

# Microfinance

Enhancing the model through transparent communication

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10/01/10

# Introduction

- ④ Underprivileged people are not ideal customers for traditional banks
  - ④ They lack collateral and the ability to fill out paperwork
  - ④ Most banks take a picture of the customer and use a thumbprint for their signature
- ④ Microfinance allocates loans in small amounts to low income clients
  - ④ Credit, Insurance, Small to Medium Enterprise Loans, and Savings Accounts

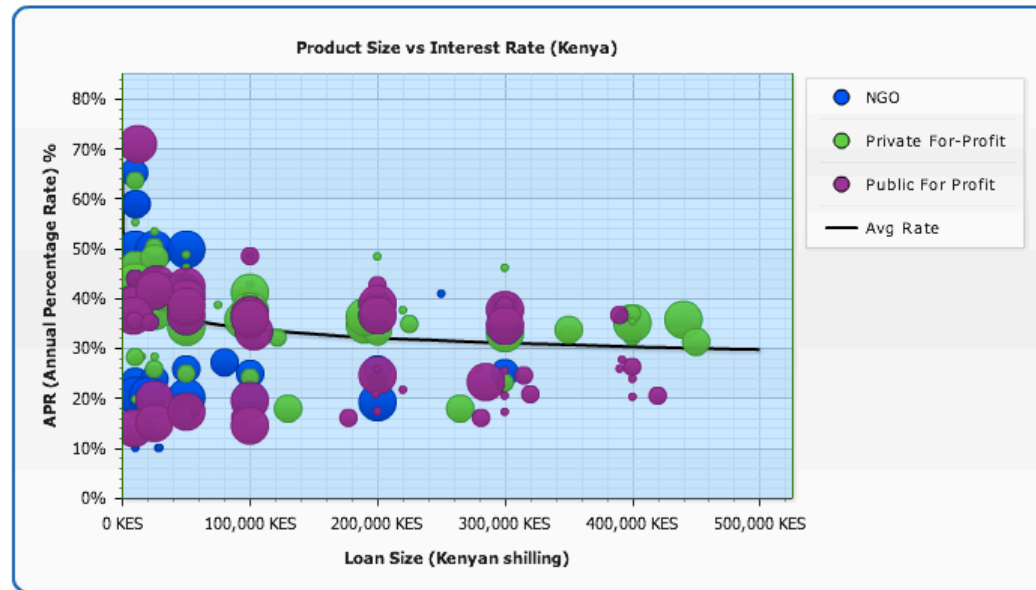
# Communication Breakdown

- ④ Communication between various MicroFinance Institutions is difficult
  - ④ Information on good and bad clients is not shared among MFIs
  - ④ Lenders are often unaware if a client has an outstanding loan with another institution
- ④ Asymmetric Information
  - ④ Clients can use a loan from one institution to pay back another

# Transparency

- ④ MFTransparency.org
  - ④ Enables transparent communication between suppliers and consumers of microcredit products.
  - ④ Develops straightforward educational materials to stakeholders to better understand interest rates and product pricing
  - ④ Primary goal is to provide essential information necessary for healthy free market conditions

# Interest Rate and Loan Size



- ④ Interest rates in Kenya based on loan size
  - ④ Minimum of 10%, Average between 30-40%, Maximum of 70%

# Conclusion

- ④ Asymmetric Information is the most serious problem facing the microfinance industry
- ④ The most successful types of MFIs hinge on complete communication
  - ④ Vertical communication between lender and borrower
  - ④ Horizontal communication between local and state institutions

# Conclusion

- My focus is to establish a communication network between MFIs and their clients
- Institutions need to be reliable and trustworthy in order to secure additional funding
- Establishing a performance benchmark is the first step towards ranking MFIs based on success