

Microfinance

Microfinance is an innovative way of providing loans and banking services to those for whom traditional retail banking options are unavailable. How does it work?

Characteristics of microfinance

What is it?

- Form of retail banking service
- Primarily used in developing countries
- Small loans and deposit facilities for low-income people

Who borrows?

- People with difficult credit history
- Small groups
- Women
- Low-key entrepreneurs

Statistics

- Present in more than 150 countries
- Ninety per cent loan repayment
- Direct benefit to more than 150 million people
- Indirect benefit to ½ billion people

Advantages

- Access to credit for those in need
- Encourages entrepreneurship
- Encourages self-reliance
- Empowerment of women

Disadvantages

- Cases of high interest rates
- Administration costs
- Cost of inflation and exchange rate fluctuations

The debate

Direct cash provision

Aims

- Avoid untargeted distribution of resources
- Highly targeted measures to help households in need

Micro objective

- Focus on children
- Better health, nutrition and education
- Reduce poverty rates

Challenges

- Identification of most in need
- Delivery of aid to remote areas
- Misuse of aid

Macro objective

- Increase living standards
- Support entrepreneurship
- Enhance education levels
- Foster economic growth

Microfinance

Implementing microfinance

Forms of direct cash provision

Unconditional cash transfer

Objectives

- Cash transfers without preconditions
- Useful when infrastructure is lacking
- Simple to implement
- Risks related to the actual use of the loans

Criticism

- Costly conditions
- Lack of infrastructure to support conditions
- Monitoring costs

Conditional cash transfer

Objectives

- Cash transfers subject to conditions
- Health, education, nutrition
- Conditions aimed at:
Improving children's living standards
Stop intergenerational transmission of poverty

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