For Profit vs. Non Profit Microfinance; How are the poor affected?

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“2.8 billion of the world’s 6 billion people live on less than $2 per day.

1.2 billion live on less than $1 per day

(Anon. 2000/2001,3).”

The Global Village
What is Microfinance?

- “Microfinance is banking to the poor (Dr. Muhammad Yunus).”
- “Microfinance is the supply of loans, savings, and other financial services to the poor (Kiva).”
- 97% repayment rate

2006 Nobel Peace Prize recipient
Dr. Muhammad Yunus
Two Approaches of Microfinance

- **For Profit Approach**
  - Higher interest rates to meet costs (up to 50%)
  - Stand alone entity (can raise capital easier to reach more people)
  - No research that says people cannot pay these rates (mission drift)

- **Non Profit Approach**
  - Lower interest rates (20%)
  - Offer more services than credit (education, health)
  - Tendency to be dependent on donors
Signing for a Microfinance loan
My theory and hypothesis

- Much research is done on determining which method is better. Both approaches are effective within their own scope and setting.
- What are the advantages and disadvantages between the two approaches?
- How are the poor affected with each approach?
Thesis Methodology

- Create 2 case studies of each microfinance approach using institutions within Mexico (Compartamos & AlSol).
  - Isolate as many variables as possible (age, size, average loan, number of borrowers, country).

- Compare and Contrast these case studies in order to draw conclusions.
How will I collect my data?

- Industry leader interviews
- Institution website
- Existing research
- Annual reports
- Personal visit to Mexico
Plans for the future

- Meet with my mentors to discuss drafts.
- Scholars Day Presentation (April 3, 2008).
- Complete thesis by April 15, 2008.
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References


