

MICRO FINANCE

3RD SEMESTER

INTRODUCTION

DEFINITION

OBJECTIVES

INTRODUCTION

- Microfinance is a very popular term in today's financial market scenario. Microfinance refers to a banking or financial service that is offered by banks or other financial institutions to individuals who belong to the low-income or underprivileged sections of the society. Microfinance can be in the form of loans, insurance, and savings deposits.

DEFINITION OF M.F

- Microfinance—also called microcredit—is a way to provide small business owners and entrepreneurs access to capital. Often these small and individual business don't have access to traditional financial resources from major institutions. This means it is harder to access loans, insurance, and investments that will help grow their business.

Concept and Features of Micro-finance:

- It is a tool for empowerment of the poorest.
- Delivery is normally through Self Help Groups (SHGs).
- It is essentially for promoting self-employment, generally used for:
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- Delivery is normally through Self Help Groups (SHGs).
- It is essentially for promoting self-employment, generally used for:
- It is not just a financing system, but a tool for social change, specially for women.
- Because micro credit is aimed at the poorest, micro-finance lending technology needs to mimic



IMPORTANCE OF M.F

- Microfinance is important because it provides resources and access to capital to the financially underserved, such as those who are unable to get checking accounts, lines of credit, or loans from traditional banks.

OBJECTIVES OF M.F

- Microfinance aims at attaining socio-economic development at the most basic level of the society.
- Microfinance aims to help women of poor families. Institutions that offer microfinance believe that women are more responsible with money and hence, they have exclusive microfinance loan options specially designed for women borrowers.

OBJECTIVES OF M.F

- Microfinance also intends to assist disabled people who are economically underprivileged. It aims to help them find some source of employment or artistry so that they can fend for themselves.
- Microfinance aims at attaining socio-economic development at the most basic level of the society.

Microfinance in India

- Both banks and non-banking financial corporations (NBFCs) offer microfinance in India. There are also microfinance institutions in the country that are exclusively dedicated to offering microfinance to people. Microfinance institutions aim at getting people out of poverty and improving poor people's financial conditions. Microfinance institutions target poor people who are unemployed, who are or want to be entrepreneurs, and who are into farming.

M.F PRODUCTS

- 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 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.

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

- **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)

- **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.

Microfinance Companies in India

- Arohan Financial Services Pvt Ltd
- BSS Microfinance Pvt Ltd
- Cashpor Micro Credit
- Equitas Microfinance Pvt Ltd
- Asirvad Microfinance Pvt Ltd
- Bandhan Financial Services Pvt Ltd
- Disha Microfin Pvt Ltd
- Annapurna Microfinance Pvt Ltd
- ESAF Microfinance and Investments Pvt Ltd
- Fusion Microfinance Pvt Ltd

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



THANKING YOU