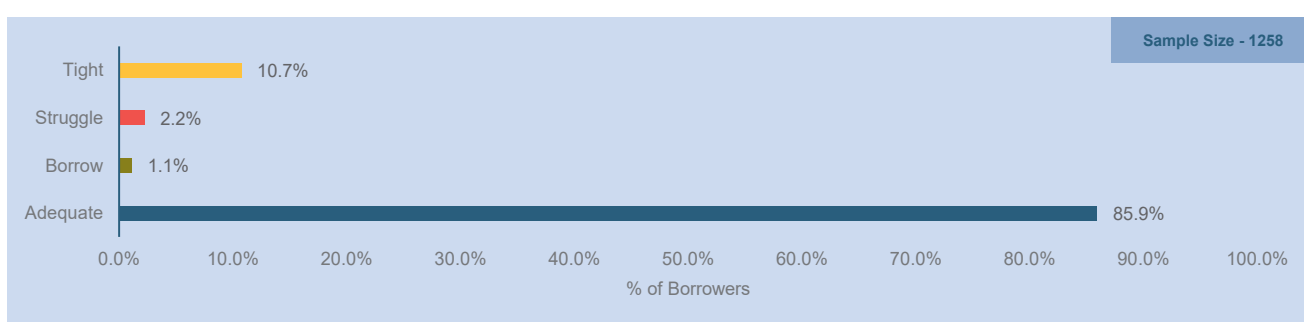


Figure 33: Household Financial Condition After EMI Payments

## Key Findings

- **85.9% report adequate post EMI finances**; 10.7% experience tight cash flows; 3.3% indicate repayment strain, including 1.1% needing to borrow for essentials.
- A **large majority of borrowers (85.9%)** report being in an “Adequate” financial condition after paying their EMIs, indicating that EMI obligations are generally manageable for most.
- **10.7% of borrowers** feel financially “Tight”, suggesting some strain but not severe difficulty.
- A **small segment (2.2%)** struggles with EMI payments, reflecting potential financial stress.
- Only **1.1% need to borrow to make ends meet after EMI payments**, indicating minimal extreme financial pressure on the borrower base
- Overall, **more than 85% are coping well, but around 14% show varying degrees of stress, which may warrant monitoring**

### Correlation of Financial Condition (after EMI Payments) with Monthly Income of Borrowers:

Income Level	Adequate	Borrow	Struggle	Tight
Less than 10,000	1.5%	14.3%	0.0%	4.4%
10,000-20,000	44.8%	64.3%	71.4%	56.3%
20,001-25000	20.4%	7.1%	10.7%	3.7%
Above 25000	33.3%	14.3%	17.9%	21.5%

Table 11: Correlation between income and Household Financial Condition After EMI Payments

## Key Findings

- **₹10,000–20,000** earners face the greatest financial stress, showing the highest levels of borrowing, struggle, and tightness.
- Income above ₹25,000 offers relative stability, but does not eliminate financial pressure, with significant proportions still reporting tight budgets or struggle.
- Mid-range earners (₹20,001–25,000) demonstrate the healthiest financial indicators, including the lowest reliance on borrowing.

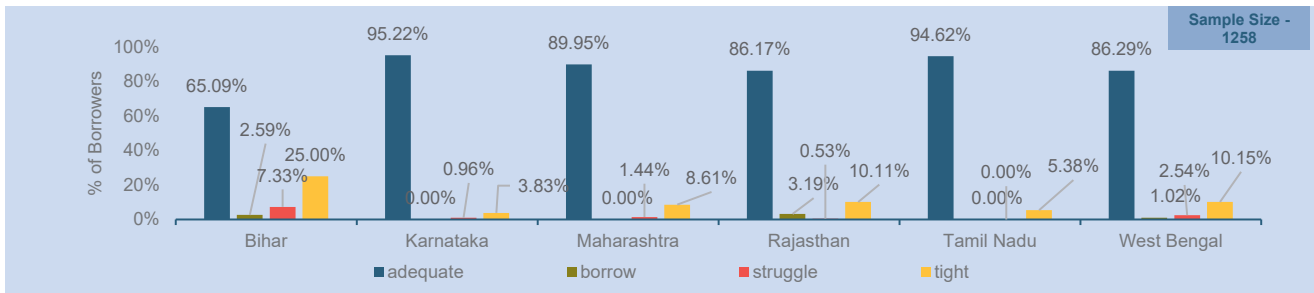


Figure 34: Household Financial Condition After EMI Payments by state

### Key Findings:

- **Karnataka (95.22%)** and **Tamil Nadu (94.62%)** show the highest levels of post-EMI financial adequacy, reflecting stronger economic buffers.
- Bihar has the largest “Tight” segment (25%), indicating concentrated vulnerability among borrowers in the state.
- West Bengal and Rajasthan show moderate pockets of stress, with more households reporting tightness or requiring borrowed support compared to southern states.

### 4.3.5.3 Observations and Emerging Patterns

Based on evidence, the following patterns emerged:

- Over-indebtedness controls appear to have stabilized or reduced debt levels for a majority of borrowers.
- Financial stability outcomes are highly sensitive to income volatility, which is not fully captured by exposure caps alone.
- Borrowers near regulatory thresholds experience tight liquidity, even when they are not technically over-indebted.
- A small but important segment remains financially vulnerable, requiring complementary non-credit interventions (e.g., income support, savings, insurance).

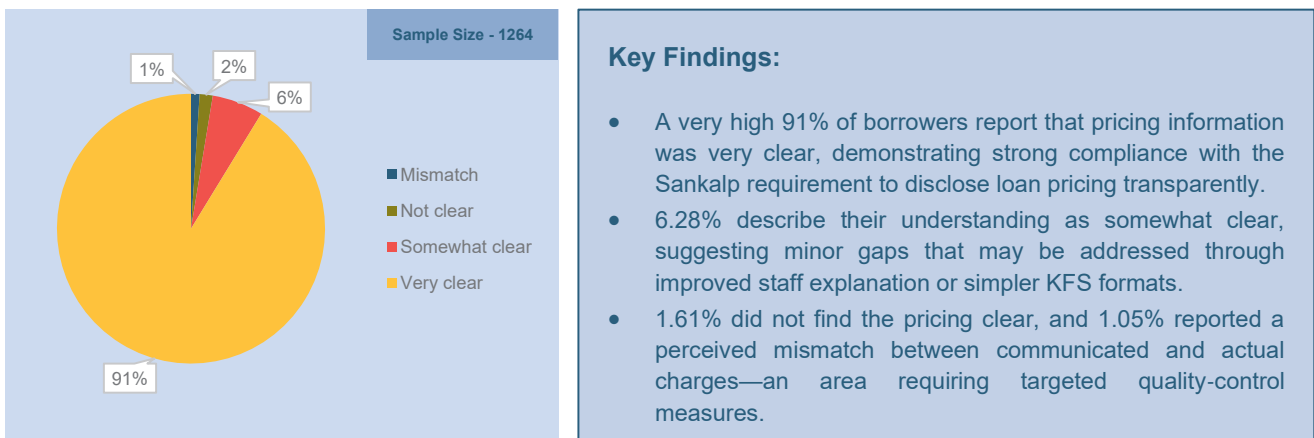
## 4.4 Pricing Transparency

The Sankalp Guidelines place strong emphasis on ensuring that borrowers have a clear, complete, and timely understanding of the cost of their loan. Guidelines 5 and 6 jointly require that all pricing elements, interest rates, fees, and ancillary charges must be board-approved. They must be disclosed transparently and communicated verbally at multiple customer touchpoints. The responses from borrowers during the IDI process indicate that while transparency practices are broadly aligned with regulatory expectations, implementation depth varies.

### 4.4.1 Guideline 5: Disclosure of Pricing Components

Guideline 5 outlines that lending institutions must adopt transparent loan-pricing practices. Interest rate components such as Cost of Funds, operating expenses, risk margin, and profit margin should be clearly defined, comply with applicable guidelines, and be justified and approved by the Board.

#### 4.4.1.1 Borrower Understanding of Loan Pricing



### Key Findings:

- A very high 91% of borrowers report that pricing information was very clear, demonstrating strong compliance with the Sankalp requirement to disclose loan pricing transparently.
- 6.28% describe their understanding as somewhat clear, suggesting minor gaps that may be addressed through improved staff explanation or simpler KFS formats.
- 1.61% did not find the pricing clear, and 1.05% reported a perceived mismatch between communicated and actual charges—an area requiring targeted quality-control measures.

Figure 35: Borrower Understanding of Key fact sheet

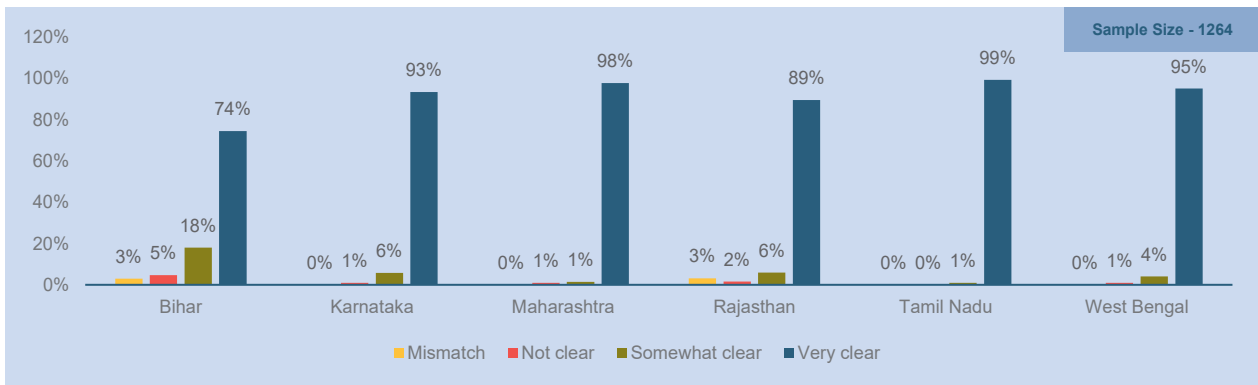


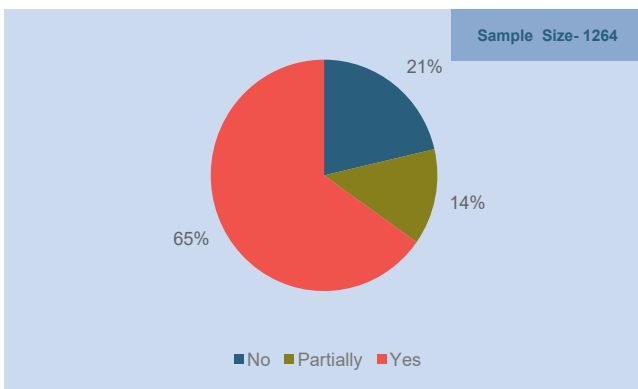
Figure 36: Borrower Understanding of Key fact sheet by state

### Key Findings

- **Maharashtra** (97.61%) and **Tamil Nadu** (99.10%) have the strongest clarity levels, indicating highly consistent KFS delivery.
- **Bihar**, with only 74.36% reporting very clear understanding, shows a need for enhanced borrower communication, potentially linked to literacy levels or staff explanation quality.
- States with higher mismatch or unclear responses (Rajasthan, Bihar) point to training and communication gaps in KFS walkthroughs.

### 4.4.1.2 Understanding of Loan Documents

Survey results show that **most borrowers (65%) can understand their loan documents**, with over half reporting clear comprehension. However, a substantial share indicates only partial understanding and rely heavily on staff explanations to interpret key terms. A smaller but important segment reports being unable to understand the documents at all, highlighting persistent gaps in document clarity and the need for more borrower-friendly formats and explanations.



### Key Findings:

A clear 65.19% majority can fully understand their loan documents, demonstrating strong literacy and transparent communication practices. 21.36% cannot understand the documents and rely entirely on staff explanations, highlighting a significant vulnerability group in terms of financial literacy. 13.45% show partial understanding, suggesting gaps that may be addressed by improving the clarity of KFS wording and staff walkthroughs.

Figure 37: Borrowers Understanding of Loan Documents

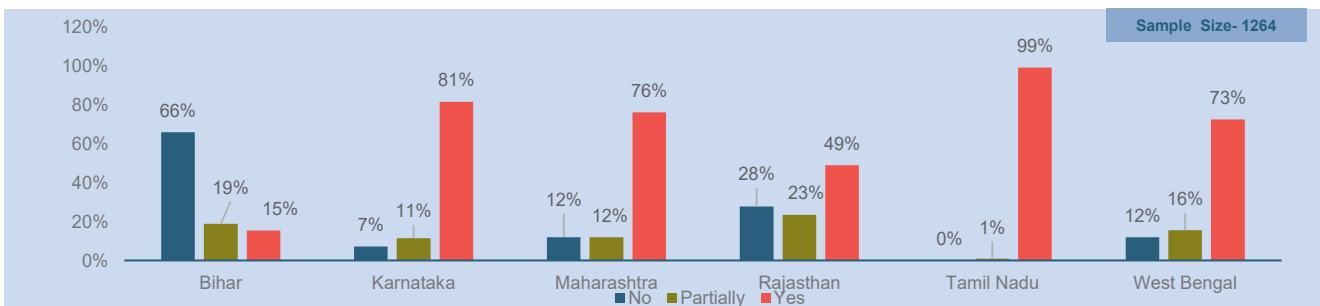


Figure 38: Borrowers Understanding Loan Documents by State

### Key findings:

- **Tamil Nadu** exhibits exceptional comprehension with 99.10% reporting full understanding, indicating highly consistent document communication practices.



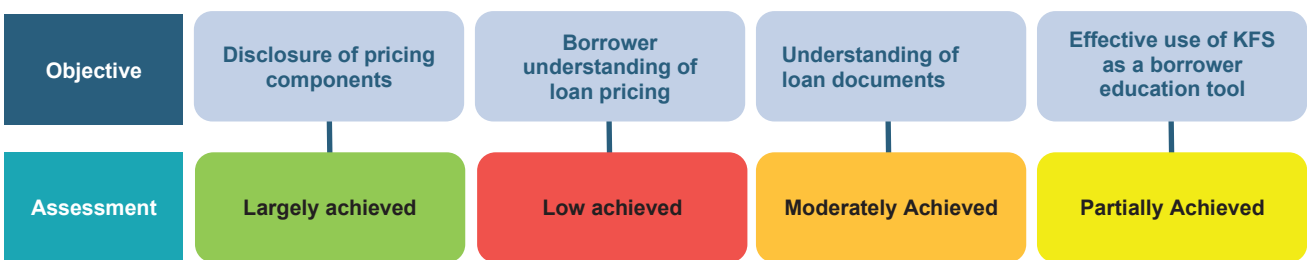
- Bihar stands out as the most challenged state, with 65.81% unable to understand their documents, directly pointing to literacy barriers or insufficient explanation practices.
- Rajasthan shows elevated partial understanding (23.40%), indicating that clarity improvements may provide high impact.

#### 4.4.1.3 Early Observations and Emerging Patterns

Based on data, the following patterns emerged:

- Pricing transparency has improved compared to earlier experiences, particularly in disclosure of interest rates.
- Comprehension gaps persist, especially around fees and total repayment amounts.
- Borrowers with lower literacy levels rely heavily on staff explanations, making staff conduct and training critical to effective transparency.
- Perceived mismatch between communicated and actual cost, even when infrequent, can erode trust.

#### 4.4.1.4 Assessment Against Guideline Objectives



#### 4.4.2 Guideline 6: Processing Fee Cap at 1.5%

Guideline 6 of the Sankalp 2.0 framework caps the **processing fee at 1.5% of the loan amount (excluding applicable taxes)**. The intent of this guideline is to prevent excessive upfront charges, improve affordability, and ensure that borrowers are not burdened with high non-interest costs at the time of disbursement. This section assesses borrower-reported incidence of processing fees, awareness of such fees, perceived affordability, and consistency with the prescribed cap, using survey data.

#### 4.4.2.1 Incidence and Awareness of Processing Fees

Survey findings show that most borrowers report being charged a processing fee at the time of loan disbursement, indicating that the fee remains a common and expected component of loan onboarding. **Awareness levels are low, with most borrowers (72%)** stating that they didn't pay any processing fee; however, **a notable minority (28%)** recalled being told to pay the fee. These patterns suggest partial alignment with Guideline 6, which mandates transparent disclosure and caps the processing fee at 1.5%. While the guideline appears to have curbed excessive charges, gaps in borrower awareness highlight the need for clearer communication to ensure full compliance and prevent hidden or misunderstood upfront costs.

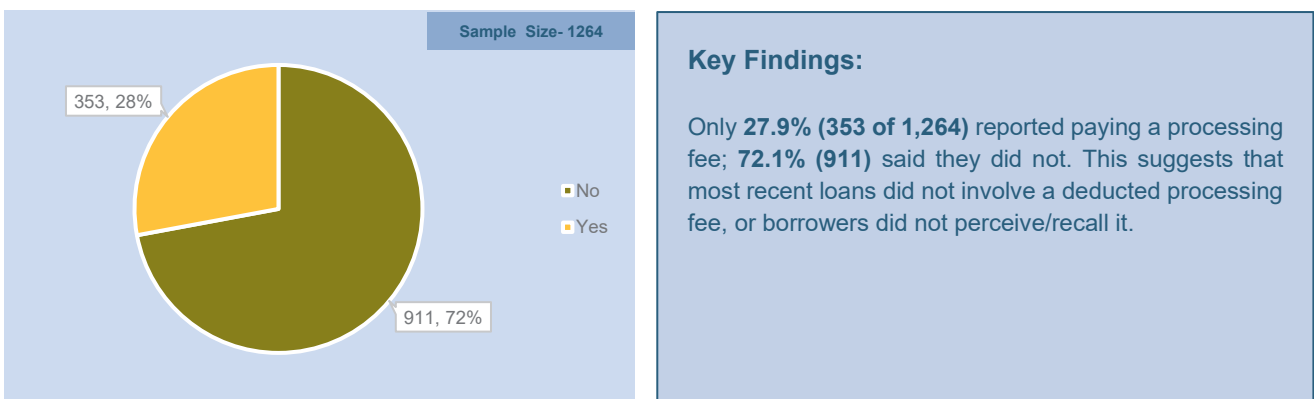


Figure 39: Borrowers Who Paid the Processing fee

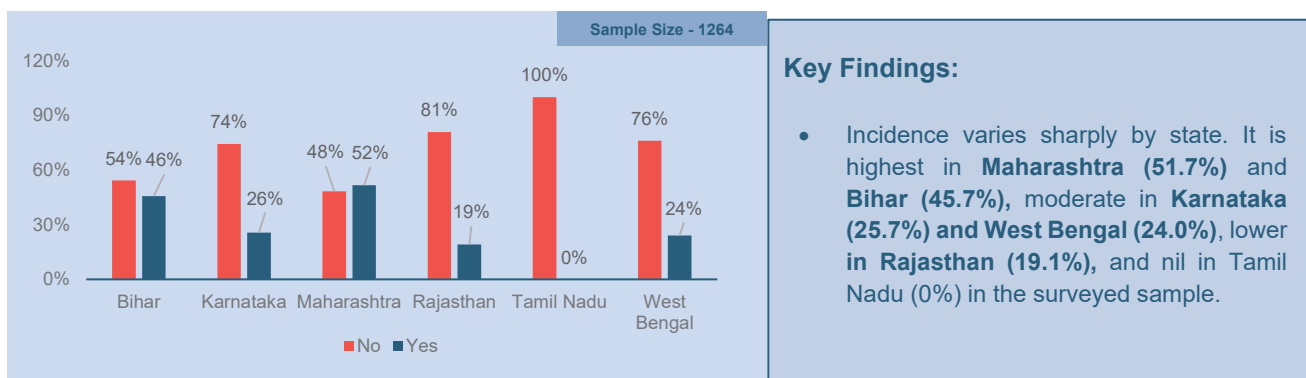


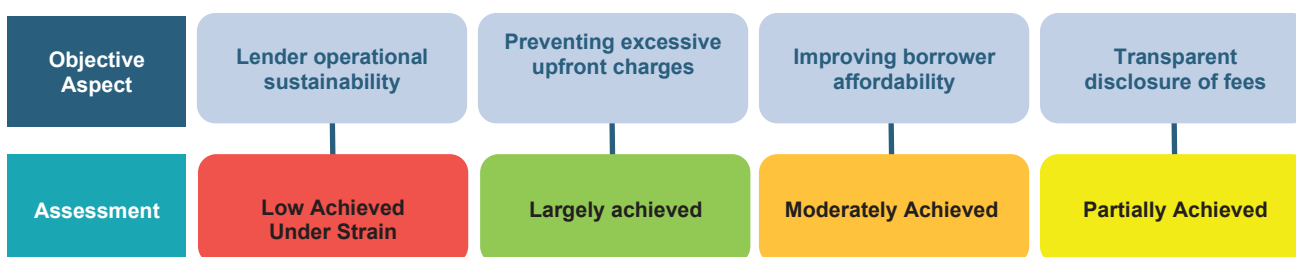
Figure 40: Borrowers Who Paid the Processing Fee by State

#### 4.4.2.2 Observations and Emerging Patterns

Based on evidence, the following patterns emerged:

- Broad borrower experience appears aligned with the intent of the **1.5% processing fee cap**.
- Awareness of the existence of a **fee is higher** than awareness of the exact amount or percentage.
- Perceived unfairness is driven more by **communication gaps** than by absolute fee levels.
- Small-ticket borrowers are **more sensitive** to upfront deductions.

#### 4.4.2.3 Assessment Against Guideline Objectives



### 4.5 Code of Conduct and Discipline

This chapter outlines the SANKALP 2.0 Code of Conduct and Discipline framework, which focuses on strengthening operational integrity and ensuring fair and responsible borrower treatment. The guidelines reinforce ethical field practices and repayment discipline while mandating several key safeguards. These include the **60+ DPD lending restriction**, PAN-based KYC progression, end-use verification of loan proceeds, and employee bureau checks to prevent misconduct and conflicts of interest. Together, these measures enhance transparency, protect borrowers from coercive or unethical practices, and ensure responsible, accountable behavior across MFIs.

#### 4.5.1 Guideline 7: Repayment Discipline (60+ DPD Norm)

##### 4.5.1.1 Guideline Overview

Guideline 7 of the Sankalp 2.0 framework stipulates that **no fresh loan should be extended to any borrower who is in default (60+ days past due) with any lender**, where the total outstanding of such overdue loans exceeds ₹3,000. The guideline seeks to reinforce repayment discipline, improve portfolio hygiene, and discourage strategic or serial defaults across institutions. This section assesses borrower-level repayment behavior, awareness of repayment consequences, and the experiential impact of stricter delinquency norms using survey data.

##### 4.5.1.2 Borrower Repayment Behaviors and Missed Payments

Survey responses indicate that most **borrowers report regular repayment of EMIs**, while a **smaller but important segment reports having missed one or more payments** in the recent past.

Among borrowers who reported missed payments:

EMI amounts varied widely, reflecting differences in loan size and repayment schedules

The duration of delinquency ranged from short-term delays to extended overdue periods

#### 4.5.1.3 Impact of Delinquency on Access to Fresh Credit

Borrowers who reported missed payments, particularly those approaching or exceeding the 60+ DPD threshold also reported **greater difficulty in accessing fresh or repeat loans.**

Patterns suggest that:

- Borrowers with minor or short-term delays experienced temporary restrictions, often resolved after repayment.
- Borrowers with longer over dues reported outright loan denial, even when income conditions subsequently improved.
- Some borrowers perceived the restriction as punitive, particularly where the initial delay was caused by temporary income shocks or emergencies.

These findings indicate that the guideline has a strong signaling effect but may also result in borrower exclusion when applied without differentiation between intent and ability to repay.

#### 4.5.1.4 Borrower Awareness of Repayment Consequences

Responses indicate **uneven awareness** among borrowers regarding the consequences of delayed repayment:

Some borrowers reported being clearly informed that missed payments would affect future loan eligibility

Others indicated that consequences were not clearly explained, or were understood only after experiencing rejection

This suggests that while enforcement of the norm is strong, **preventive communication and borrower education remain inconsistent.**

#### 4.5.1.5 Borrower Coping Responses to Delinquency-Linked Restrictions

Borrowers facing restrictions due to missed payments reported a range of coping strategies:

Catching up on dues through personal savings or support from family

Seeking short-term funds from friends, relatives, or moneylenders

In some cases, deprioritizing repayment once excluded from formal credit (nothing to lose behaviour)

#### 4.5.1.6 Observations and Emerging Patterns

Based on borrower evidence, the following patterns emerge:

- The 60+ DPD norm **has strengthened repayment discipline** and heightened borrower awareness of credit history consequences.
- Short-term delinquency often reflects **temporary income or liquidity shocks, rather than willful default.**
- Binary enforcement of the threshold can lead to **temporary or prolonged exclusion**, even after repayment normalization.
- In some cases, exclusion from formal credit increases the risk of informal borrowing or disengagement.

#### 4.5.1.7 Assessment Against Guideline Objectives

Objective Aspect	Reinforcement of repayment discipline	Improving portfolio hygiene Reduction in repeat delinquency	Discouraging strategic defaults	Proportional application (temporary vs. chronic default)
Assessment	Largely achieved	Largely achieved	Moderately Achieved	Low Achieved



## 4.5.2 Guideline 8: PAN Card as Primary KYC Document

### 4.5.2.1 Guideline Overview

Guideline 8 of the Sankalp 2.0 framework encourages lenders to **move towards using the PAN card as the primary KYC document** for microfinance borrowers and for credit bureau reporting, with an **aspirational target of achieving 30% PAN coverage** on a best-effort basis. The intent is to strengthen borrower identification, improve accuracy of credit bureau records, and reduce identity-related risks in lending. This section assesses the **extent of PAN usage, borrower readiness, and practical challenges** associated with the guideline, based on borrower survey data.

### 4.5.2.2 Current PAN Penetration Among Borrowers

Survey data indicates that **PAN ownership among microfinance borrowers remains limited**, reflecting the socio-economic profile of the borrower base.

Most (86%) borrowers reported not having a PAN card	A smaller segment (3%) reported having a PAN card and using it as part of the loan process	Some borrowers indicated possession of a PAN card but continued to rely on Aadhaar or Voter ID as their primary KYC document
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### 4.5.2.3 Primary KYC Document Used by Borrowers

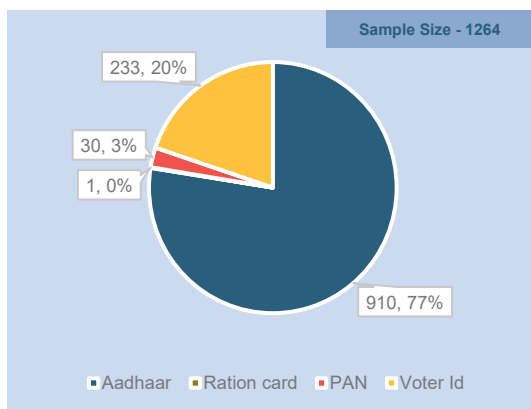


Figure 41: Primary KYC Document

#### Key Objective

- A subset of borrowers reported being asked for a PAN card during loan approval.
- A larger segment reported not being asked for PAN, indicating continued reliance on **alternative KYC documents**.
- Among those asked for PAN, 92 borrowers reported applying for a new PAN card specifically to meet loan requirements.
- This suggests that while PAN-based KYC is being introduced, **implementation remains uneven and incremental**.

### 4.5.2.4 Borrowers Asked for PAN Card During Loan Approval

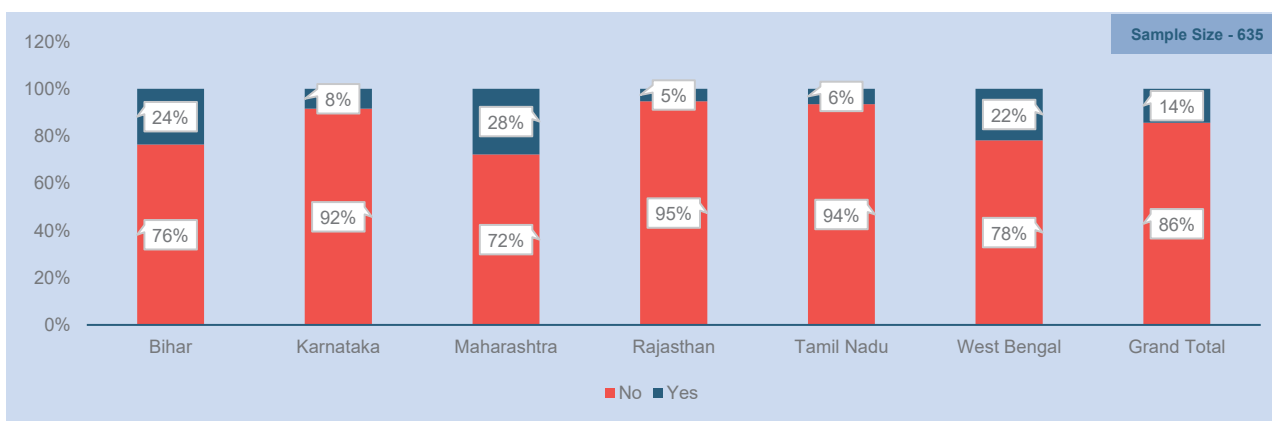


Figure 42: Borrowers asked for PAN during Loan Approval

#### Key Findings

- Maharashtra, 27.78% “Yes” (highest among states).** PAN is requested in over one-quarter of cases, the strongest enforcement in the sample; still below the 30% aspirational coverage and far from majority practice.
- Rajasthan, 5.26% “Yes” (lowest).** Minimal operational reliance on PAN at appraisal; **94.74%** not asked, indicating strongest dependence on alternative KYC in the sample.

#### 4.5.2.5 Borrower Willingness and Barriers to PAN Adoption

Among borrowers without a PAN card, responses and field interactions indicate that the absence is often driven by a limited perceived need **for PAN outside formal employment**, taxation, or salaried income contexts. Many borrowers do not view PAN as necessary for their day-to-day financial activities unless it becomes a prerequisite for accessing formal credit. This perception is particularly common among self-employed or informally employed households.

Documentation-related barriers further constrain PAN adoption, with women borrowers facing additional challenges in independently securing identity and address proofs. As a result, **several households rely on PAN cards held by male members**, reinforcing dependence rather than individual financial inclusion. Additionally, the time, cost, and procedural complexity involved in applying for a new PAN card discourage borrowers from initiating the process.

In contrast, **borrowers who did obtain PAN cards reported doing so** primarily to preserve eligibility for formal loans, rather than to engage more broadly with the formal financial system. This underscores that PAN acquisition is currently viewed as a compliance requirement linked to credit access, rather than as an enabling tool for wider financial participation.

#### 4.5.2.6 Implications for Credit Bureau Reporting

From a borrower perspective, limited PAN penetration has implications for:

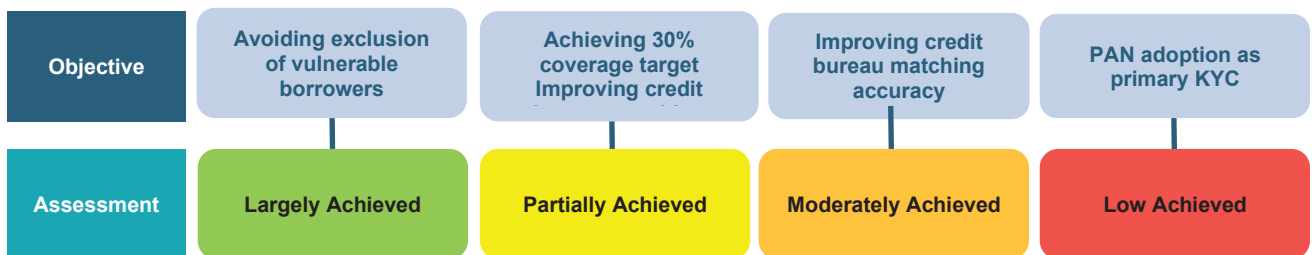
Accuracy of credit bureau matching, particularly where names, addresses, or other IDs vary	Potential duplication of credit histories across different identifiers	Reduced borrower awareness of how identity consistency affects credit eligibility
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These issues underscore the **long-term rationale** for PAN adoption, even as short-term feasibility challenges persist.

#### 4.5.2.7 Observations and Emerging Patterns

Based on the evidence, PAN-based KYC adoption among microfinance borrowers remains at a nascent stage, with Aadhaar and Voter ID continuing to dominate as the primary identification documents used for onboarding. **Borrower willingness to adopt PAN** appears to increase when its relevance is clearly linked to continued access to formal credit, rather than as a standalone compliance requirement. At the same time, **rigid or immediate enforcement of PAN-based norms** carries the risk of excluding vulnerable borrower segments particularly women and informal workers who face documentation and access barriers. Taken together, these patterns suggest that a phased, facilitative approach is essential to achieving the guideline’s intent without undermining financial inclusion objectives.

#### 4.5.2.8 Assessment Against Guideline Objectives



### 4.5.3 Guideline 9: End-Use Verification of Loans

#### 4.5.3.1 Guideline Overview

Guideline 9 of the Sankalp 2.0 framework requires lenders to undertake end-use verification of loans to ensure that credit is utilized for the stated purpose and does not contribute to unproductive or harmful indebtedness. The guideline aims to strengthen responsible lending, improve credit outcomes, and reduce diversion of funds toward debt servicing or



consumption that exacerbates financial stress. This section assesses borrower-reported loan utilization patterns, awareness of end-use checks, and perceived changes in lender monitoring, based on survey data.

### 4.5.3.2 Borrower-Reported Loan Utilization Patterns

Survey responses indicate that borrowers use microfinance loans for a **mix of productive and consumption-related purposes**:

A 55% reported using loans for income-generating activities, such as small business, agriculture, livestock, or allied activities	Another segment reported use for household consumption needs, including education, healthcare, or daily expenses	A smaller but notable group reported using loans for repayment of existing debt, indicating debt recycling
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These patterns highlight the importance of end-use verification, particularly in contexts where loans intended for productive purposes may be diverted to debt servicing.

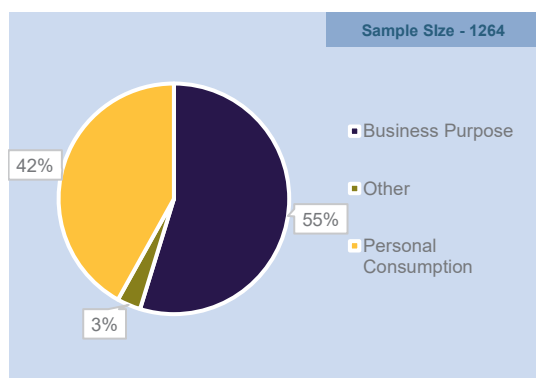


Figure 43: Purpose of Loan Taken

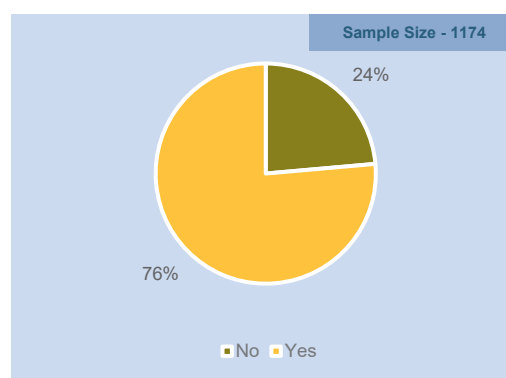


Figure 44: Lender Staff End use verification

### 4.5.3.3 Borrower Experience of End-Use Verification

Responses suggest **variation in borrower experience** regarding end-use checks:

Some borrowers reported that Lenders explicitly asked about loan purpose and followed up post-disbursement	Others reported that while loan purpose was recorded, no follow-up verification was conducted	A subset of borrowers reported no discussion or verification related to end-use
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This suggests that while end-use verification is part of stated processes, intensity and consistency vary across institutions and geographies.

### 4.5.3.4 Borrower Recall of End-Use Verification by Lenders

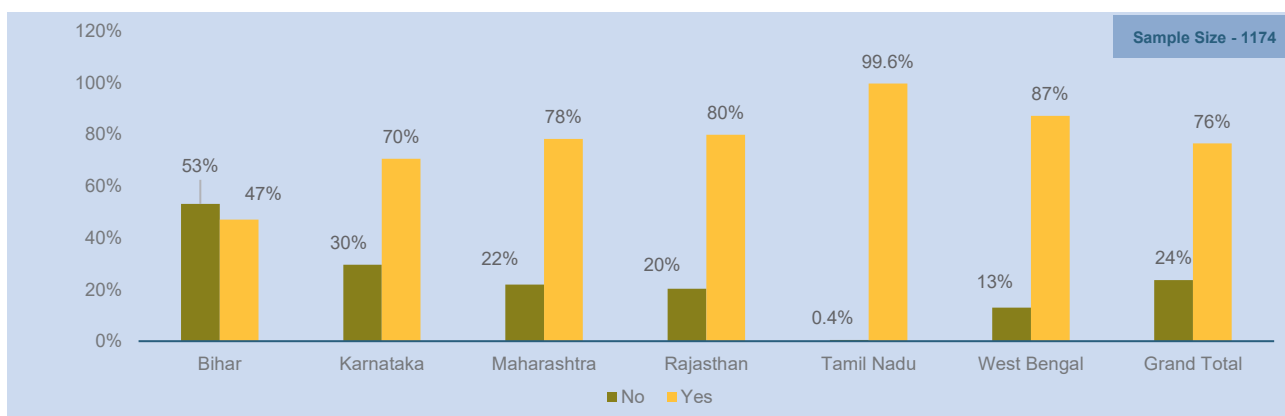


Figure 45: Lender Staff End use verification by State

## Key Findings

- 76.41% of borrowers report end-use verification, signaling broad alignment with the guideline.
- Tamil Nadu (99.55%), West Bengal (87%), and Rajasthan (79.79%) show strong, consistent enforcement.
- Bihar (52.99% “No”) stands out as the weakest state, with more borrowers reporting no verification.
- End-use verification is more commonly practiced for high-ticket loans and repeat borrowers, based on borrower narratives. Despite verification, 42.05% of borrowers use loans for consumption, often due to income instability suggesting that verification alone may not fully prevent diversion. Borrowers perceive verification visits as formal/documentary rather than deeply probing, especially in states with high caseloads.

### 4.5.3.5 Changes in Monitoring and Follow-Up Practices

Borrowers who reported post-disbursement follow-ups indicated that:

- Field staff visited or contacted them to confirm utilization, particularly for livelihood-linked loans.
- Verification was more common for larger loan amounts or repeat borrowers.
- In some cases, verification was perceived as formal or procedural, rather than detailed.

These findings suggest that lenders may be adopting a **risk-based approach** to end-use verification, though this is not uniformly applied.

### 4.5.3.6 Implications for Borrower Behavior

Borrower narratives suggest that:

- Awareness of possible verification has discouraged overt misuse of loans among some borrowers.
- However, genuine household needs (health emergencies, education) continue to drive consumption-led use, even when loans are nominally classified as productive.
- Borrowers often perceive end-use flexibility as necessary given income volatility and limited access to alternative finance.

This underscores the tension between **formal end-use classification and lived financial realities**.

### 4.5.3.7 Observations and Emerging Patterns

Based on data, the following patterns emerged:

- Productive use remains dominant but not exclusive among microfinance borrowers.
- End-use verification practices exist but are uneven in depth and frequency.
- Verification is stronger for higher-risk or higher-value loans.
- Rigid enforcement of end-use restrictions may be misaligned with borrower coping needs.

### 4.5.3.8 Assessment Against Guideline Objectives

Objective	Ensuring productive use of loans	Post-disbursement monitoring	Deterrence of fund diversion	Consistent end-use verification practices
Assessment	Partial Achieved	Partial Achieved	Moderately Achieved	Low Achieved

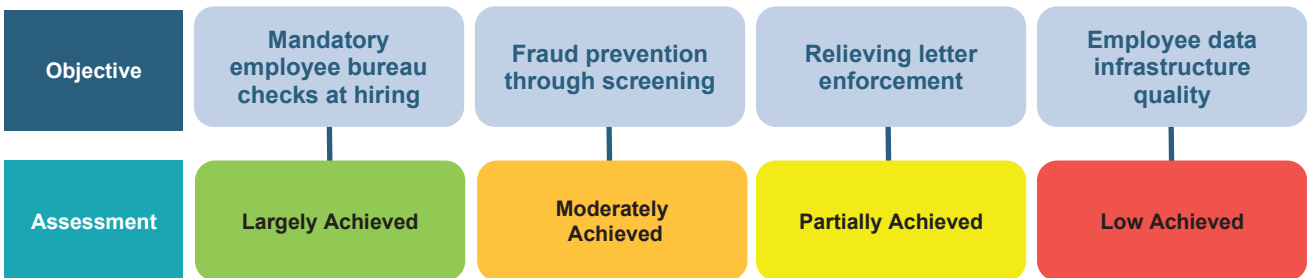


#### 4.5.4 Guideline 10: Employee Bureau Checks and Relieving Letter Requirements

Mandatory employee bureau checks before hiring field staff and collection of relieving letters from prior lender employers within 3 months; non-compliance should lead to discontinuation of employment. Most lenders report mandatory employee bureau pulls at hiring; practical issues arise around timely relieving letters, especially for remote branches and high-turnover markets, creating a compliance backlog that HR teams must track manually. Weak HR controls correlate with higher conduct incidents, documentation lapses in KFS walkthroughs, and slippage in centre-meeting discipline reinforcing why pre-hire bureau checks and relieving-letter enforcement are core to field integrity. The analysis for this guideline has been done basis the interviews with the senior leadership of the lenders (Section 5.3.9).

While the preceding sections examine the impact of the Sankalp Guidelines at institutional and market levels, the following section focuses on borrower-level outcomes to assess how these changes are experienced on the ground.

##### 4.5.4.1 Assessment Against Guideline Objectives



### 4.6 Impact Analysis: Borrower-Level Outcomes

The borrower perspective offers the most unfiltered view of how Sankalp 2.0 has reshaped microfinance practices at the last mile. While lender-level compliance data reflects procedural shifts, it is the borrower journey from need recognition to loan closure—that ultimately reveals whether the guidelines are experienced as protection, friction, or a mix of both. This section examines those lived experiences, grounded in quantitative findings and supported by observed borrower behaviour during field interactions across the six study states.

#### 4.6.1 Access to Microfinance Credit and Borrower Profile

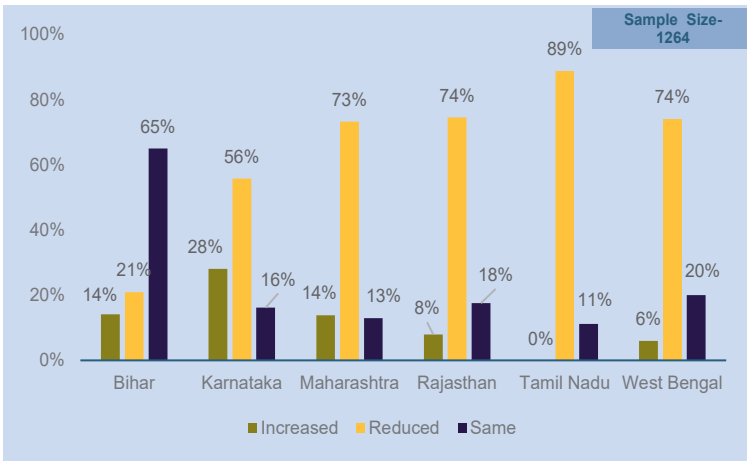
About 26% of the 1,200+ reborrowing applicants are immediately ineligible due to failing both the 12-month cooling-off period and the 50% principal-repaid rule, often despite urgent working-capital needs. Around 60% meet at least one condition, forming the core segment for disciplined incremental lending, while 14% remain unsure of their eligibility, indicating communication gaps.

Most households fall within the ₹2,00,000 exposure ceiling, but some exceed it when retail credit of spouses or adult children is added. For these cases, lender reduce loan amounts or defer approvals, creating short-term inconvenience but helping maintain a manageable EMI burden.

#### 4.6.2 Borrowing Behavior of Households

The lender-cap norm has altered borrowing behavior. Most of the households now interact with three or fewer lenders, and the minority that crosses this line tends to be seasoned, repeat borrowers. Median income, debt, and EMI values suggest that, for most families, obligations are being contained at levels consistent with cash flow; only a small tail exhibits high stress, with debt service exceeding half of monthly income.





### Key Findings:

Tamil Nadu: **0%** reported increased debt; **88.79%** reported reductions—the strongest performance.  
 Maharashtra, Rajasthan, West Bengal: **Over 70%** reported reductions.  
 Karnataka: Highest share of increased debt at **28.10%**.  
 Bihar: **Majority of borrowers (65%)** report no change, indicating stable but less dynamic adjustment.

Figure 46: Loan burden change

### 4.6.3 Loan Suitability, Repayment Capacity, and Indebtedness

Clarity on the EMI is high; clarity on the why behind that EMI is not. Few borrowers recall a walk-through of their credit report, and many remain unsure how household liabilities shape loan size, rate, and timing. **The 1.5% processing-fee cap** is broadly appreciated, even if it is not widely recognized as a formal safeguard. Despite regulated repayment loads, **14.07% continue to experience post-EMI strain**, highlighting limits of credit-only solutions.

#### 4.6.3.1 Repayment Capacity, and Indebtedness

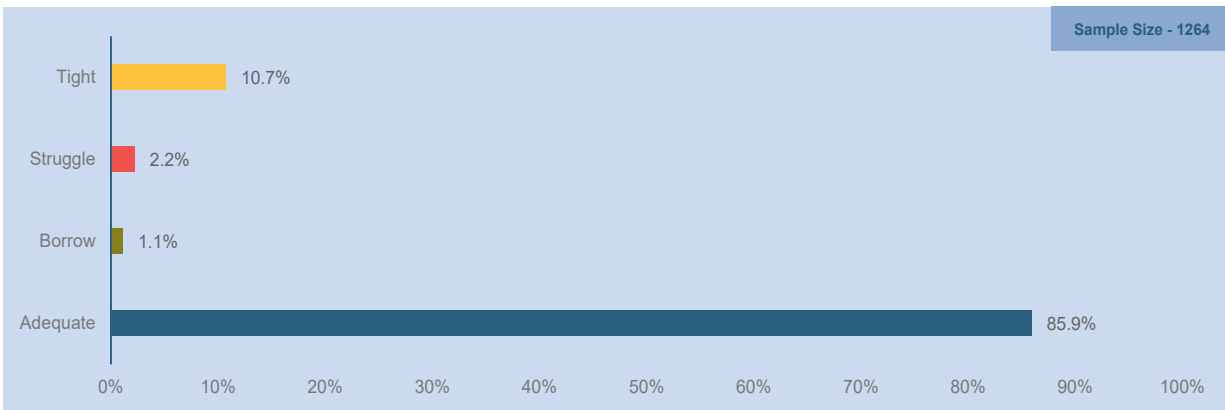


Figure 47: Post-EMI Stability

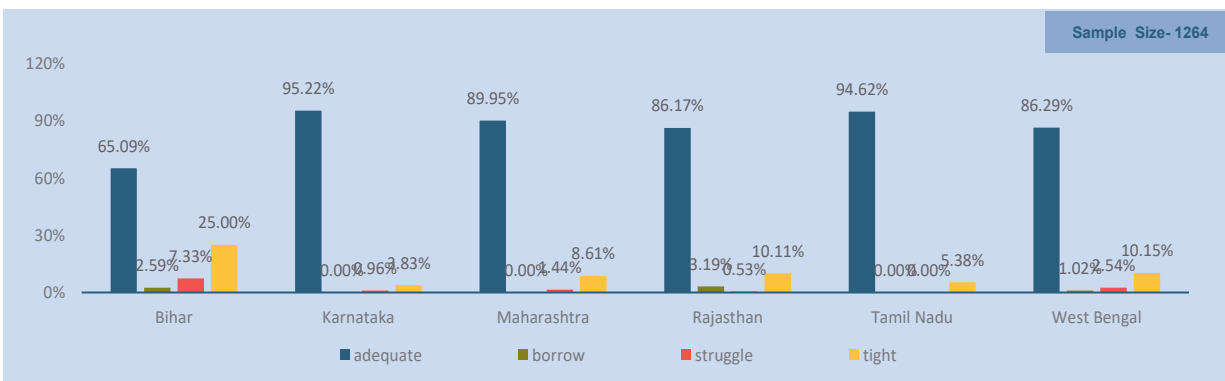


Figure 48: Post-EMI Stability by State

## Key Findings

Karnataka and Tamil Nadu exhibit the **strongest stability**, with rates of **95.22%** and **94.62%** respectively. In contrast, Bihar shows the greatest strain, with **25%** categorized as **tight** and **7.33%** identified as **struggling**.

### 4.6.3 Borrower Experience, Transparency, and Fair Treatment

Collections are described, by most, as orderly and respectful rooted in center-meeting discipline though a small minority reports unpleasant interactions. Repayment confidence is strongest among households with two or fewer lenders and a DSR comfortably below 40%; among those deferred under the new rules, stress is higher in the short run but often offset by steadier cash flows once EMI loads normalize.

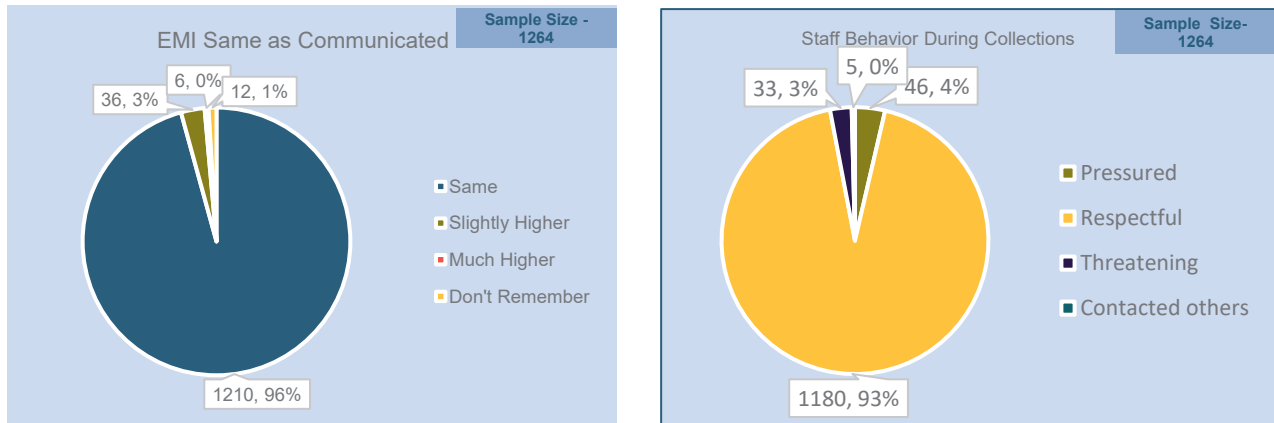


Figure 49: Borrower Experience and transparency

## Key Findings

- Karnataka, Maharashtra, and Tamil Nadu demonstrate near-universal respectful behavior, with reported levels of 95% or higher.
- West Bengal shows comparatively higher reports of pressure, at 13%, relative to other states.
- Bihar has the highest incidence of threatening behavior, with 11.54% of respondents reporting such experiences.

### 4.6.4 Borrowers Lifestyle Changes

Survey responses indicate that microfinance borrowing continues to play a significant developmental role in improving household livelihood conditions. Borrowers reported positive changes in income, emergency resilience, and overall stress levels after receiving microfinance loans.

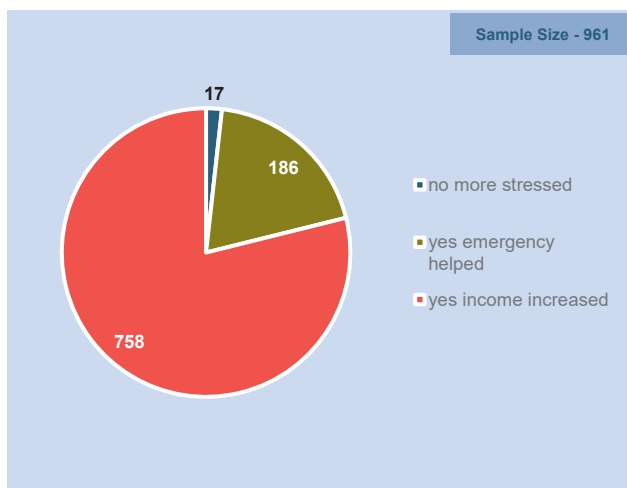


Figure 50: Life Improvement of Borrowers After Loan

## Key Findings

- **64.81% of borrowers experienced improved income** or enhanced earning stability after taking the loan.
- **15.90%** reported that the loan helped them manage emergencies, such as health issues or urgent expenses.
- **1.45% felt reduced stress**, reflecting psychological relief and stability gained from financial support.
- Overall, **more than 82% of borrowers** reported some form of positive change in income, coping ability, or well-being.

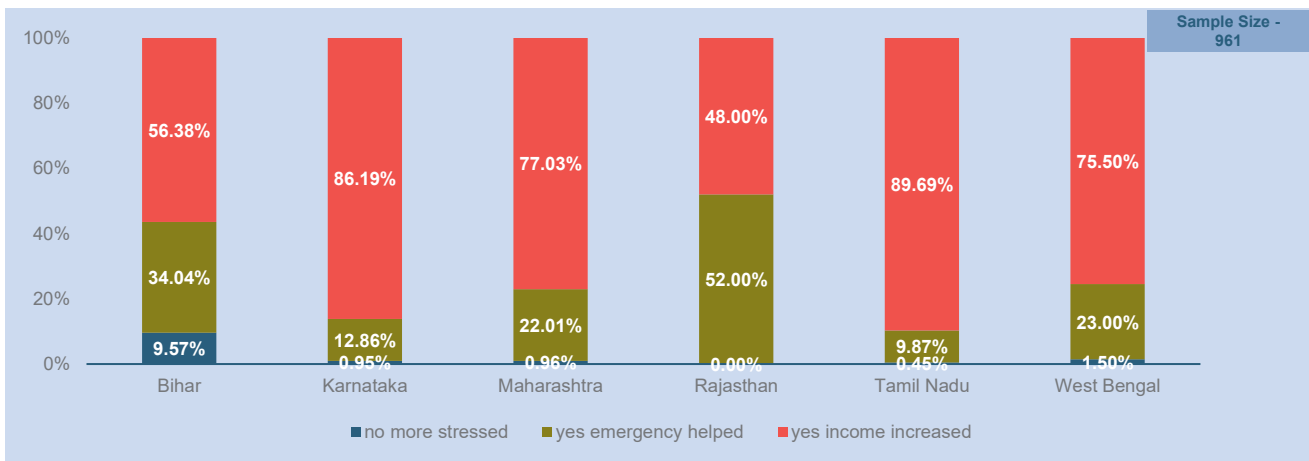


Figure 51: Life Improvement of Borrowers After Loan by State

### Key Findings

- **Tamil Nadu (89.69%) and Karnataka (86.19%)** report the strongest improvements, indicating highly productive use of microfinance in these regions.
- **Bihar has the highest share of borrowers** reporting “no more stressed” (9.57%), likely due to relief from urgent liquidity constraints.
- **Maharashtra and West Bengal demonstrate strong, balanced outcomes** with both income improvements and emergency relief.
- Overall, **income enhancement is the dominant lifestyle benefit** across all states, reflecting the role of microfinance in strengthening livelihood activities.

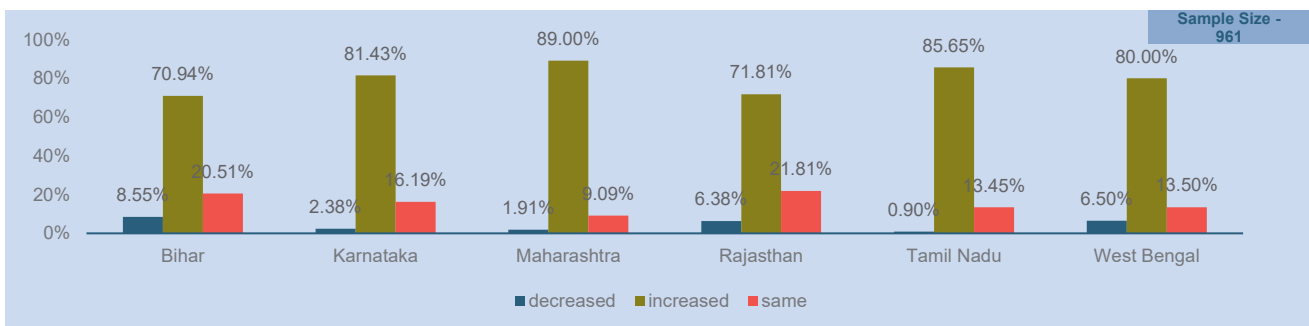


Figure 52: Income change of borrowers by state

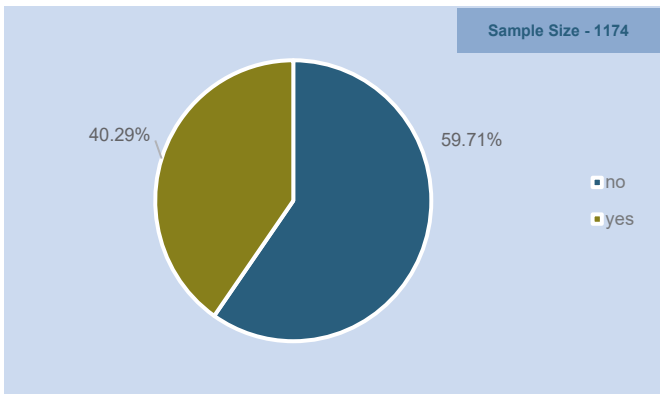
### Key Findings

- Maharashtra leads on income gains: 89.00% of borrowers report income increased.
- Tamil Nadu shows strong gains with minimal setbacks: 85.65% increased, 13.45% same, and just 0.90% decreased (lowest decrease across states).
- Bihar has the highest ‘decreased’ share: 8.55% decreased, 20.51% same, 70.94% increased—still a majority improving but with more strain than peers.
- Rajasthan has the largest ‘no change’ cohort: 21.81% same (highest among states), 71.81% increased, 6.38% decreased

### 4.6.5 Grievance Redressal and Borrower Awareness

Grievance redressal remains the weakest layer of borrower protection. Most borrowers escalate issues only to field officers or branch managers, with very few aware of toll-free numbers or formal escalation channels. Although rights are provided in writing, inconsistent and infrequent explanation prevents them from translating into practical, day-to-day confidence.





**Key Findings**

~40% borrowers raised a concern, suggesting active utilization of grievance channels. The majority who did not complain generally did so out of satisfaction rather than suppression of issues.

Figure 53: Borrowers Who Have Complained

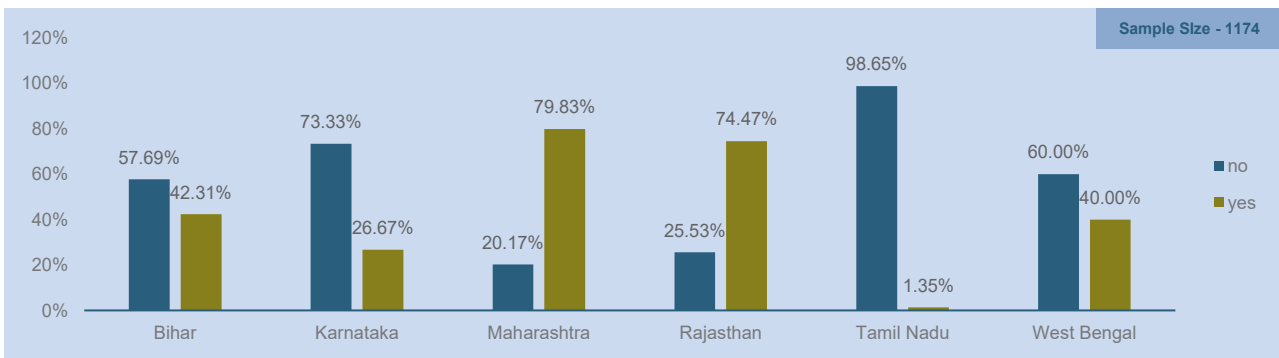
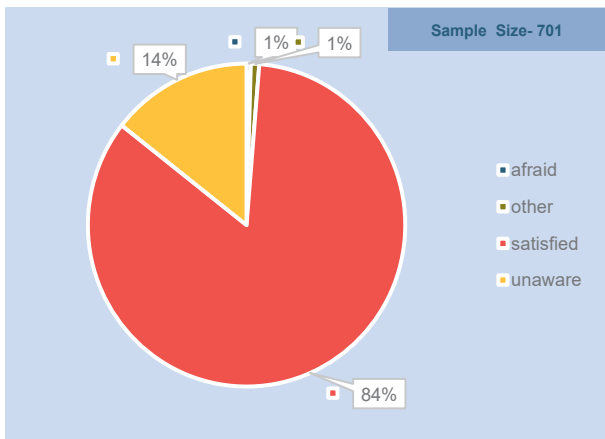


Figure 54: Borrowers who have Complained by State

**Key Findings**

- Maharashtra has the highest complaint filing rate, 79.83% of borrowers reported “Yes” (complained), indicating very active use of grievance channels.
- Karnataka is lower, 26.67% reported “Yes”, implying fewer escalations or possibly lower awareness/need to complain
- Overall, 40.29% of borrowers reported having filed a complaint and 59.71% did not, placing Bihar and West Bengal close to the pattern, with Maharashtra and Rajasthan notably above it.



**Key Findings**

- High satisfaction (84.31%) indicates that most borrowers felt no need for escalation.
- However, 14.41% remain unaware of the available grievance options, pointing to a systemic communication gap.
- A very small fraction (0.43%) was afraid to complain, signaling isolated but concerning pockets of perceived power imbalance.

Figure 55: Borrowers no complaint Reasons

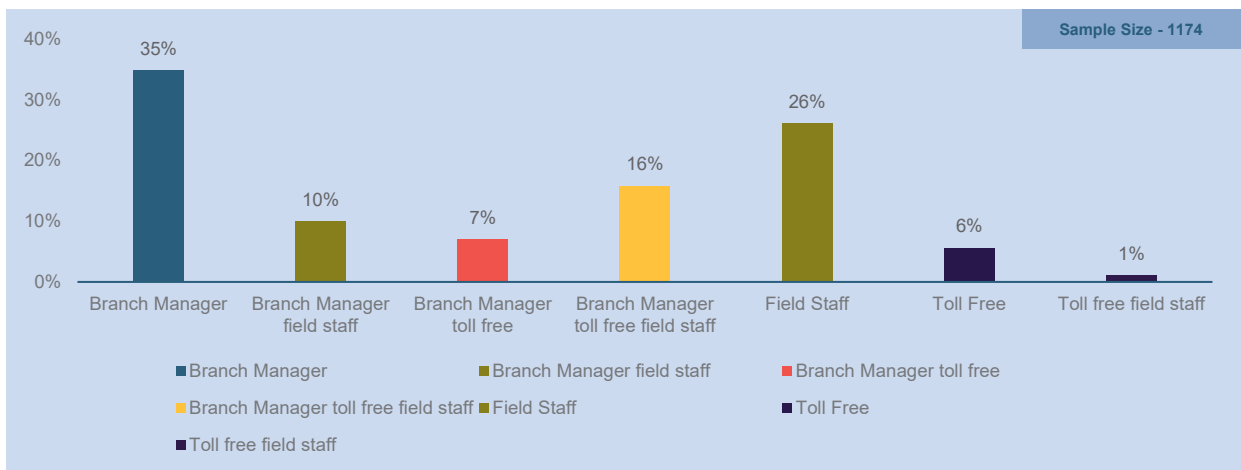


Figure 56: Borrower Grievance Channel Awareness

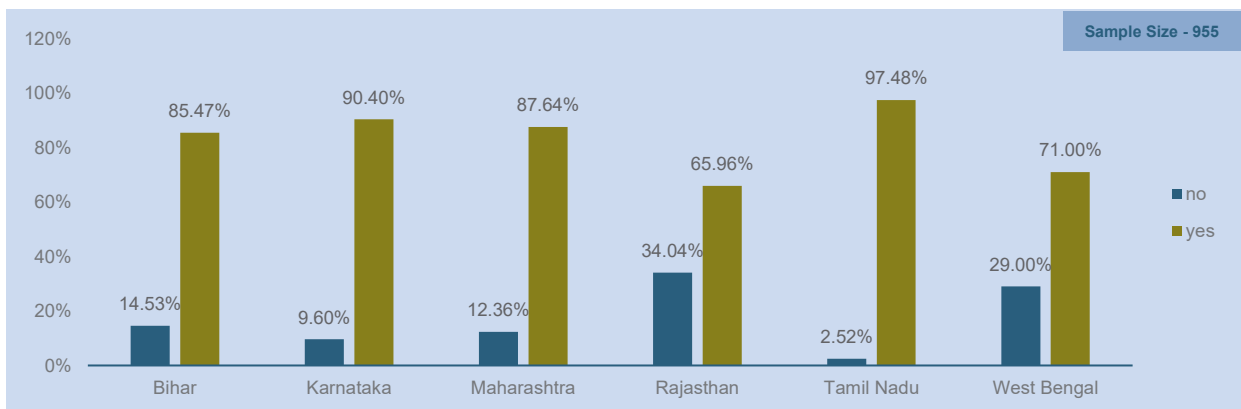


Figure 57: Borrowers Escalation Awareness by State

### Key Findings

- Escalation awareness is high across most states, ranging between 85% and 98%, indicating that borrowers generally know whom to approach when issues arise.
- However, Rajasthan and West Bengal lag behind in escalation awareness, with only 66% and 71% of borrowers, respectively, reporting that they know how to escalate concerns.



## 5. Impact Analysis: Lenders' Perspective

### 5.1 Introduction

This chapter presents findings from in-depth interviews (IDIs) conducted with senior leadership across 16 lenders. The institutional mix comprises 13 NBFC-MFIs, 1 Small Finance Bank (SFB), 1 commercial bank operating via the Business Correspondent (BC) model, and 1 NBFC with a diversified lending portfolio. Together, these lenders represent a cross-section of the microfinance ecosystem in terms of scale, geography, regulatory classification, and operational maturity.

The analysis is structured guideline-wise, aligned with the 10 provisions of Sankalp 2.0. For each guideline, the chapter captures the degree of institutional support or concern, the count of lenders sharing a particular view, operational experiences, and specific recommendations made by lenders. Regional and institutional-type variations are highlighted where relevant. All individual lenders have been anonymized; perspectives are attributed by institutional type (NBFC-MFI, SFB, Bank, NBFC) to preserve confidentiality.

### 5.2 Overall Assessment of Sankalp 2.0 Guidelines

Across all 16 lenders interviewed, there was unanimous endorsement of the Sankalp 2.0 guidelines as a necessary and timely intervention. Every institution acknowledged that the guidelines had brought discipline to a sector experiencing stress due to over-lending, aggressive growth strategies, and deteriorating portfolio quality following the RBI's 2022 deregulation of lender limits. However, the degree of enthusiasm and the nature of concerns varied significantly:

Stance	Count	Characterization
Strong advocates (no dilution)	7 of 16	<b>Conservative, compliance-first</b> lenders that had already adopted stricter internal norms pre-Sankalp. They view the guidelines as essential and advocate for <b>strict enforcement</b> without relaxation for at least 12–24 months.
Supportive with calibrated refinements	7 of 16	Lenders that endorse the intent of Sankalp but recommend specific <b>operational adjustments</b> , such as progressive increases in exposure caps, relaxation of the processing fee cap, or first-lender continuity rights, to improve sustainability.
Supportive but with structural critique	2 of 16	Lenders that acknowledge the need for guardrails but believe the current framework is <b>overly prescriptive</b> , advocating for a <b>risk-based, region-sensitive approach</b> rather than uniform national caps.

Six of 16 lenders also emphasized that the sector's contraction was not attributable solely to the guidelines; **the liquidity squeeze from banks, SIDBI, and NABARD** was cited as an equally significant factor constraining disbursements and growth.

### 5.3 Guideline-Wise Analysis

#### 5.3.1 Guideline 1: Maximum Three Lenders per Borrower

**Degree of Support:** All 16 lenders support the three-lender cap in principle, making it the **most widely endorsed** provision of Sankalp 2.0. The cap was already in practice at 6 lenders that had retained the pre-2022 industry norm of a maximum of three lenders, which had been established by Sa-Dhan through self-regulation; the remainder had to reconfigure their Business Rule Engines (BREs) and tighten underwriting, leading to an initial spike in rejections:

Institution Type	Pre-Sankalp Rejection	Post-Sankalp Rejection
Large NBFC-MFIs (3 lenders)	25–45%	50–65%
Bank (BC model)	Not disclosed	20–25 percentage point jump in rejections
Small/mid NBFC-MFIs	30–40%	40–68%
NBFC (diversified)	Not disclosed	75–80% initially; stabilized at 60–65%

At the industry level, one large NBFC-MFI reported that the proportion of borrowers with four or more lenders has declined from 20% to less than 5%. This is a structural correction widely welcomed across institutions.

**Key concerns:** Three lenders noted the transition from four to three lenders happened too rapidly, causing temporary disruption to borrower cash cycles. Three lenders flagged a **free-rider problem**, where compliant lenders lose good customers to non-compliant lenders lending as a fourth lender through non-qualifying asset (NQA) classification or reporting gaps. One lender specifically advocated for **'first-lender continuity rights'** to protect institutions that develop borrowers in

new geographies. One lender suggested relaxing the cap to ‘3+1’ (three MFI lenders plus one bank), citing a 20–25 percentage point jump in rejections post-implementation.

**Consensus:** 13 of 16 lenders recommend retaining the three-lender cap without dilution.

### 5.3.2 Guideline 2: Household Exposure Cap of ₹2,00,000

**Degree of Support:** All 16 lenders support the concept of a household exposure cap. However, this guideline generated the **most diverse range of opinions** regarding scope, quantum, and application methodology.

#### Scope of the Cap: Should Retail Loans Be Included?

Position	Count	Rationale
Exclude retail/secured loans; apply cap only to unsecured microfinance	5 of 16	Retail loan EMIs are already captured in RBI’s 50% FOIR rule; dual capping is unnecessarily restrictive. Secured loans (gold, vehicle, housing) distort eligibility.
Include retail loans to reflect total household debt stress	3 of 16	Even secured loans demand liquidity at maturity. Excluding them creates artificial underestimation of debt burden.
Accept current formulation; no immediate change needed	7 of 16	Current cap is workable and does not merit immediate change.

#### Adequacy of the ₹2 Lakh Quantum

Position	Count	Institutional Profile
Cap is adequate; no revision needed now	5 of 16	Conservative lenders with internal caps already at or below ₹2 lakh
Cap is too low; needs progressive annual increase (10% YoY) or inflation-linked revision	6 of 16	Mix of large NBFC-MFIs, SFBs, banks, and smaller MFIs operating in diverse geographies
Replace with income-based, region-sensitive framework	3 of 16	Lenders with strong analytical capabilities; advocate for district-level calibration based on per capita income, rejection rates, and lender penetration

**8 of 16** lenders raised concerns about the practical challenges of accurately assessing household income in the informal economy. The RBI-mandated household income cap of ₹3,00,000 was specifically criticized by 3 lenders as being too low for today’s rural economy, with one proposing district-level income calibration. 3 lenders explicitly called for **regional differentiation** in the exposure cap. They argued that a uniform national ceiling cannot account for significant income disparities between states, for instance, borrower incomes in Kerala or Tamil Nadu differ sharply from those in Bihar or Chhattisgarh.

### 5.3.3 Guideline 3: No Fresh Loan Before 12 Months or 50% Repayment

**Degree of Support:** This guideline received **universal support from all 16 lenders**. It was the least contested provision of Sankalp 2.0. **8 lenders** reported that they already followed an equivalent or stricter internal policy prior to Sankalp; **4 lenders** require **100%** repayment of the previous loan before issuing a fresh loan, going well beyond the guideline’s **50%** threshold. These lenders view mid-cycle top-ups as a practice that was historically used to ‘evergreen’ stressed portfolios and are firmly opposed to any relaxation. Operational impact was minimal across all lenders, as this norm was either already embedded or required only minor BRE adjustments.

When borrowers are rejected under this guideline, field observations indicate **clear redirection patterns**: 5 lenders reported borrowers turning primarily to local moneylenders; 3 lenders observed movement to individual loans and gold loans; a smaller share turn to family or relatives; and 3 lenders noted lateral movement to other NBFCs and non-group products. This suggests that a subset of otherwise viable borrowers is displaced to costlier or higher-risk channels, underscoring the need for calibrated enforcement and proactive borrower communication.

### 5.3.4 Guideline 4: Mandatory Household-Level Credit Bureau Check

**Degree of Support:** **All 16** lenders support mandatory household-level credit bureau checks. All now conduct bureau pulls for the borrower and spouse as standard practice; 6 lenders extended checks to all earning household members. One large lender conducts **4 or more bureau pulls per application** (borrower, spouse, and earning adult members), substantially increasing origination costs but yielding better portfolio outcomes.

**Credit bureau data quality was the single most discussed operational challenge across the 16 interviews:**



Issue	Raised By	Description
Lack of reporting standardization	6 of 16	Different regulated entities report in different formats. Closed loans show DPD; DPD fields are left blank; write-offs are inconsistently reported; SHG loans are reported as lump sums without member-level splits.
Data lag and staleness	5 of 16	Lag of 15–30 days reported by most lenders; causes 3–4% scrub deviations and false eligibility evaluations. Borrowers may take new loans between bureau check and disbursement.
Poor matching algorithms	3 of 16	Bureaus rely on exact match logic; small variations in name, phone number, or ID version result in mismatched profiles. Unreliable for low-income customers with frequently changing IDs.
Inconsistent income reporting	5 of 16	Income fields in bureau reports are self-declared and inconsistent. EMI reporting varies; Lenders must derive EMI using loan amount and tenor.
Inter-bureau discrepancies	2 of 16	One lender reported that Highmark showed 10 loans while Equifax showed only 3 for the same borrower, due to historical under-reporting by MFIs to only one bureau.
Increased bureau cost	4 of 16	Comprehensive household-level reports are significantly more expensive. One lender reported bureau costs doubling post-Sankalp. However, all agreed the increased cost is offset by lower credit losses.

**Lender recommendations:** Standardize bureau reporting formats across all regulated entities (6 of 16); introduce fuzzy matching and multi-ID linkage logic to reduce false rejections (3 of 16); enforce RBI-mandated daily data submission to reduce staleness (3 of 16); develop a lender-specific credit score akin to the retail CIBIL score to drive borrower responsibility (1 of 16).

### 5.3.5 Guidelines 5 and 6: Pricing Transparency and Processing Fee Cap

**A. Guideline 5, Pricing Transparency:** All 16 lenders confirmed compliance with pricing transparency requirements, noting that this is fundamentally an RBI requirement under the Master Directions (November 2025) rather than Sankalp-specific provision. Lenders report interest rates in the range of **20–28%**, with board-approved, risk-based pricing models factoring in cost of funds, operating expenditure, risk margin, and credit loss provisioning. Views on whether rates should be explicitly capped were divided.

Position on Interest Rate Cap	Count	Key Argument
Oppose any hard cap on interest rates	8 of 16	Cap would become the de facto rate; everyone would charge the cap (as happened with margin caps historically). Rates must be justifiable, not capped.
Support a broad upper cap (~30%) to prevent outlier pricing	2 of 16	Outlier rates of 28–32% by some small lenders create political and reputational damage to the entire sector. A broad cap would protect sector credibility.
Support interest rate capping for borrower protection	2 of 16	Past industry practices saw exorbitant rates of 30–40%. A cap maintains customer protection and sector discipline.
No strong position expressed	2 of 16	Deferred to board-approved pricing as a sufficient safeguard.

One lender highlighted an important structural disadvantage: banks have access to funds at **6–7%** compared to MFIs at **~12%**, creating an uneven competitive landscape.

**B. Guideline 6, Processing Fee Cap at 1.5%:** This provision was one of the most contested aspects of Sankalp 2.0:

Position on 1.5% Processing Fee Cap	Count	Key Argument
Cap should be removed; fee should be board-approved	6 of 16	Onboarding costs have increased (VID check, PAN check, bank verification, digital disbursement, doubled bureau costs). Processing fee should cover all onboarding-related costs; OpEx belongs in the interest rate.
Cap should be raised to 2–3%	3 of 16	Hit-rate for eligible borrowers has dropped below 20%; sourcing cost and OpEx have risen significantly. One institution proposed absolute slabs by loan size instead of a percentage.
Current cap of 1.5% is adequate and should be retained	4 of 16	Higher fees would be usurious; geographic cost differences should be absorbed in OpEx and reflected in interest rates. Cap protects low-income borrowers.
Cap should exist but with board flexibility within it	2 of 16	A ceiling is necessary but should allow geographic variation (urban vs. rural vs. remote) based on board approval.



One lender proposed an alternative of absolute fee slabs by loan size (e.g., ≤₹30,000 → ₹500; ₹30,000–₹75,000 → ₹750; >₹75,000 → ₹1,500) to prevent ticket-size inflation. The strongest concerns came from small and mid-sized lenders, where rising onboarding costs and lower hit-rates have made the 1.5% ceiling particularly constraining. One small lender reported a cost of funds of approximately 16% and operating costs of ~7%, making microfinance viable only with total pricing exceeding 25–28%.

### 5.3.6 Guideline 7: No Lending to 60+ DPD Borrowers

**Degree of Support:** 13 of 16 institutions support the 60+ DPD no-lending rule, recognizing it as essential for maintaining repayment discipline and portfolio hygiene.

Position	Count	Detail
Follow even stricter norms (0–30 DPD threshold)	4 of 16	One lender rejects any borrower with any DPD regardless of amount; another rejects at >30 DPD; two follow zero-tolerance internal policies.
Support 60+ DPD rule as appropriate	9 of 16	Standard compliance; view rule as practical and necessary in the current high-delinquency environment.
Rule is too stringent; needs practical flexibility	2 of 16	Operational delays (weather, staff attrition, public holidays) can push collections by 5–7 days. Penalizing borrowers for 1–2 missed EMIs can trigger systemic defaults.

One lender noted that the strict DPD rule, combined with bureau data delays, creates a perverse incentive where borrowers who default on one loan stop paying all lenders (nothing to lose' behaviour). This was corroborated by 2 other institutions. One lender advocated a loan restructuring mechanism for stressed borrowers, distinguishing between inability and unwillingness to pay. This lender noted that zero-tolerance policies break the traditional MFI ethos of supporting customers in temporary stress and can drive long-term customers toward permanent exclusion

### 5.3.7 Guideline 8: PAN as Primary KYC (Aspirational 30% Coverage)

Position	Count	Key Arguments
Support PAN as aspirational/future direction	6 of 16	PAN is more unique and reliable than Voter ID (which allows duplicates). PAN–Aadhaar linkage makes it stable. Coverage should increase from 30% to 50% over time.
Oppose making PAN primary KYC now; retain Aadhaar/Voter ID	7 of 16	Very low PAN penetration among microfinance borrowers. PAN often belongs to husband, not the female borrower. PAN-based pulls often give no-hit, inflating NTC numbers. 30% target is unrealistic. One institution called it “wishful thinking.”
Recommend replacing with CKYC-based unique identifier	1 of 16	CKYC 2.0 would be a superior alternative that addresses the unique identifier need without PAN's limitations.
Accept PAN requirement but gradually	1 of 16	Build tech-based mechanisms and fintech partnerships to accelerate adoption; borrower education in fortnightly center meetings.

Lenders operating primarily in **southern and western states** where PAN penetration is relatively higher were more receptive to the aspiration. Institutions with deep **rural and tribal market focus** (particularly lenders operating in North-East, West Bengal, and Bihar) expressed the strongest opposition, citing that mandatory PAN is fundamentally **incompatible with financial inclusion** objectives. One lender reported current PAN adoption at only **10–15%** of its borrower base.

### 5.3.8 Guideline 9: Loan End-Use Verification

**Degree of Support:** While **all 16 institutions** acknowledged the intent, **11 of 16** expressed significant reservations about operational feasibility.

Position	Count	Detail
100% end-use verification is not feasible; retain as good practice only	6 of 16	Impractical for small-ticket cash-flow and mixed-use loans. The same officer who sources the loan performs the check, a conflict of interest. Checks happen 45–60 days post-disbursement, too late to be meaningful.
Sample-based checks (10–30%) are sufficient	5 of 16	Full verification is costlier than the loan margin for tickets of ₹30,000–75,000. Definition should focus on use within the household, not the exact stated purpose.

Perform audit-based checks within 30 days of disbursement	3 of 16	Post-disbursement checks through audit teams (not sourcing officers). Acknowledge practical difficulty with cash-flow and mixed-use loans.
100% verification is possible and practiced	2 of 16	Lenders that verify purchase of business assets (e.g., livestock, machinery). One large NBFC-MFI captures purpose at application plus a 1-month post-disbursement check.

One lender characterized loan utilization checks as “mostly a tick-in-the-box exercise”, noting that if 60% of loans are renewals, it is implausible that 60% of utilization checks genuinely verified end-use. Another warned that the biggest default risk arises when borrowers lend the money to neighbours—a practice that no verification mechanism can reliably detect.

### 5.3.9 Guideline 10: Employee Bureau Checks and Staff Discipline

**Degree of Support:** All 16 lenders support mandatory employee bureau checks before hiring. The most significant concern was the monopoly position of Equifax in the employee bureau space, cited by 9 of 16 lenders, leading to rising costs year-on-year, limited sector-wide adoption (estimated at 50–60%), and errors that are difficult to correct. One lender reported that 30% of potential hires are rejected due to adverse bureau history.

**Lender recommendations:** SROs should push other bureaus (CRIF Highmark, TU CIBIL) to build alternative employee databases or establish a standalone HR verification bureau for the BFSI sector (7 of 16); Sa-Dhan should create a shared employee blacklist/whitelist mechanism with an industry-wide ban on rehiring staff involved in fraud (3 of 16); improve fraud reporting timelines, currently 30–45 days, which allow fraudsters to abscond and join other lenders before investigations conclude (2 of 16).

6 of 16 lenders highlighted high staff attrition as a significant operational challenge, with industry-wide annual attrition estimated at 48–100% depending on the institution. Two lenders called for a borrower code of conduct to ensure respectful treatment of field officers.

## 5.4 Cross-Cutting Themes

### 5.4.1 Impact on Business Volumes and Productivity

All 16 lenders reported a decline in disbursement volumes and field officer productivity post-Sankalp. Well-prepared institutions (5 of 16) that had already aligned internal norms experienced manageable impact. One mid-sized lender did not degrow despite sector-wide contraction of 18–20%. Moderately impacted lenders (6 of 16) reported rejection rates increasing by 15–25 percentage points, with disbursement per field officer falling by 30–40%; one large lender reported FO productivity dropping from ₹10 lakh to ₹6–7 lakh per month. Severely impacted lenders (3 of 16), primarily smaller lenders and those with aggressive pre-Sankalp growth strategies, saw sharper contractions: one lender saw monthly disbursements fall from ₹60 crore to ₹7 crore initially, recovering to approximately ₹35 crore; another deliberately shrank its book by ~40%. Group sizes declined from 8–10 members to 5–6, reducing JLG efficiency; 3 lenders therefore reported a shift toward individual lending.

### 5.4.2 Cost of Compliance

7 of 16 lenders reported minimal to zero incremental compliance costs, as they already had robust underwriting systems, chief compliance officers, and mature BREs in place. The remaining 7 reported meaningful cost increases, particularly in bureau costs (which doubled for some), onboarding verification expenses, and higher sourcing costs due to lower conversion rates. One large lender estimated that industry-wide operating costs increased by 100–150 basis points, with larger lenders absorbing this increase more readily than smaller ones.

### 5.4.3 Impact on Small MFIs vs. Large MFIs

4 lenders specifically highlighted the disproportionate impact on small and mid-sized lenders: their cost of funds is approximately 16% versus 10–12% for large players; the earlier model of starting with ₹10–15 crore and BC partnerships is no longer viable; and new entrants now face 2–3 years of capital burn before achieving stability. Operating costs for large lenders are expected to settle at 6–6.5%, while smaller lenders may require continued capacity building and technology infrastructure support.

### 5.4.4 Portfolio Quality and Recovery Trajectory

12 of 16 lenders reported improved portfolio quality attributable to the guidelines, citing lower over-leveraging, reduced probability of default, declining NPA accretion, better collection efficiency, and a return to positive ROA. One lender attributed 90% of the industry's recovery to the Sankalp guardrails, with clear 'green shoots' visible in the last two quarters. Most lenders project stabilization by FY2026 Q2–Q3, with long-term ROA expected to settle at 3–3.5%, lower than the pre-Sankalp 4%+ but more sustainable.

### 5.4.5 Financial Exclusion and Unintended Consequences

6 of 16 lenders flagged unintended exclusion as a significant concern: the share of new-to-credit (NTC) customers has declined sharply, from 15% to 4–5% at one large lender, as institutions redirect focus to existing, proven borrowers, resulting in ticket-size inflation and first-time borrower exclusion (3 of 16); COVID-era write-off customers who defaulted during 2020–



22 remain permanently excluded from formal credit, with two lenders advocating for a one-time rehabilitation pathway (2 of 16); strict rejection criteria have pushed borrowers toward informal and digital lenders that do not report to bureaus, potentially increasing household debt stress outside formal oversight (4 of 16); and microfinance remains over-concentrated in 20–30% of districts, with expansion into low-density, low-income areas unattractive under current guidelines due to high OpEx and limited pricing flexibility (2 of 16).

#### 5.4.6 Technology and Digital Readiness

10 of 16 lenders described significant technology investments to support guideline compliance, including automated BRES with hard-coded guardrail checks, digital onboarding with e-KYC, real-time bureau integration with GPS tagging and timestamps, AI/ML-based risk scorecards and early warning systems, and analytics for geography-specific risk and seasonality patterns. One lender reported 100% straight-through processing with no manual overrides, generating credit decisions in 4–5 minutes.

#### 5.4.7 RBI’s Revised Qualifying Asset Norms (75% → 60%)

In November 2025<sup>23</sup>, the RBI revised the qualifying asset requirement for NBFC-MFIs from 75% to 60% of total assets, providing greater flexibility to diversify loan portfolios. This change was discussed by 6 of 16 lenders. Four of these expressed support, viewing it as a structural enabler for reducing cyclical risk. One large lender is actively transitioning toward a 65:35 unsecured-to-secured portfolio mix (from an earlier 85:15) by introducing gold loans and loans against property. One SFB is rebalancing its microfinance and secured asset portfolios and plans to introduce asset-creation loan products for its existing borrower base. One lender adopted a cautious stance after encountering high delinquency (~6%) in the low-ticket Loan Against Property (LAP) segment. One lender raised a technical concern: current qualifying asset rules penalize MFIs that maintain cash reserves for Liquidity Coverage Ratio (LCR) compliance, recommending that LCR-mandated cash holdings be excluded from the qualifying asset calculation.

### 5.5 Perspectives on SRO Enforcement

8 of 16 institutions raised concerns about the uniformity and stringency of enforcement across the sector:

- **Non-compliance by some regulated entities (4 of 16):** Compliant lenders report that some peers continue to lend as the fourth lender through NQA classification or by exploiting reporting gaps, creating a competitive disadvantage.
- **Shift to proactive enforcement (3 of 16):** Current SRO compliance is perceived as complaint-driven. Lenders recommend proactive portfolio scans using bureau data and technology-driven compliance monitoring.
- **Punitive action for violators (4 of 16):** Lenders called for escalatory enforcement, from warning letters to penalties to RBI escalation, for persistent non-compliance.
- **Harmonization across SROs (2 of 16):** Guidelines should be uniformly applied across all SRO members to prevent regulatory arbitrage.

### 5.6 Summary of Implementation Status by Lenders

Guideline	Implementation Status
Guideline 1: Maximum Three Lenders per Borrower	15 of 16
Guideline 2: Household Exposure Cap of Rs. 200,000 & FOIR < 50%	16 of 16
Guideline 3: No Fresh Loan Before 12 Months or 50% Repayment	16 of 16
Guideline 4: Mandatory Credit Bureau Checks at Household Level	16 of 16
Guideline 5: Disclosure of Pricing Components	16 of 16
Guideline 6: Processing Fee Cap at 1.5%	16 of 16
Guideline 7: Repayment Discipline (60+ DPD Norm)	16 of 16
Guideline 8: PAN Card as Primary KYC Document	0 of 16
Guideline 9: End-Use Verification Of Loans	5 of 16
Guideline 10: Employee Bureau Checks and Relieving Letter Requirements	15 of 16

<sup>23</sup> Note: The RBI circular dated June 6, 2025 (Review of Qualifying Assets Criteria) was withdrawn, and its provisions were subsumed within the consolidated NBFC-MFI Directions issued on November 28, 2025. Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025, November 28, 2025, Reserve Bank of India (RBI) [Master Directions - Reserve Bank of India](#)



## 5.7 Summary of Key Recommendations by Lenders

No.	Recommendation	Support	Guideline Reference
1	Retain the 3-lender cap without dilution	15 of 16	Guideline 1
2	Clarify exposure cap scope: exclude secured/retail loans from the ₹2 lakh cap	5 of 16	Guideline 2
3	Consider progressive annual increase in the ₹2 lakh cap (10% YoY) or inflation indexation	6 of 16	Guideline 2
4	Introduce regional/district-level flexibility in exposure and FOIR norms	3 of 16	Guidelines 2, 7
5	Standardize credit bureau reporting formats across all regulated entities and bureaus	6 of 16	Guideline 4
6	Remove or raise the processing fee cap; allow board-approved fees with geography-based variation	9 of 16	Guideline 6
7	Introduce practical flexibility in the 60+ DPD rule for temporary stress situations	2 of 16	Guideline 7
8	Retain PAN as aspirational, not mandatory; prioritize Aadhaar/Voter ID	7 of 16	Guideline 8
9	Adopt sample-based loan utilization checks; acknowledge practical limitations of 100% verification	9 of 16	Guideline 9
10	Break Equifax monopoly in employee bureau; enable multiple providers (CRIF Highmark, TU CIBIL)	9 of 16	Guideline 10
11	Strengthen SRO enforcement: proactive audits, punitive action, and harmonization across SROs	8 of 16	Cross-cutting
12	Create a re-inclusion pathway for COVID-era write-off borrowers	3 of 16	Cross-cutting
13	Revise RBI's household income cap of ₹3 lakh upward to reflect current rural income realities	3 of 16	RBI Regulatory Framework
14	Introduce special norms for new-to-credit borrowers to prevent financial exclusion	3 of 16	Cross-cutting

## 5.8 Conclusion

The lender perspective on Sankalp 2.0 is overwhelmingly positive in its assessment of the guidelines' necessity and directional correctness. The guidelines have succeeded in their primary objective of restoring discipline to a sector that was experiencing systemic stress, portfolio quality has improved, over-leveraging has reduced significantly, and the foundations for sustainable growth are being established.

However, the interviews reveal a clear consensus that the guidelines must evolve iteratively. The most prominent areas for refinement include the scope and quantum of the household exposure cap, the processing fee ceiling, credit bureau data quality and standardization, the realism of the PAN adoption target, and enforcement uniformity across SROs. The challenge for Sa-Dhan and the broader regulatory ecosystem is to maintain the discipline that Sankalp has introduced while ensuring that guardrails do not become barriers to financial inclusion, particularly for new-to-credit borrowers, small-ticket loan seekers, and borrowers in underserved geographies.

The dominant sentiment, expressed by 10 of 16 lenders, is that the guidelines should be retained without dilution for at least one more fiscal year, after which a data-driven review should inform calibrated adjustments. As one senior industry leader summarized: *"Let the sector stabilize fully before altering any norms."*

## 6. Gap Analysis and Areas of Concern

The preceding chapters established that Sankalp 2.0 is directionally sound and has achieved meaningful progress across its three pillars. Borrower-level compliance with exposure caps and lender limits is broadly high, pricing transparency has improved, and lenders overwhelmingly endorse the guidelines as a necessary intervention. However, a rigorous impact assessment must go beyond aggregate compliance to examine the gaps, frictions, and unintended consequences that emerge in real-world implementation. This chapter synthesises evidence from the borrower survey (1,200+ respondents across six states), in-depth interviews (IDIs) conducted with senior leadership across 16 institutions, and secondary data to identify the critical areas where policy intent has not fully translated into field-level outcomes.

### 6.1 Implementation Gaps at the Field Level

While institutional-level compliance with Sankalp 2.0 is high, several gaps emerge between policy design and operational reality.

**Household-level credit assessment:** Guideline 4 mandates credit bureau checks at the household level, including for the spouse and co-applicant. All 16 lenders confirmed conducting such checks as standard practice. However, household-level enquiry is recalled in approximately six out of ten cases, and only 17% of borrowers recall receiving an explanation of their credit report. With 59% of households having at least one additional borrowing member beyond the primary borrower, many remain unaware of how family members' loans affect their own eligibility. Borrowers rejected or offered lower loan amounts based on household exposure frequently perceive the decision as arbitrary, eroding trust and increasing migration risk to informal lenders.

**KFS and pricing transparency:** The Key Facts Statement (KFS), mandated by RBI and reinforced by Guideline 5, has improved in distribution but not in effectiveness. While 65% of borrowers report being able to understand their loan documents, comprehension gaps persist around processing fees, total repayment amounts, and the distinction between flat and reducing interest rates. Borrowers with lower literacy rely heavily on verbal explanations from field officers, making staff interaction quality the de facto determinant of transparency. The KFS is often treated as a compliance formality rather than a borrower education tool.

**End-use verification:** Guideline 9 requires verification of loan end-use, but 11 of 16 lenders expressed significant reservations about operational feasibility. Verification practices are uneven, stronger for higher-value and first-time loans, weaker for renewals and small-ticket disbursements. One lender characterised loan utilisation checks as largely a procedural exercise, noting that where 60% of loans are renewals, it is implausible that verification genuinely confirms productive use in each case.

**Grievance redressal:** Borrower awareness of formal grievance mechanisms emerged as the weakest dimension of borrower protection in the study. Borrowers typically escalate issues only to their field officer or branch manager; very few can name toll-free numbers, formal escalation channels, or Sa-Dhan's own complaint mechanisms. Rights awareness is concentrated among literate, repeat borrowers, leaving first-time and low-literacy borrowers with limited recourse.

Area	Observed Gap	Evidence Indicator	Risk Implication
Household Credit Assessment	Partial institutionalisation; borrowers unaware of household-level impact	~90% recall household enquiry; only 15% recall credit report explanation	Perceived arbitrary rejections; migration to informal credit
KFS and Pricing Transparency	Compliance-driven distribution without effective borrower education	35% report partial or no understanding of loan documents	Trust erosion; perceived cost mismatch
End-Use Verification	Procedural rather than substantive; weaker for renewals	11 of 16 lenders flag operational infeasibility	Misalignment with household financial realities
Grievance Redressal	Very low borrower awareness of formal mechanisms	Few borrowers can name escalation channels beyond field officer	No effective feedback loop for field-level issues

### 6.2 Unintended Consequences of the Guidelines

**Displacement to informal credit:** Four of 16 lenders explicitly identified displacement to informal and digital lenders as a significant concern. Borrowers who exceed the three-lender cap or exposure ceiling, or who are denied fresh loans due to delinquency history, face a binary outcome: forego credit or turn to informal lenders who do not report to credit bureaus. Digital lending apps were cited by multiple lenders as a growing risk, as these platforms operate outside bureau-reporting disciplines and often charge significantly higher effective interest rates. This creates a paradox: guidelines designed to prevent over-indebtedness may, in specific cases, push vulnerable borrowers into debt arrangements that are more exploitative and less transparent than the formal microfinance system they were excluded from.

**Shrinking new-to-credit access:** Three of 16 lenders flagged a sharp decline in new-to-credit (NTC) customer share. One large lender reported NTC borrowers declining from 15% to 4–5% of new disbursements post-Sankalp. Stricter underwriting criteria and the absence of bureau history for NTC borrowers make these applicants inherently riskier, incentivising lenders to focus on existing, proven customers. This concentration risks creating a two-tier system: a well-served cohort of repeat borrowers and a growing pool of first-time applicants unable to access formal microfinance.

**Permanent exclusion of COVID-era borrowers:** Two of 16 lenders raised the issue of borrowers who defaulted during the COVID-19 period (2020–22) and remain permanently excluded from formal credit. The 60+ DPD restriction does not differentiate between those who defaulted due to systemic shocks and those who exhibited wilful non-payment. Millions of borrowers carry adverse bureau histories that continue to restrict formal credit access, even where income conditions have since normalised.

**Reduction in group lending efficiency:** Lenders report that group sizes have declined from an average of 8–10 members to 5–6, as more applicants fail eligibility screening. Smaller groups reduce operational efficiency, spread costs across fewer borrowers, and weaken the peer accountability inherent in the Joint Liability Group (JLG) model. Three lenders reported a gradual shift toward individual lending as a consequence.

**Perverse incentive under the DPD norm:** When a borrower defaults on one loan and is subsequently denied fresh credit from all lenders, the incentive to continue servicing remaining loans diminishes. The borrower, already excluded from the formal credit system, perceives little benefit in maintaining repayment discipline on other obligations, leading to cascading defaults. These dynamics merit monitoring, particularly if the sector moves from a 60+ DPD to a 30+ DPD threshold.

### 6.3 Borrower Segments Experiencing Restricted Access

**Seasonal and informal income earners:** Borrowers in agriculture, allied activities, and casual labour face specific friction points. The FOIR ceiling of 50% is assessed at a point in time, but income for seasonal earners can fluctuate dramatically within a loan cycle. Eight of 16 lenders raised concerns about the accuracy and reliability of income assessment in the informal economy, and the RBI-mandated household income cap of ₹3,00,000 is challenging to verify for informal earners.

**Women without independent documentation:** While microfinance primarily targets women, specific features of Guideline 8 create barriers for female borrowers. PAN cards are often registered in the husband's name, and many women lack independent PAN credentials. PAN-based bureau pulls frequently return no-hit results for female borrowers, artificially inflating NTC counts and complicating household-level assessment, contrary to the financial inclusion objectives the guidelines are intended to support.

**Geographically underserved populations:** Microfinance remains over-concentrated in 20–30% of districts nationally. Expansion into low-density, low-income districts is unattractive under current guidelines due to high operating costs per loan, lower ticket sizes, limited flexibility in pricing, and the absence of adequate bureau data in underserved regions.

### 6.4 Operational Bottlenecks for Lending Institutions

The processing fee cap (Guideline 6) has generated the most significant operational debate. Onboarding costs have increased across the board, due to VID checks, PAN checks, bank verification, digital disbursement, and doubled bureau costs, while the hit-rate for eligible borrowers has dropped below 20% at some institutions. Small and mid-sized NBFC-MFIs are disproportionately affected, with costs of funds at ~16% versus 10–12% for large players, making the 1.5% cap particularly constraining. One small lender reported that microfinance is viable only with total pricing exceeding 25–28%.

The technology divide between large and small MFIs further amplifies asymmetric impact:

Capability	Large MFIs	Small MFIs
Technology development	Dedicated in-house analytics teams (20+ personnel)	Vendor-dependent; SaaS-based
Real-time analytics	Advanced ML models for risk scoring	Basic reporting and dashboards
Bureau API integration	Multi-bureau, real-time pulls	Limited; batch-mode processing
Annual technology investment	₹5–10 crore per year	₹50 lakh to ₹1 crore per year
Automated BRE with Sankalp checks	Hard-coded guardrails; no manual override	Partial automation; manual checks supplement

This divide means that the burden of compliance is not evenly distributed. Large lenders can absorb compliance costs through automation and scale, while smaller institutions face a choice between significant capital investment and manual, error-prone compliance processes.



## 6.5 Consolidated Gaps Mapped to Guidelines

Guideline	Key Gap / Concern	Severity	Primary Source	Nature
G1: 3-Lender Cap	Free-rider problem; non-compliant lenders distort competition	Moderate	Lender (3/16)	Enforcement
G2: Exposure Cap	Uniform cap across states; retail loan inclusion debated; income verification weak	High	Lender (8/16); Borrower	Design and Implementation
G3: 12-Month Rule	Minimal; broadly embedded in existing practice	Low	None significant	None significant
G4: Bureau Checks	Data quality; SHG aggregation; name-matching failures; borrower communication gap	High	Lender (16/16); Borrower	Infrastructure and Communication
G5: Pricing Transparency	KFS treated as formality; comprehension gaps persist	Moderate	Borrower	Communication
G6: Processing Fee Cap	Viability pressure on small-ticket loans; potential ticket-size inflation	Moderate–High	Lender (6/16)	Design
G7: 60+ DPD Norm	Binary enforcement without differentiation; COVID-era permanent exclusion; cascading default risk	High	Lender (2/16); Borrower	Design + Inclusion
G8: PAN as KYC	Low PAN penetration; gender and regional barriers; identity infrastructure gaps	Moderate	Borrower; Lender	Feasibility
G9: End-Use Verification	Procedural compliance; infeasibility for renewals; misaligned with household financial realities	Moderate	Lender (11/16)	Design + Feasibility
G10: Employee Bureau	Equifax monopoly; rising costs; incomplete database; error-correction challenges	Moderate	Lender (9/16)	Market Structure

## 6.6 Chapter Summary

The gap analysis confirms that Sankalp 2.0 is achieving its primary objectives of reducing aggressive multiple borrowing, improving pricing transparency, and strengthening repayment discipline. However, five structural areas require attention.

- **Implementation quality is uneven.** Institutional compliance does not automatically translate into borrower-level protection. Gaps in borrower communication, credit report explanation, and grievance awareness are the most immediate area for operational improvement.
- **Unintended consequences are emerging.** Displacement to informal credit, shrinking NTC access, and permanent exclusion of COVID-era defaulters are real risks that, if unaddressed, will undermine the inclusive intent of the guidelines.
- **Certain borrower segments face disproportionate barriers.** Seasonal income earners, women without independent documentation, and geographically underserved populations are disproportionately affected under the current framework.
- **Operational pressures are asymmetric.** Smaller lenders face structural disadvantages in absorbing compliance costs, threatening the institutional diversity essential for competitive and inclusive microfinance delivery.
- **Data and technology infrastructure requires improvement.** Credit bureau data quality and PAN penetration must be substantially strengthened to support accurate and fair implementation.

These findings do not call into question the directional soundness of Sankalp 2.0. Rather, they point to the need for calibrated refinements, stronger enforcement, and complementary investments in borrower education, technology infrastructure, and facilitative support for smaller institutions.

## 7. Recommendations

### 7.1 Introduction and Framing

The recommendations presented in this chapter are derived from the convergence of three evidence streams: quantitative borrower survey data from 1,200+ respondents across six states, in-depth interviews with 16 lenders' leadership teams representing diverse institutional types and scales, and secondary analysis of regulatory frameworks, portfolio trends, and industry data. Each recommendation is mapped to specific Sankalp 2.0 guideline provisions and is grounded in observed gaps, borrower outcomes, and lender feedback documented in Chapters 4 through 6.

The overarching principle is that **Sankalp 2.0 should be retained** as the core self-regulatory framework, with the focus shifting from rule expansion to clarification, calibration, and consistency of implementation. Recommendations are organised into three tiers: guideline-specific, cross-cutting systemic, and stakeholder-specific, followed by an implementation roadmap.

### 7.2 Guideline-Specific Recommendations

#### 7.2.1 Guidelines 1 and 4: Lender Cap and Household-Level Bureau Checks

**Core position:** Retain the three-lender cap without modification; strengthen household-level visibility and borrower communication.

The three-lender cap is one of the most effective provisions of Sankalp 2.0. Survey data confirms 90% of borrower households operate within the cap, and 13 of 16 lenders recommend retaining it without dilution. The proportion of borrowers with four or more lenders has declined from approximately 20% to less than 5% at the industry level.

Recommendation	Rationale / Evidence Base	Implementation Horizon
Retain the three-lender cap as a non-negotiable guardrail. Do not entertain expansion to '3+1' or four-lender models.	13 of 16 lenders endorse retention. Borrower data confirms the cap is working, 90% compliance and significant reduction in aggressive multi-lender borrowing.	Immediate (retain)
Develop and disseminate standardised household mapping protocols defining 'household' consistently across all lenders, including guidance on adult children and extended family.	61% of households have multiple borrowing members. Inconsistent household definitions across lenders lead to uneven application. 6 of 16 lenders already extend checks beyond borrower and spouse.	Short-term (0–6 months)
Mandate borrower-facing communication of credit bureau findings at the point of loan appraisal, including a simplified verbal explanation of how household debt affects eligibility.	Only 15% of borrowers recall receiving a credit report explanation. Lack of communication leads to perceptions of arbitrary rejection and erosion of trust.	Short-term (0–6 months)
Advocate with credit bureaus for standardization of reporting formats, mandatory per-member splits for SHG and JLG loans, and improved name-matching algorithms with fuzzy logic and multi-ID linkage.	Bureau data quality was the single most discussed operational challenge across all 16 lender interviews. SHG aggregation, data lag, and inter-bureau discrepancies inflate false rejections.	Medium-term (6–12 months)

#### 7.2.2 Guideline 2: Household Exposure Cap of ₹2,00,000 and FOIR Norms

**Core position:** Retain the exposure ceiling and FOIR limit as core safeguards; introduce targeted clarifications on scope and provide guidance for marginal cases.

The exposure cap is demonstrably effective, approximately 98% of households remain within the ₹2,00,000 threshold, and nearly 89% have FOIR below 50%. Debt levels have stabilised or reduced for 88% of borrowers.

Recommendation	Rationale / Evidence Base	Implementation Horizon
Retain the ₹2,00,000 exposure ceiling and 50% FOIR limit without modification for at least one more fiscal year.	98% household compliance; 88% reported stable or reduced debt. Premature revision would send a weakening signal. 5 of 16 lenders confirm the cap is adequate.	Immediate (retain)
Issue clarificatory guidance on the treatment of secured retail loans (gold loans, consumer durables,	5 of 16 lenders request exclusion of secured loans from the cap. Borrowers with manageable secured liabilities face	Short-term (0–6 months)

vehicle loans) within the exposure calculation, with defined criteria for exclusion or partial inclusion.	unintended exclusion. Guidance would reduce inconsistency without diluting the cap.	
Allow lenders limited, documented discretion for households marginally breaching thresholds (within a defined tolerance band), subject to enhanced due diligence and board-approved policies.	A significant minority of households cluster near the threshold. Binary exclusion at the boundary can be disproportionate when underlying repayment capacity is sound.	Medium-term (6–12 months)
Commission a periodic review mechanism (annual or biennial) to assess whether the ₹2,00,000 cap requires inflation-linked or income-indexed adjustment, informed by portfolio data and borrower outcomes.	6 of 16 lenders advocate for progressive annual increases. A structured, data-driven review is preferable to ad hoc revision and preserves the cap's credibility.	Medium-term (12–18 months)

### 7.2.3 Guideline 3: Fresh Loan Restrictions (12-Month / 50% Repayment Rule)

**Core position:** Retain the principle of discouraging premature loan cycling; introduce calibrated flexibility for borrowers with demonstrated repayment discipline.

This guideline received universal support from all 16 lenders and was the least contested provision of Sankalp 2.0. However, 26% of borrowers fall below both thresholds, and seasonal income earners face temporary liquidity stress during restriction periods.

Recommendation	Rationale / Evidence Base	Implementation Horizon
Retain the 12-month / 50% repayment rule as the default standard.	Universal lender support (16 of 16). 4 lenders follow even stricter norms (100% repayment). The guideline has effectively reduced premature top-ups.	Immediate (retain)
Allow risk-based flexibility for borrowers who demonstrate: (a) strong repayment history across prior cycles, (b) predictable or seasonal income patterns, and (c) documented productive use of prior loans.	26% of borrowers fall below both thresholds. Seasonal income earners face disproportionate restriction. 75% of restricted borrowers turn to other NBFCs; 8% approach moneylenders.	Medium-term (6–12 months)
Require lenders offering early repeat loans to document the risk-based rationale and maintain enhanced monitoring for such accounts.	Flexibility without accountability risks returning to pre-Sankalp loan cycling. Documentation ensures institutional discipline is preserved.	Medium-term (6–12 months)

### 7.2.4 Guidelines 5 and 6: Pricing Transparency and Processing Fee Cap

**Core position:** Maintain pricing governance standards; shift focus from procedural compliance to borrower comprehension; review the processing fee cap with a calibrated approach.

All 16 lenders confirmed compliance with board-approved pricing structures. However, only 65% of borrowers report adequate understanding of loan pricing, while 14% report partial understanding and nearly 21% struggle to understand. The processing fee cap generated the most significant operational debate, with 9 of 16 lenders requesting modification.

Recommendation	Rationale / Evidence Base	Implementation Horizon
Retain board-approved pricing structures and transparent disclosure requirements. Maintain the processing fee cap at 1.5% as the default standard.	Pricing governance has improved structurally. 4 of 16 lenders confirm the cap is adequate and protective. Premature removal would erode borrower trust.	Immediate (retain)
Develop standardised borrower communication protocols for KFS walkthroughs, including mandatory verbal explanation of total cost of borrowing, interest rate components,	Only 65% of borrowers report adequate pricing comprehension. Borrowers rely heavily on verbal explanations. Quality of field staff interaction is the de facto determinant of transparency.	Short-term (0–6 months)



and upfront deductions in local language.		
Constitute a technical working group to evaluate the processing fee cap, considering: (a) absolute slab-based alternatives by loan size, (b) geography-based board-approved flexibility, and (c) the relationship between fee caps and ticket-size inflation.	9 of 16 lenders request modification. Small-ticket loans (<₹30,000) face acute viability pressure. One lenders proposed absolute slabs (e.g., ₹500/₹750/₹1,500) as an alternative to percentage caps.	Medium-term (6–12 months)

### 7.2.5 Guideline 7: Repayment Discipline (60+ DPD Norm)

**Core position:** Retain the emphasis on repayment discipline; introduce graduated re-entry pathways to distinguish temporary stress from chronic default.

The 60+ DPD norm has been effective, 13 of 16 lenders support the rule, and 4 follow even stricter thresholds. However, binary application can amplify borrower distress, and bureau data delays create perverse incentives where borrowers who default on one loan may stop servicing all obligations.

Recommendation	Rationale / Evidence Base	Implementation Horizon
Retain the 60+ DPD lending restriction as a core discipline mechanism.	13 of 16 lenders support the rule. Portfolio quality has improved. 4 institutions follow even stricter norms (0–30 DPD). The signalling effect on borrower behaviour is strong.	Immediate (retain)
Define graduated re-entry criteria for borrowers who regularise overdue accounts, distinguishing between: (a) temporary income shocks evidenced by subsequent normalisation, and (b) chronic or strategic default.	Binary exclusion pushes temporarily stressed borrowers toward informal credit. 2 of 16 lenders flagged cascading default behaviour among excluded borrowers.	Short-term (3–6 months)
Introduce a one-time, supervised rehabilitation pathway for COVID-era default borrowers (2020–22) who can demonstrate improved income conditions and repayment intent.	Millions of borrowers carry adverse bureau histories from the pandemic. 2 of 16 lenders advocated for structured re-inclusion. Permanent exclusion conflicts with financial inclusion objectives.	Medium-term (6–12 months)
Defer the aspiration to move from 60+ DPD to 30+ DPD until portfolio stress has fully normalised and bureau data quality has materially improved.	Bureau data lag of 15–30 days makes stricter thresholds operationally unreliable. 10 of 16 lenders recommend no guideline changes for at least one more fiscal year.	Long-term (12–18 months, review)

### 7.2.6 Guideline 8: PAN as Primary KYC (Aspirational Target)

**Core position:** Continue PAN adoption as a facilitative, non-exclusionary measure; strengthen borrower assistance programmes.

PAN penetration among microfinance borrowers remains limited. Borrower-reported PAN usage averages approximately 16%, with significant regional variation (Maharashtra at 28% versus Rajasthan at 5%). Seven of 16 lenders oppose making PAN the primary KYC requirement at this stage, citing low penetration, gender barriers, and the risk of excluding vulnerable borrowers.

Recommendation	Rationale / Evidence Base	Implementation Horizon
Retain PAN as an aspirational goal rather than a binding eligibility criterion. Do not increase the 30% coverage target without demonstrated feasibility.	7 of 16 lenders oppose mandatory PAN. PAN penetration is lowest among women borrowers and in states like Rajasthan and Tamil Nadu. Rigid enforcement risks financial exclusion.	Immediate (retain aspirational status)
Facilitate borrower PAN enrolment through lenders branch assistance, partnerships with Common Service Centres, and integration into the loan origination process as a value-added step.	PAN penetration can be improved over time with institutional support. One lender recommended fintech partnerships to accelerate adoption.	Short-term (0–6 months)
Commission a feasibility study on CKYC 2.0 or an Aadhaar-PAN-linked unique identifier as a longer-term, more inclusive KYC solution for the microfinance sector.	1 of 16 lenders recommended CKYC 2.0 as a superior alternative. A purpose-built microfinance identifier would address current limitations without creating exclusion risks.	Long-term (12–24 months)

### 7.2.7 Guideline 9: Loan End-Use Verification

**Core position:** Retain end-use verification as a good practice; adopt a risk-based, tiered framework that acknowledges operational realities.

While all 16 lenders acknowledged the intent of this guideline, 11 of 16 expressed significant reservations about operational feasibility. Borrower data confirms that health emergencies and education expenses drive consumption-led use even when loans are classified as income-generating.

Recommendation	Rationale / Evidence Base	Implementation Horizon
Adopt a tiered, risk-based end-use verification framework: (a) 100% verification for new borrowers and loans above ₹75,000; (b) sample-based verification (10–30%) for repeat borrowers with strong track records; (c) audit-based checks for renewals.	11 of 16 lenders flag 100% verification as infeasible. Verification costs exceed loan margins for small-ticket loans (₹30,000–₹75,000). Full verification by the sourcing officer creates a conflict of interest.	Short-term (0–6 months)
Conduct audit-based verification through independent teams rather than sourcing officers, within 30 days of disbursement.	Same-officer verification creates a conflict of interest and reduces reliability. Audit-based checks improve objectivity.	Medium-term (6–12 months)
Redefine end-use compliance to acknowledge 'productive household use' as a legitimate category, encompassing education, healthcare, and livelihood-adjacent consumption.	Borrower data confirms that health emergencies and education expenses drive consumption-led use, even when loans are classified as income-generating. Rigid classification penalises borrowers managing legitimate needs.	Medium-term (6–12 months)

### 7.2.8 Guideline 10: Employee Due Diligence and Conduct

**Core position:** Retain mandatory employee bureau checks; address the structural monopoly in employee data infrastructure; strengthen ecosystem-level coordination on staff records.

All 16 institutions support mandatory employee bureau checks. However, Equifax's monopoly position in the employee bureau space, cited by 9 of 16 institutions, creates rising costs, limited data quality competition, and incomplete coverage. High staff attrition, estimated at 48–100% annually, compounds operational challenges. Physical house verification of newly hired staff and referral checks can be also be done.



Recommendation	Rationale / Evidence Base	Implementation Horizon
Retain mandatory employee bureau checks as a non-negotiable hiring requirement.	All 16 lenders support this requirement. Staff conduct directly affects borrower experience. 30% of potential hires are rejected due to adverse bureau history.	Immediate (retain)
Advocate for breaking the Equifax monopoly by encouraging alternative bureaus (CRIF Highmark, TU CIBIL) to develop competing employee databases, or support creation of an industry-wide HR verification platform for the BFSI sector.	9 of 16 lenders cite monopoly concerns. Rising costs and limited data quality competition. Sa-Dhan is well-positioned to convene industry action on this structural issue.	Medium-term (6–12 months)
Establish an industry-level shared employee database with standardised records, including a blacklist mechanism for staff involved in fraud, and enforce timely issuance of relieving letters through SRO-level monitoring.	High attrition creates compliance friction. Delayed relieving letters create a backlog. 3 of 16 lenders recommend shared employee databases across lenders.	Medium-term (6–18 months)

## 7.3 Cross-Cutting Recommendations

### 7.3.1 Strengthening SRO Enforcement and Compliance Monitoring

8 of 16 lenders raised concerns about enforcement uniformity. Compliant lenders face competitive disadvantage when non-compliant peers lend as the fourth lender through NQA classification or reporting gaps; current SRO compliance is perceived as complaint-driven rather than proactive.

- Transition from complaint-driven to proactive compliance monitoring using technology-assisted portfolio scans and bureau data analysis.
- Introduce an escalatory enforcement framework progressing from advisory notices to monetary penalties to regulatory escalation for persistent non-compliance.
- Harmonise enforcement standards across Sa-Dhan and MFIN to prevent regulatory arbitrage.
- Publish periodic anonymised compliance reports to signal enforcement commitment and deter free-riding.

### 7.3.2 Preventing Displacement to Informal Credit

4 of 16 lenders identified displacement to informal and digital lenders as a significant unintended consequence. Borrowers excluded from formal credit effectively disappear from the bureau-monitored ecosystem, increasing household debt stress without regulatory visibility.

- Commission research to quantify the extent of borrower displacement to informal and digital lenders following Sankalp implementation.
- Engage with RBI and the Digital Lending Working Group to advocate for mandatory bureau reporting by digital lending platforms.
- Develop a monitoring indicator within the Sankalp compliance framework to track borrower migration trends using bureau data and field-level intelligence.

### 7.3.3 Protecting Financial Inclusion for New-to-Credit Borrowers

The share of new-to-credit borrowers declined sharply, from 15% to 4–5% at one large NBFC-MFI. Stricter underwriting and the economic rationale of lending to known borrowers have concentrated disbursements among repeat customers, risking a two-tier system.

- Introduce differentiated norms for new-to-credit borrowers, including smaller initial loan sizes with progressive scaling based on repayment performance.
- Encourage lenders to maintain a minimum proportion of NTC disbursements (e.g., 10–15% of new loans) as a monitoring indicator.
- Explore partnerships with fintech platforms to develop alternative credit assessment models for borrowers without bureau history.

### 7.3.4 Strengthening Borrower Education and Grievance Redressal

Grievance redressal emerged as the weakest dimension of borrower protection. Only 63% of borrowers are aware of grievance mechanisms, and of these, only 45% are aware of escalation options beyond their field officer.

- Mandate regular grievance awareness sessions during centre meetings, with documented borrower acknowledgement.
- Develop and distribute multilingual borrower rights and grievance escalation cards at the point of loan disbursement.
- Establish a centralised, Sa-Dhan-operated borrower feedback and complaint mechanism accessible through toll-free numbers and digital channels.
- Integrate financial literacy modules into the loan cycle, focusing on credit report understanding, pricing awareness, and borrower rights under Sankalp 2.0.

### 7.3.5 Supporting Small and Mid-Sized MFIs

4 of 16 lenders highlighted the disproportionate impact of compliance costs on smaller players. Smaller lenders face higher cost of funds (~16% versus 10–12% for large players), limited technology budgets, and reduced field officer productivity. The viability of the traditional small-MFI entry model has been fundamentally challenged.

- Facilitate shared technology infrastructure through Sa-Dhan-coordinated group procurement or consortium arrangements for CAPI tools, bureau integrations, and compliance monitoring platforms.
- Advocate with development finance institutions (SIDBI, NABARD) for targeted capacity-building and concessional funding programmes for smaller MFIs.
- Consider compliance transition support for smaller institutions implementing Sankalp norms, including extended timelines for specific technology-dependent requirements.

## 7.4 Stakeholder-Specific Recommendations

### 7.4.1 Recommendations for Sa-Dhan

**Policy and Governance:** Institutionalise an annual or biennial evidence-based review cycle for Sankalp 2.0, informed by borrower survey data, portfolio analytics, and lender feedback. Establish a Sankalp Technical Advisory Committee comprising MFI leadership, borrower advocates, technology experts, and regulatory observers. Publish an annual Sankalp Compliance and Impact Report as a public accountability document.

**Enforcement and Monitoring:** Develop a technology-enabled compliance monitoring framework using bureau data analytics and portfolio-level scans. Introduce a formal escalation mechanism for persistent non-compliance, progressing from advisory to penalty to regulatory referral. Harmonise enforcement standards with MFIN to create a unified self-regulatory compliance framework.

**Ecosystem Development:** Lead industry-level advocacy on credit bureau data quality standardisation, PAN facilitation infrastructure, and employee bureau diversification. Convene periodic stakeholder dialogues to surface emerging implementation challenges. Develop and disseminate best-practice implementation guides for each Sankalp guideline.

### 7.4.2 Recommendations for MFIs

**Operational Excellence:** Invest in field staff training focused on borrower communication, credit report explanation, and KFS walkthrough quality. Strengthen household-level assessment capabilities beyond the minimum borrower-and-spouse bureau check. Implement risk-based differentiation in end-use verification, loan monitoring, and repeat lending decisions.

**Borrower-Centricity:** Ensure that every loan appraisal includes a simplified verbal explanation of the borrower's credit report and how household debt affects eligibility. Proactively communicate grievance redressal options at disbursement and during centre meetings. Develop graduated pathways for borrowers experiencing temporary financial stress, rather than applying binary exclusion.

**Technology and Data:** Automate Sankalp guardrail checks within business rule engines with hard-coded limits and no manual overrides. Invest in multi-bureau integration and real-time data access to reduce reliance on stale information. Build internal analytics capabilities for early warning, geographic risk monitoring, and compliance dashboards.

### 7.4.3 Recommendations for Borrower Protection

**Financial Literacy:** Integrate structured financial literacy modules into the microfinance loan cycle, covering credit report understanding, pricing awareness, rights under Sankalp 2.0, and responsible borrowing practices. Utilise centre meetings as delivery platforms for regular, contextual financial education. Partner with external agencies and NGOs for independent borrower education programmes.

**Complementary Financial Services:** Promote savings facilitation, micro-insurance linkages, and emergency credit facilities to reduce borrower vulnerability to income shocks and decrease dependence on multiple borrowing as a coping mechanism. Support livelihood diversification programmes to strengthen borrower income stability.



## 7.5 Implementation Roadmap

The following roadmap organises recommended actions into three implementation horizons, reflecting the urgency of each action, its dependence on prerequisite steps, and the institutional capacity required for effective execution.

Horizon	Key Actions	Primary Ownership
Short-Term (0–6 months)	<ul style="list-style-type: none"> <li>➤ Retain all ten Sankalp 2.0 guidelines without dilution. Develop and disseminate standardised household mapping protocols and borrower communication standards.</li> <li>➤ Issue clarificatory guidance on treatment of secured retail loans within the ₹2,00,000 exposure cap.</li> <li>➤ Mandate borrower-facing credit report explanation at the point of appraisal.</li> <li>➤ Launch grievance awareness campaigns through centre meetings and multilingual borrower cards.</li> <li>➤ Adopt tiered, risk-based end-use verification framework.</li> </ul>	Sa-Dhan (policy guidance) MFIs (field implementation)
Medium-Term (6–18 months)	<ul style="list-style-type: none"> <li>➤ Constitute a technical working group to review the processing fee cap with alternative models.</li> <li>➤ Introduce graduated re-entry criteria for DPD-affected borrowers and a COVID-era rehabilitation pathway.</li> <li>➤ Transition SRO enforcement from complaint-driven to proactive, technology-assisted monitoring.</li> <li>➤ Advocate for credit bureau data quality standardisation and improved matching algorithms.</li> <li>➤ Develop shared technology infrastructure for smaller MFIs.</li> <li>➤ Establish a centralised Sa-Dhan borrower feedback mechanism.</li> <li>➤ Introduce NTC borrower monitoring indicators and differentiated norms.</li> </ul>	Sa-Dhan (convening and policy) MFIs (operational adaptation) Credit Bureaus (data quality)
Long-Term (18–36 months)	<ul style="list-style-type: none"> <li>➤ Commission the first annual Sankalp Compliance and Impact Report.</li> </ul>	Sa-Dhan (policy stewardship) RBI (regulatory alignment)
	<ul style="list-style-type: none"> <li>➤ Conduct a data-driven review of the ₹2,00,000 exposure cap for potential inflation-linked adjustment.</li> <li>➤ Evaluate the feasibility of moving from 60+ DPD to 30+ DPD based on portfolio stabilisation and bureau data quality.</li> <li>➤ Explore CKYC 2.0 or Aadhaar-PAN-linked unique identifier as a longer-term KYC solution.</li> <li>➤ Establish an industry-wide HR verification platform to address the employee bureau monopoly.</li> <li>➤ Publish annual compliance and impact assessments as a public accountability mechanism.</li> </ul>	Industry bodies (collaboration)

## 7.6 Overall Conclusion

Sankalp 2.0 should be retained as the core self-regulatory framework for the Indian microfinance sector. The guidelines have achieved their primary objective of restoring discipline to a sector that was experiencing systemic stress. Portfolio quality has improved, over-leveraging has reduced significantly, and the foundations for sustainable growth are being established. The dominant sentiment across 10 of 16 institutions is that the guidelines should be retained without dilution for at least one more fiscal year, after which a data-driven review should inform calibrated adjustments.

The focus should now shift from rule expansion to **three priorities**: clarification of existing provisions to reduce inconsistency in interpretation; calibration to address disproportionate impacts on vulnerable borrower segments and smaller institutions; and consistency of enforcement to eliminate the free-rider problem that undermines the collective benefit of self-regulation.

A consultative, evidence-led refinement process, anchored by Sa-Dhan and informed by periodic borrower and lender assessments, will help sustain the balance between borrower protection, financial inclusion, and institutional viability that Sankalp 2.0 was designed to achieve.

The ultimate measure of Sankalp 2.0's success will not be compliance rates alone, but whether responsible lending and inclusive access to credit reinforce each other, *contributing to socio-economic development while preserving the financial health of microfinance institutions and the households they serve.*





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