

URL: <https://stvp.stanford.edu/blog/videos/what-is-microfinance>

Geoff Davis, founder and CEO of Unitus, explains the meaning of microfinance and the huge potential and impact the field has. He goes on to discuss the difference between microfinance and micro credit. He reveals that microfinance has a huge growth opportunity as it is potentially a five billion dollar market and is currently about a one billion dollar market.



Transcript

Around the world, most people don't have jobs.. There are about 3 billion people in the world that live on less than \$2 a day.. Reference point: there are only 6 billion in the whole world.. So about half the world lives on less than \$2 a day, and most of them work in what's called the 'informal economy'.. They sell goat cheese in the market.. Or they weave baskets and sell them in the market.. Or they sell milk or something.. They make your shoes or mend shoes, do something to get by informally.. And that makes up the bulk of employment in most parts of the world.. In Mexico, it's 65% of the economy, for example..

And so that exists.. That's just reality.. And most of these people who have these small businesses are incredibly cash-constrained.. Like this woman, who needed \$35 to almost double her income.. Thirty-five dollars seems like not much to most of us here, but when she was making \$2 a day coming up with \$35, that was quite a lot to try to come up with because that entire \$2 a day that she made went to feeding her family.. So microcredit-- I'm going to distinguish between microcredit and microfinance--is an idea, as you've heard about, that began about 30 years ago of giving small loans to these type of people, these men and women who are working in informal economy to either start a business if they didn't have one or to grow an existing business.. And oftentimes it's refinancing existing credit that they might have from moneylenders.. And I'll just pause and give a side comment.. Moneylenders are alive and doing well around the world.. And there's almost a cartel in moneylender rates and it tends to be about 10% a day..

When I first started learning about this, my eyes did exactly what yours did.. "Wow!" Ten percent a day.. And it's usually called the '10 plus 1'.. So I'll ask people, and in some places it's even worse.. In the Philippines, it's called '5-6'.. That means they give you 5 in the morning, whatever it is--5 pesos, 5 fish, 5 whatever--and you give me 6 in the evening.. So even more, 20% a day.. But it's usually 10 plus 1.. I'll give you 10 in the morning and you'll give me 10 back in the evening.. Ten percent a day, 3,650% a year, which is incredible interest rate..

So oftentimes microcredit loans will refinance that and allow the woman or the man who runs a small business to keep the profits.. So around the world, there are programs that have grown up to give these small loans, to give loans to poor people working in the informal economy.. There are about--depending on how you count them--3,000 to 5,000 of these programs worldwide that are giving small \$100, \$200 loans to these type of people, which is great.. It sounds like a lot.. And you heard the impact on one family's life.. The rub, if you will, or the opportunity, since we're entrepreneurs or at least want to be entrepreneurs, is that less than 20% of all people who could benefit from microfinance or microcredit have access to it.. So less than 20% market penetration.. I'll talk a little bit more a bit later, but this is potentially a \$50-billion market, and right now it's about a \$1-billion market.. So, huge growth opportunity..