

Microfinance factsheet and FAQs

What is Microfinance?

Microfinance is a type of banking that provides financial services to low income individuals, or people/groups of people who would otherwise have no access to finance. The microfinance model that MicroLoan Foundation is founded on was coined by Muhammad Yunus when he set up the Grameen Bank in 1983 (and subsequently won the Nobel Peace Prize for in 2006).

Microfinance includes the full provision of training and support from microfinance institutions (MFIs,) which is usually why repayment rates are so high. Microfinance encompasses microinsurance, microcredit, groups, savings, training and education.

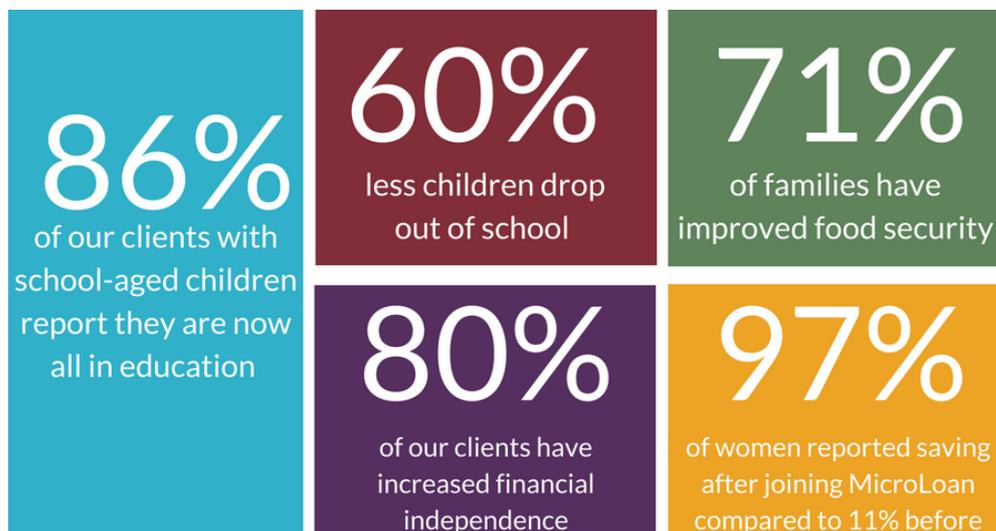
Typically, many commercial microfinance institutions (MFIs) only provide microcredit, the provision of loans (credit) to low income groups of individuals. What sets MicroLoan Foundation apart from commercial MFIs is our commitment to providing the full range of support to clients.

Does microfinance actually work?

If microfinance is paired with extensive training, support and responsible lending, the answer is yes.

It's important to remember that microfinance is not a quick fix; it's a long term, sustainable solution that requires ongoing support. A family living on less than £1 a day won't be lifted out of poverty in the space of one loan cycle. Many women continue working with MicroLoan Foundation for multiple loan cycles, seeing incremental changes as their businesses begin to thrive.

Because of the level of poverty that the people we help are living in, the results of microfinance sometimes don't seem as big as they really are. When you look at the outcomes for the women we work with, you can see the impact microfinance has on their lives. Many families who could only feed their children once a day are now able to feed them twice, or 3 times. We focus on the long term positive effects that microfinance has on families and communities.



In poor areas, isn't microfinance used for consumption rather than income generation?

Commercial MFIs which run for profit are often guilty of not vetting their clients before giving out loans. MFIs are often the only people who will lend to the poorest and most rural parts of the world. Dealing with this level of poverty has led to a misuse of spend of micro loans. By "misuse" we mean spending the loans on day to day things like school fees, groceries and medicine. This has led to public belief that microfinance is now more about unrestrained consumer lending rather than nurturing grass roots entrepreneurship. That is true for a lot of commercial MFIs, for example in South Africa, consumption accounts for [94% of microfinance use.](#)

As a result, borrowers don't generate any new income that they can use to repay their loans so they end up taking out new loans to repay the old ones, perpetuating the cycle of debt and leading to profit for commercial MFIs.

To avoid this, we provide extensive training before clients have access to their loan. This training will very clearly explain how and why the loan should be used to run a business. Another way that we ensure loans are being used for income generation is through the checks and balances of group dynamics. The group responsibility for the loan acts as a form of risk management.

In the case of one member of a group being unable to repay her share, other members of the group will assist, either by making the repayment on her behalf, or by putting their heads together to work out how best she can manage her finances so that repayment is possible. For example other members of the group may run the business for her while she is unable to do so.

Aren't micro loans easy to get but hard to repay?

We know that commercial MFIs will loan to vulnerable people knowing that the borrowers will struggle to pay it back. MicroLoan Foundation is not a commercial MFI, we are a not for profit organisation. Over-indebting borrowers is unacceptable under any circumstances, at MicroLoan Foundation we assess all loan applications to ensure that the loan size is right for each individual woman.

Loans are only made to women for a purpose. Whether that is setting up their own businesses or also improving their agricultural output through our additional farming loans and training programme (which women can take on top of a financial loan). The agricultural loan and training helps families to produce their own maize, increasing food security and saving for the family.

We co-operate with other microfinance providers in each area to ensure that to the best of our knowledge, our borrowers are not in danger of becoming over-indebted by seeking additional credit facilities elsewhere. The group dynamics act as checks and balances and provide a level of risk management on loan repayments. The groups are responsible for

deciding who can be a part of it. Because of group responsibility of loan repayments, it's in their own interest to only accept borrowers who will be able to repay their loan.

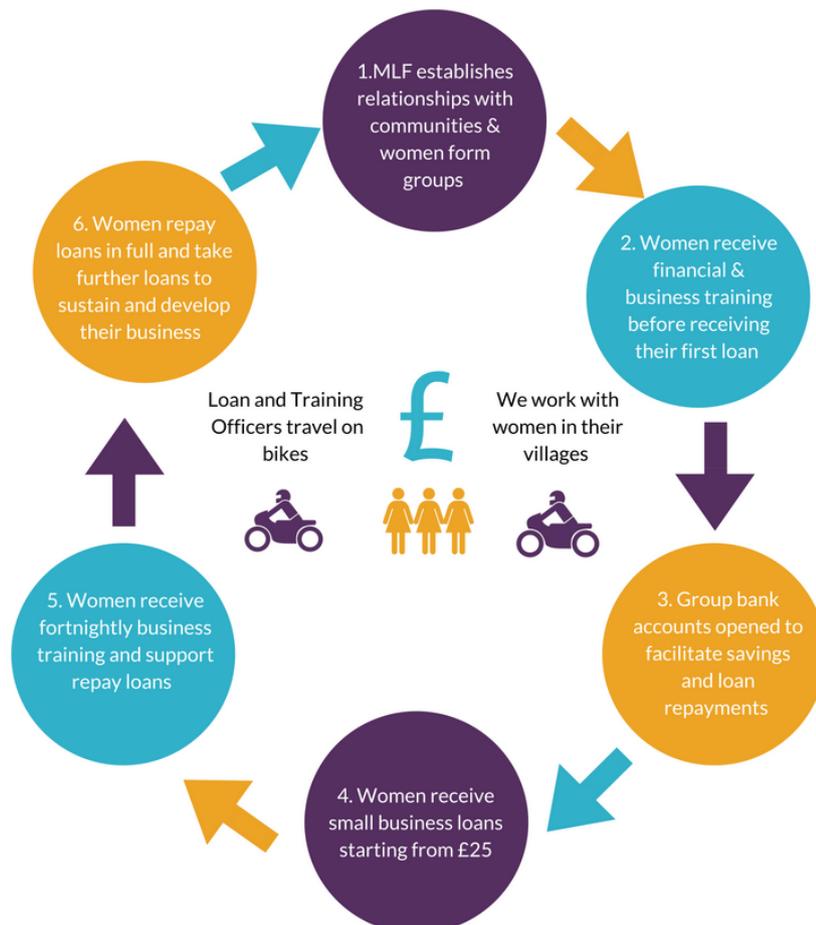
If you're a charity, why do you charge interest?

We're moving away from the conventional aid approach to find a sustainable model to help some of the world's poorest women. By charging an interest rate we're able to cover some of our expenses to deliver the training and support needed to ensure that our clients succeed.

MicroLoan Foundation provides small loans, and small loans are more expensive to process than large ones because they take longer to process. But the loans, by nature have to be that small to benefit the poorest of the poor. The average loan size in Malawi is £45 and our smallest loans are as little as £10. This is significantly smaller than the average loans provided by other microfinance charities and institutions.

We work in hard to reach rural areas where most other organisations do not want to go. Rural poverty is widespread in Malawi, Zambia and Zimbabwe, but it is expensive to reach rural communities and most microfinance organisations focus on more urban areas.

Without employment history or collateral, microfinance loans require a more hands-on, time-intensive assessment to determine creditworthiness. We send our LTOs to visit the client as part of this process, making the process even more challenging and costly in remote areas.



The process of a loan cycle

Once a loan is approved, we send LTOs to provide ongoing training and support, disburse loans and collect payments in person. This also adds significant expense when compared with the way traditional banks operate. We have to charge rates that are higher than normal banking rates to cover their costs and keep the service available.

Does microfinance actually reach the poorest of the poor?

We are reaching the poorest of the poor, 83% of our clients live below the poverty line (\$2.50 per day). The average loan size in Malawi is £45 and our smallest loans are as little as £10. This is significantly smaller than the average loans provided by other microfinance charities and institutions. Most MFIs are moving more towards urban areas, because the cost is lower and the return is higher. Our social mission is to work with the poorest of the poor, to help them work their way out of poverty. Because of this we work on a pro poor initiative, meaning that our loans and training programmes are designed specifically to reach and benefit some of the poorest women in the world.



We take no collateral and we require no savings or other eligibility requirements. This means that there are no financial barriers to receiving a loan from us, allowing us to reach some of the poorest women in the world.

Why do you only loan to women?

Survival is difficult for women, who face cultural barriers and often bear the brunt of family responsibilities, making it hard to seek employment. Women and girls often have little opportunity to financially support themselves and their families. Women consequently make up 70% of the world's poor. 145 million women are unbanked in sub-Saharan Africa.



Women are more likely to repay their loans; there is a wealth of research to prove this.

The Harvard Business Review published a report in 2012 stating that women reinvest 90% of every dollar that they earn back into their families' education, health and nutrition. The reinvestment of profit back into families benefits communities as a whole; improving the education and health of many more people (we call this the multiplier effect). It's been proven

that countries with greater levels of gender equality tend to have lower rates of child malnutrition. Studies by the Gates Foundation have also shown that when a woman controls the family budget her child is 20% more likely to survive.

How do you have such high repayment rates?

Our repayment rates have been up to 99% (the current repayment rate is 96.4%). We lend to groups of women rather than to individuals, therefore each group accepts joint responsibility for the loan. In the case of one member of a group being unable to repay her share, other members of the group will assist, either by making the repayment on her behalf, or by putting their heads together to work out how best she can manage her finances so that repayment is possible. To mitigate against undue pressure, all groups are given a detailed training programme by MicroLoan Foundation, to ensure they work constructively together to overcome problems as they arise. LTOs are forbidden from handling cash at any time to avoid inappropriate behaviour or pressure to borrowers.

We provide extensive training before we make the loans to ensure that we lend responsibly and help our clients succeed. We provide 8 training sessions before the clients receive their loan, and fortnightly training and support throughout the loan period to help clients address challenges and manage their loans and their business.

What happens if someone can't repay their loan?

We know that commercial MFIs will put debt onto another family member should something happen. In many places a female borrower will often have to have a male guarantor. It is also commonplace for a lot of commercial MFIs in recent times to make their clients take out life insurance as part of their service charge on the loan. The heavy handed approach of commercial MFIs does not help with poverty alleviation. Taking collateral from families who are living on less than £1 a day or shifting debt onto another family member goes against our social mission.

We take no collateral, you don't need to have savings or own anything to take a loan with MicroLoan Foundation – instead we rely on group dynamics. We don't impose penalties on anyone who can't repay their loan, we don't charge interest on overdue payments, we don't re-possess assets and we do not transfer debt from one family member to another. In the event that one of our borrowers dies or is terminally sick, her loan is written off. We do not employ debt collectors; all our loans are administered by our own staff that are trained and measured to support the social and financial objectives of the borrower.

MicroLoan Foundation differs from commercial MFIs. We loan to women in groups, these groups act as a risk management for each individual who wants to take a loan. There is also a group responsibility to pay the loans back on time, creating a support network. Loan requests are assessed on a case by case basis. Because we are a charity we have the option to write off loans in extenuating circumstances. For example the floods which hit Malawi in 2015 wiped out over 2000 of our client's businesses. Our structures are set up so that our clients should always be able to pay back their loans, but there is a safety net there if for any given reason they cannot.