**Microfinance**

Microfinance is a way in which loans, credit, insurance, access to savings accounts, and money transfers are provided to small business owners and entrepreneurs in the underdeveloped parts of India.

The beneficiaries of microfinance are those who do not have access to these traditional financial resources. Interest rates on microloans are generally higher than that on traditional [personal loan](https://www.bankbazaar.com/personal-loan.html).

**Types of Microfinance**

Microfinance includes the following products:

* **Microloans**- Microfinance loans are significant as these are provided to borrowers with no collateral. The end result of microloans should be to have its recipients outgrow [smaller loans](https://www.bankbazaar.com/business-loan/small-business-loans.html) and be ready for traditional bank loans.
* **Microsavings**– Microsavings accounts allow entrepreneurs operate savings accounts with no minimum balance. These accounts help users inculcate financial discipline and develop an interest in saving for the future.
* **Microinsurance**- Microinsurance is a type of coverage provided to borrowers of microloans. These insurance plans have lower premiums than traditional insurance policies.

In some situations, recipients of microloans are expected to take some training courses, such as cash flow management or book-keeping.

**Importance of Microfinance**

Almost half of the population of our country does not have a basic savings account. However, this segment requires financial services so that their aspirations such as building of assets and protection against risk can be fulfilled.

Microfinance provides access to capital for individuals who are financially underserved. If microfinance institutions were not offering loans to this segment of the society, these groups would have resorted to borrowing money from friends or family members. The probability of them opting for fast cash loans or payday advances (that bear huge interest rates) are also high.

Microfinance helps these groups invest wisely in their businesses, and hence, is in alignment with the government’s vision of financial inclusion in the country.

**Highlights**

1. Microloans in the range of Rs.20,000 – Rs.30,000 are availed the most in India. However, the category of loans in the range of Rs.30,000 - Rs.40,000 saw a rise of 56% between Q3 FY18 and Q3 FY19. ,  
2. The microfinance industry has registered a growth of 44% YoY as on 31 March 2019. (As per CRIF High Mark Report)

**Key Features of Microfinance**

Some of the significant features of microfinance are as follows:

* The borrowers are generally from low income backgrounds
* Loans availed under microfinance are usually of small amount, i.e., micro loans
* The loan tenure is short
* Microfinance loans do not require any collateral
* These loans are usually repaid at higher frequencies
* The purpose of most microfinance loans is income generation

**Microfinance Channels**

Microfinance in India operates primarily through two channels:

* **SHG-Bank Linkage Programme (SBLP) -** This channel was initiated by NABARD in the year 1992. This model encourages financially backward women to come together to form groups of 10-15 members. They contribute their individual savings to the group at regular intervals. Loans are provided to members of the group from these contributions. SHGs are also offered bank loans at later stages, and these loans can be used for funding income generating activities.

This model has achieved a lot of success in the past and it has also gained a lot of popularity for contributing to the empowerment of women in the country. Once these self-sustaining groups reach stability, they function almost independently with minimal support from [NABARD](https://www.bankbazaar.com/personal-loan/nabard.html), [SIDBI](https://www.bankbazaar.com/personal-loan/sidbi.html), and NGOs.

* **Microfinance Institutions (MFIs) -** These institutions have microfinance as their primary operation. These lend through the concept of Joint Liability Group (JLG), i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.

**Role of Microfinance Institutions (MFIs)**

Microfinance services are offered by the following sources:

* Formal institutions, i.e., cooperatives and rural banks
* Semiformal institutions, i.e., non-government organisations
* Informal sources, such as shopkeepers and [small-scale lenders](https://www.bankbazaar.com/personal-loan/government-loans-for-small-scale-businesses.html)

Institutional microfinance encompasses the services provided by both formal and semiformal institutions.

A [microfinance institution](https://www.bankbazaar.com/personal-loan/microfinance-institutions.html) specialises in banking services for low-income individuals and groups. These institutions access financial resources from mainstream financial entities and provide support service to the poor. Microfinance institutions are hence, emerging as one of the most effective tools in reducing poverty in India.

While several MFIs are well-run with great historical records, others are operationally self-sufficient.

The different types of institutions offering microfinance in India are:

* Commercial banks
* Credit unions
* Non-governmental organisations (NGOs)
* Sectors of government banks
* Cooperatives

Microfinance institutions act as a supplement to the services offered by banks. Apart from offering micro credit, financial services such as insurance, savings, and remittance are provided. Non-financial services such as training, counselling, and supporting borrowers are offered in the most convenient manner as well.

Points to note:

* The borrower gets the above-mentioned services at their convenience
* The repayment schedule is also decided by the borrower
* Interest rates charged by MFIs are usually higher than that of traditional banks
* Interest rates vary widely based on the loan purpose and borrower history

**Microfinance Companies in India**

Some of the microfinance companies that offer loans to the unbanked and under-banked population in India are as follows:

* [Arohan Financial Services Pvt Ltd](https://www.bankbazaar.com/personal-loan/arohan-microfinance.html)
* [BSS Microfinance Pvt Ltd](https://www.bankbazaar.com/personal-loan/bss-microfinance.html)
* [Cashpor Micro Credit](https://www.bankbazaar.com/personal-loan/cashpor-micro-credit.html)
* [Equitas Microfinance Pvt Ltd](https://www.bankbazaar.com/personal-loan/equitas-microfinance.html)
* [Asirvad Microfinance Pvt Ltd](https://www.bankbazaar.com/personal-loan/asirvad-microfinance.html)
* [Bandhan Financial Services Pvt Ltd](https://www.bankbazaar.com/personal-loan/bandhan-financial-services.html)
* [Disha Microfin Pvt Ltd](https://www.bankbazaar.com/personal-loan/disha-microfinance.html)
* [Annapurna Microfinance Pvt Ltd](https://www.bankbazaar.com/personal-loan/annapurna-microfinance.html)
* [ESAF Microfinance and Investments Pvt Ltd](https://www.bankbazaar.com/personal-loan/esaf-microfinance.html)
* [Fusion Microfinance Pvt Ltd](https://www.bankbazaar.com/personal-loan/fusion-microfinance.html)

**Lenders Offering Microfinance Loans to MFIs**

* **Reliance Money –** Reliance Money offers microfinance solutions at great interest rates by partnering with microfinance institutions (MFIs). The documentation required for this is limited. Wholesale funding is provided to MFIs for on-lending. The lender also helps with guarantees so that MFIs are able to get loans from alternative sources.
* **ICICI Bank –** ICICI Bank has been partnering with MFIs for at least 10 years to provide microfinance loans to these institutions. Currently the bank is focussing on the following:
* Setting up a profitable and healthy lending business with select MFIs
* Investing that enables the healthy growth of the microfinance industry in India.

The financing offered by ICICI Bank to MFIs are predominantly term loans. The bank also provides Pass Through Certificates. Other value-added facilities such as cash management services, salary/savings accounts, and customised current accounts are offered to MFIs for treasury and staff products.

* **State Bank of India (SBI) –** SBI offers loans to microfinance institutions and NGOs that act as intermediaries for financing the needs of eligible entrepreneurs in the lower segment of the society. These term loans can be repaid every month, quarter, or at intervals of 6 months. The total repayment period cannot be more than 3 years and [cash credit loans](https://www.bankbazaar.com/personal-loan/cash-credit-loan.html) should be renewed on an annual basis.
* **Axis Bank –** Axis Bank offers loans to microfinance institutions that financially empower low-income earners and micro-entrepreneurs. The bank has partnered with several MFIs across the country. Term loans are offered by the bank to MFIs that extend this to the eligible borrowers.
* DCB Bank – DCB Bank offers two types of products as part of microfinancing. These are term loans and loans to MFIs for on-lending purposes.

**Documents Required for a Microfinance Loan**

Although the documentation required for getting a microfinance loan varies between lenders, the following are the documents that are usually needed:

* Updated application form
* PAN card, copy of Passport, ration card
* Proof of office address
* Passport-size photos of the applicants and co-applicants
* Certified copies of AOA/MOA/Partnership deed
* Track record of repayment
* Audited financials of the previous 2 years
* ITR of partners/directors for the previous 2 years
* Bank account statements for the past 6 months
* Proforma invoice to the equipment that is to be financed
* For lawyers, CAs, architects, and doctors - Professional qualification certificates