



## Financial Institution

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# Microfinance Institutions (MFIs)

## About MFIs

- Provides financial services & small-value loans
- **Targets** – Low-income households, small businesses, & entrepreneurs in rural & urban areas
- Maximum annual income criteria – **Rs 3 lakh** (for collateral-free microloans)

## Evolution of Microfinance Sector

- **Initial Period (1974–1984):**
  - Shri Mahila Sewa Sahakari Bank established for women
  - NABARD promoted SHG linkage
- **Change Period (2002–2006):**
  - Unsecured lending norms for SHGs were aligned with secured loans
  - RBI included microfinance in the priority sector
- **Growth and Crisis (2007–2010):**
  - Private equity investments → Rapid MFI growth
  - Microfinance Institutions Network (MFIN) formed
- **Consolidation and Maturity (2012–2015):**
  - Malegam Committee (2012) recommended regulatory changes
  - New Category of NBFCs – Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs)
  - Universal banking license to Bandhan Bank (largest microlender) by RBI (2014)
  - MUDRA Bank launched (2015)



MFIs in India are regulated by the RBI through the NBFC-MFIs framework 2014.

## Business Models

- **Self Help Groups (SHGs):**
  - Informal groups (10-20 members) saving together & accessing credit
  - Linked to banks through the SHG-Bank Linkage Programme
- **Microfinance Institutions (MFIs):**
  - Offer micro-credit & financial services
  - Loans through Joint Lending Groups (JLGs) of 4-10 members

## Types of MFIs

- **NGO-MFIs** (under Society Registration Act 1860 or Indian Trust Act 1880)
- **Co-operative Societies**
- **Section 8 Companies** (under Companies Act, 2013)
- **NBFC-MFIs** (accounts for 80% of microfinance market)

## Benefits

- Digitization and financial inclusion
- Self-sufficiency (entrepreneurship and improved livelihoods)
- Steady income (assets building)
- Women entrepreneurship



Challenges of MFIs	Way Forward
High Interest Rates	Improve regulatory oversight and encourage interest rate caps
Over-Indebtedness of Borrowers	Strengthen credit risk assessment and promote financial literacy
Dependency on External Funding	Diversify funding sources through partnerships and capital markets
Low Financial Literacy Among Borrowers	Promoting financial education programs/campaigns



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