Microfinance is the provision of financial services for the poor.

Services include savings, transfers, insurance and credit.

Microfinance products are tailored to the demographics, financial relationships and needs of the poor:
- Use of collateral substitutes
- Women clients
- Take service to poor
- Client participation
- Incentivize repayment & loyalty

Delivered by many types of institutions – commercial banks, state development banks, postal banks, MFI banks, NBFI, coops and CUs, rural banks, NGOs, insurance coys, transfer payment coys, pawn shops, money lenders, informal groups & MNOs

Microfinance means building financial systems that serve the poor.
HISTORY & EVOLUTION OF MICROFINANCE

MICROCREDIT – GRAMEEN, ACCION, SEWA

INCLUSIVE FINANCE

FORMAL STATE OR COOPERATIVE BANKS

COOPERATIVE & PEOPLES BANK

INFORMAL CREDIT & SAVINGS
From the earliest of time in traditional societies …..

Informal savings and credit groups have operated for centuries across the developing world.
1462: An Italian monk created the first official pawn shop to counter usury practices.

1515: Pope Leon X authorized pawn shops to charge interest to cover their operating costs.
Irish Loan Fund System initiated

- provides small loans to poor farmers who have no collateral.
- covers, at its peak, 20 percent of all Irish households annually.
In the nineteenth century...

In Germany, emergence of larger and more formal savings and credit institutions that focused primarily on the rural and urban poor.

From 1865, the cooperative movement expands rapidly within Germany and other countries in Europe, North America, and eventually developing countries.

In 1895, Indonesian People’s Credit Banks (BPRs) became the largest microfinance system in Indonesia, with close to 9,000 branches.
Rural finance adaptations in Latin America aimed to:
- modernize the agricultural sector
- mobilize “idle” savings
- increase investment through credit
- reduce oppressive feudal relations that were enforced through indebtedness

In most cases, these new banks for the poor were owned by government agencies.

Over the years, these institutions became inefficient and, at times, corrupt.
Governments used state-owned development finance institutions to channel concessional loans for agricultural credit

These interventions were rarely successful:
• Institutions went bankrupt
• Subsidized lending rates did not cover their costs, including the cost of massive default
• Customers had poor repayment discipline, saw their loans as gifts from the government
Experimental programs extend tiny loans to groups of poor women to invest in micro-businesses. Early pioneers include:

- Grameen Bank in Bangladesh (winner of Nobel Peace Prize)
- ACCION International in Latin America
- Self-Employed Women’s Association (SEWA), India
1980s: Microcredit Programs continue to improve

Microcredit programs improved on original methodologies and proved that:

- Poor people, especially women, paid their loans more reliably than better-off people with loans from commercial banks.
- Poor people are willing and able to pay interest rates that allow MFIs to cover their costs.
- Cost-recovery interest rates and high repayment permit MFIs to achieve long-term sustainability and reach large numbers of clients.
Early 1990s: “microcredit” begins to be replaced by Microfinance...

- MFIs & their networks pursue strategy of commercialization
- MFIs transform into for-profit companies that could attract more capital
- Emphasis on growing strong institutions is a core element of this recent history
# Shift in Approaches

<table>
<thead>
<tr>
<th>Role of Financial Markets</th>
<th>Stimulate production &amp; transfer resources</th>
<th>Efficient intermediation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>View of Users</strong></td>
<td>Beneficiaries (supply driven)</td>
<td>Clients (demand driven)</td>
</tr>
<tr>
<td><strong>Sources of Funds</strong></td>
<td>Subsidized funds from donors or govts</td>
<td>Diverse pricing &amp; sources</td>
</tr>
<tr>
<td><strong>Financial Performance</strong></td>
<td>Loss making: depleting capital</td>
<td>Sustainability: capitalization</td>
</tr>
<tr>
<td><strong>Accountability &amp; Evaluations</strong></td>
<td>Activity-based (focused on donor objectives)</td>
<td>Performance of institutions &amp; systems</td>
</tr>
</tbody>
</table>
Microfinance serves those that live around the poverty line.

Destitute and very poor need other social safety nets and protection.

Poor people use microfinance for:
- Smoothing consumption
- Deal with emergencies (sickness, natural hazards)
- Accumulate useful lump sums to seize opportunities (plus business)
- Pay for large expenses (education, h/h assets, funeral, weddings)
Microfinance can help the poor by:
- Raising or making more predictable h/h income
- Building assets
- Reducing their vulnerability to shocks
- Empowering women

Research & debate on impact on poverty is ongoing

Microfinance remains:
- Highly-valued services
- Helps hundreds of millions of people
- Stabilize consumption, finance major expenses, & cope with shocks
- Despite incomes that are low, irregular, and unreliable
1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development
THE MICROFINANCE INDUSTRY

- Maturing industry
- 150 m clients, 80 m borrowers
- 7,000 – 12,000 MFIs
- MFIs transformed into banks
- Banks providing microfinance
- Non-FSPs providing financial services
- Mobile Network Operators
104 active investment funds with assets of $6.5 billion

Donors & investors commit $4.5 billion per year on microfinance

Rating Agencies, Social Performance, Microinsurance

Nobel Peace Prize

Global standards established – CGAP, SEEP, MIX Market
Consultative Group to Assist the Poor

Independent policy & research center to advancing financial access for the world's poor

Supported by over 30 development agencies & private foundations

Provides:
- market intelligence
- promotes standards
- develops innovative solutions
- offers advisory services to governments, microfinance providers, donors & investors
- Microfinance Information Exchange
  [www.themix.org](http://www.themix.org)
- Data on 1400 MFIs, over 100 investors & 200 partners
- Promotes financial transparency in the industry
- Reliable, comparable & publicly available information on financial performance & social impact of MFIs
- Match investors & donors with MFIs
- Benchmarking - publishes the MicroBanking Bulletin
Peer review of 487 MFIs reporting to the MIX in 2007

- NGOs 190, NBFIs 172, Banks 50, Rural Banks 40, CUs 35
- 344 financially self-sufficient
- For-Profit 180, Not-for-Profit 307
- Commercial funding liabilities ratio 76.4%
- Borrowers 19.4 m, Women borrowers 63.4%
- Operating Expense/Loan Portfolio 18.1%
- Loans per staff member 124
- PAR (> 30 days) 2.6%
- Demonstrating some resilience to the GEFC