

MICROFINANCE: FREQUENTLY ASKED QUESTIONS¹

Understanding Microfinance

1. What is microfinance?

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households and their microenterprises.

When thinking about the definition, it is also important to note what microfinance is NOT. Microfinance is NOT subsidized credit, it is NOT a dole-out, it is NOT salary or consumption loans and it is NOT a cure-all for poverty.

2. Who are the clients of microfinance?

The clients of microfinance are the economically active and entrepreneurial poor (e-poor). Some examples of this are shopkeepers; ambulant vendors and household based entrepreneurs. These are the clients who have a stable economic activity and will be able to sustain and enhance that activity if they are provided with even a small amount of readily available funds.



¹ Bangko Sentral ng Pilipinas Microfinance Handbook, 2005.

3. How can microfinance assist the poor?

If provided on a sustainable basis, microfinance has shown that it can help increase income, build viable businesses, reduce vulnerability to external shocks, empower the client and increase the quality of their lives.



4. What are the core principles of microfinance?

The core principles are:

1) that the poor need sustained access to financial services and products and this sustained access is a primary issue over interest rates,

2) that the poor have the capacity to repay their loans and to save and,

3) that microfinance institutions can be operationally and financially self sufficient.

“Data from the MicroBanking Bulletin reports that 63 of the world's top MFIs had an average rate of return, after adjusting for inflation and after taking out subsidies programs might have received, of about 2.5% of total assets. This compares favorably with returns in the commercial banking sector and gives credence to the hope of many that microfinance can be sufficiently attractive to mainstream into the retail banking sector.”

(Quoted from the Consultative Group to Assist the Poorest (CGAP) website)

5. Who are the providers of the microfinancial services?



There is a wide range of types of microfinance institutions around the world. In the Philippines, microfinance services are provided mainly by Banks (mainly rural and thrift), Non-governmental Organizations (NGOs), and Cooperatives.

6. What are the different methodologies of microfinance?

Microfinance institutions have various methodologies and technologies depending on their client demand and organizational goals and objectives. There are, however, two main types of approaches. The group methodology is where the microfinancial service is provided in the context of a group and the individual approach or single client lending where the repayment and schedules rely solely on the individual (i.e. character, cash-flow, etc.)

