Micro Finance Institutions (MFIs)

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What exactly are MFIs?

- Microfinance Institutions, also known as MFIs, are businesses that provide financial services to low-income people.
- Typically, they operate in rural areas and among low-income people in urban areas, spreading small loans.
- MFIs offer much-needed assistance to the economically disadvantaged, who would otherwise be at the mercy of high interest rates and the local moneylender.
- The model began as a mechanism for poverty alleviation, focusing on the economic and social upliftment of marginalised groups by lending small sums of money to women for income-generating activities without any collateral.
- Some MFIs that meet certain requirements and are non-deposit taking entities are regulated and supervised by the RBI as Non-Banking Financial Companies (NBFCs). NBFC MFI refers to these "Last Mile Financiers."
- The aim of bringing them under the RBI's jurisdiction was to make these NBFC MFIs more healthy and accountable.

Digitalization and the MFI Sector's Expansion

- Several improvements to the sector's operating model have been implemented over time, including digital interventions in the lending value chain.
- Digital technologies have been embraced by MFIs to remove redundancies, allow fast customer onboarding, loan disbursements, and even cashless collections.
- MFIs have been able to use digital technology to not

only reach a larger number of clients and therefore expand at a faster rate, but also to do so more efficiently by streamlining processes and shortening turnaround times.

Challenges associated with MFI

- **MFIs' Social Objective Has Been Overlooked:** In their pursuit of development and profitability, MFIs' social objective—to better the lives of society's marginalized—seems to have been steadily eroding.
- **COVID-19's Impact:** It has had an effect on the MFI market, with collections taking a hit at first and disbursals already lagging behind.
- **Inadequate Information:** Although total loan accounts have increased, data on the relative poverty-level improvement of MFI clients is fragmented, making it difficult to determine the actual effect of these loans on clients' poverty levels.

Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI)

- The NBFC-MFI is a financial institution that does not accept deposits.
- Minimum Net Owned Funds (NOF) of Rs. 5 crore is needed to qualify as an NBFC-MFI.
- Qualifying Assets account for at least 85% of the company's net assets.
- Qualifying Assets are assets that will take a significant amount of time to prepare for their planned use or sale.
- The distinction between an NBFC-MFI and other NBFCs is that, whereas other NBFCs can run at a high level, MFIs only cater to the lower social strata who need smaller loans.