

A Microfinance Loan is a form of lending typically utilised by those sections of the Indian society who have not had any access to formal banking services in the past.

By providing credit to borrowers and small business owners at the bottom of the economic pyramid, the microfinance sector plays a vital role in promoting inclusive growth in our country. By offering loans and credit access to nearly 64 million borrowers, who until then had limited or no access to formal financial services, the microfinance industry has made a significant contribution in creating opportunities for low-income families and households.

Furthermore, according to Microfinance Institutions Network's (MFIN) report, the microfinance industry boasted a total loan portfolio worth Rs. 1,90,684 crores in the first quarter of FY 2019-20, with a 42.9 percent growth over the previous year's corresponding period.

Features of Microfinance Loans

Through microfinance loans, individuals and households that are financially underserved can invest in their businesses, and have access to financial products and services, thus furthering the government's vision of achieving financial inclusion. Some of the key features of microfinance bank loans include:

- The borrowers of microfinance loans generally come from a low-income background (below the poverty line), with little or no access to traditional financial services.
- The loans offered to the borrowers are usually small amounts, i.e., microloans.
- The tenure of microfinance loans is short and is typically from 12-24 months.
- Microfinance loans do not require any security or collateral by the borrower.
- Loans are repaid at a higher frequency, usually on a weekly, bi-weekly, or monthly basis.
- Most microfinance loans serve as means for income generation.

Types of Microfinance Loans

In the Indian market, most of the microfinance institutions disburse loans either through Self-Help Group (SHG) model, or the Joint Liability Group (JLG) model. Furthermore, some of the types of microfinance loans include:

- **Income Generation Loans:** Income generation loans are typically given to joint liability groups, and provide them with the capital to start or grow their small businesses or micro enterprises.
- **Mid-Term Loans:** Midterm loans are made accessible after 25 weeks of repaying the income generation loan. Furthermore, an individual is eligible for a mid-term loan if they do not take the maximum amount of the income generation loan, as the remaining amount is usually disbursed as the mid-term loan.

- **Emergency Loans:** Emergency loans are interest-free, and are available to the individuals throughout the year. Emergency loan amount is typically lesser than income generation loan amount, and the repayment terms differ from one borrower to the other, and is agreed upon by the MFI and the borrower. These loans are disbursed to meet expenses such as hospital admissions and treatments, funerals.
- **Individual Loans:** Individual loans are given to clients whose needs are specific, and require collateral and a guarantor. These loans are provided outside of the group lending process, and the loan amount is usually higher than that of income generating loans. Furthermore, a rigorous assessment of the individual's business and the cash flow is conducted before the disbursement of individual loans.
- **Education Loans:** Education loans are provided to clients to ensure that the educational requirements of their children are met.
- **Consumer Product Loans:** Consumer product loans are provided to individuals to improve their quality of lives, by offering them access to products such as cook stoves, mobile phones and solar lights or lanterns.
- **Dairy Cattle Loans:** Dairy cattle loans enable individuals to purchase new cattle, or improve dairy farming activities, thereby increasing their income level.
- **Agriculture Loans:** Agriculture loans help farmers and other individuals in purchasing seeds, fertilizers, livestock and other equipment, thus improving the crop quality and yield.

Types Of Microfinance

- **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 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. Insurance plans have lower premiums than traditional insurance policies.

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.

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, SIDBI, 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

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

A microfinance institution 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

Key Benefits of MicroFinance Loan in India

- Enabling access to credit among the marginalised section in the country.
- Offering entrepreneurs the opportunity to build start-ups and successfully hire employees, thereby increasing job creation.
- Allowing healthcare and education for people who cannot afford such facilities.
- The loans do not burden the applicant and repayment is convenient through easy installments.
- Promotes the overall welfare of the economic groups within the nation.

You can also get an instant business loan regardless of whether you are a first-time borrower or have a credit history. With the help of Bajaj Finance Business Loans available on Finserv MARKETS, you can get your hands on loan amounts of up to Rs. 25 Lakhs. With flexible loan repayment tenures of 12-60 months and quick sanctions, you can get your instant loan approval within 3 minutes. Further, the amount is credited into your bank account in a day without any hassle.

Eligibility & Documents Required for Microfinance Loan

To be eligible for microfinance, the income limit for a rural household is Rs. 1.25 lakhs, while the income limit for urban and semi-urban households is Rs. 2 lakhs.

Documentation For MFI Are As Follows;

- Filled and updated application form
- PAN card, passport copy, ration card
- Proof of office address
- Passport-size photographs of the applicants and co-applicants
- Certified copies of MOA/Partnership deed/AOA
- Repayment history

- Audited financials of the last two years
- ITR of partners and/or directors for the previous two years
- Bank account statements for the previous six months
- Proforma invoice for the equipment that is being financed
- Professional qualification certificates for CAs, lawyers, architects and doctors

The microfinance industry has witnessed promising growth over the past year, on the back of the burgeoning Indian economy. The microfinance sector has been crucial in improving the overall GDP of the country by offering loans to marginalized low-income households, along with micro, small and medium enterprises (MSMEs). The sector continues to play a pivotal role in driving the growth of the unbanked and under banked population and is expected to maintain the upward growth trajectory soon.

**** Important Points To For All Applicants ****

- 1. Please Note, If There Are Existing Loans, Submit Payment Track Record And Sanction Letter To Respective Loan Provider For Finalizing Loan Amount Eligibility.**
- 2. Credit Score Plays An Important Role In Finalizing Loan Amount & ROI****
- 3. Timely Payment Of EMI Helps In Maintaining A Good & Healthy Credit Score.**
- 4. Please Keep Sufficient Amount In Account Before ECS Hitting Date.**
- 5. Wisely Usage Of Money Is Highly Required For Financial Planning.**
- 6. Don't Miss To Pay Any EMI Amount , Neither Get Delayed On Due Dates.**
- 7. There Can We Change In Loan Documentation Requirements From Time To Time And My Vary In Banks, NBFC & Private Lenders. Will Update , If There Will Be Some Changes In Documentations.**