

Typology of Microfinance Providers (MFPs)

The COVID-19 pandemic has had a profound impact on poor people and micro and small enterprises, including their use of financial services. In turn, this has affected the entities that provide financial services to these customers. This [COVID-19 Briefing](#) uses the term “microfinance provider” (MFP) to encompass the universe of different entities that provide credit and deposit services to low income clients and their micro and small enterprises, most of them in the informal sector.¹

Microfinance started a long time ago and came to prominence a few decades ago when unregulated non-government organizations (NGOs) scaled up their microcredit operations. It has since evolved substantially, and today many MFPs also offer deposits and payments.² MFPs can be regulated or unregulated, banks or nonbanks, large or small. They can assume different legal forms -- incorporated companies, NGOs, member-based entities -- or be informal. The relative importance of these diverse types in reaching low-income populations varies widely across countries.

It is not always easy to discern an MFP from other kinds of financial services providers. In general, MFPs focus on small-ticket services such as small (and mostly short-term) loans and deposits. They can have more clients than mainstream financial services providers operating in the same country, even though their balance sheets may be smaller. And while they primarily serve informal enterprises, many also have SME portfolios serving formalized companies. Not all MFPs label themselves as being part of the “microfinance sector”. No typology will fit all country contexts, so this [Briefing](#) groups MFPs into manageable broad categories explained below, while providing some country examples in the table.

1. **Regulated MFPs:** in this [Briefing](#), being regulated means being within the perimeter of financial supervisory authorities with regulatory and enforcement powers such as: central banks; independent supervisory authorities (e.g., National Banking and Securities Commission –CNBV– in Mexico, Superintendence of Banking, Insurance and Pension Funds Administrators –SBS– in Peru); dedicated microfinance authorities (e.g., Microcredit Regulatory Authority in Bangladesh, SACCO Societies Regulatory Authority –SASRA– in Kenya, Uganda Microfinance Regulatory Authority – UMRA); departments in a ministry (e.g., the Ministry of Finance in Tunisia, the Financial Regulatory Department under the Ministry of Finance in Myanmar, etc.). Self-regulation by industry bodies, except where this has received an explicit mandate (“delegated supervision”) by the financial authority, is not included here. The main sub-categories of MFPs are:

1.1. **Deposit-taking:** these are regulated MFPs authorized to collect deposits from their clients and issue savings or checking accounts. This does not include MFPs that only accept cash collateral against loans, which is a practice followed by some MFPs. The term “deposit” is used broadly to refer to the collection of repayable funds from consumers who voluntarily deposit them with MFPs for savings or similar purposes, including some special cases in which the country regulation does not define such funds as deposits (e.g., savings of members of credit cooperatives in Russia).

1.1.1. **Banks:** these are MFPs licensed under the banking law (or similar).

¹ We do not use the widely known term microfinance institution (MFI), as it is often understood more narrowly and/or might have a specific meaning in various country contexts.

² In this note, we do not include in the definition of MFP other types of financial services that could be targeted at the lower end of the market such as digital lending (including P2P lending), insurance, pensions, investments and crowdfunding, e-money, asset finance, factoring, leasing, etc. This note is not an attempt to identify all types of inclusive financial service providers.

- 1.1.1.1. Commercial banks: full commercial/universal banking license, dedicated to microfinance or with a significant microfinance portfolio.
 - 1.1.1.2. Specialized microfinance banks: special licensing tier carved out of the banking law, usually limiting the scope of operations, dedicated to microfinance or with a significant microfinance portfolio.
 - 1.1.2. **Deposit-taking MFPs (DTMFPs)**: licensing category for deposit-taking MFP outside of the banking law, covered under a different law such as microfinance law, non-bank financial institution (NBFI) law, or similar.
 - 1.1.3. **Other banks**: there is a range of other banks that have their own laws. Government-owned savings banks and postal banks are examples.
 - 1.1.4. **Cooperatives**: member-owned entities such as credit cooperatives, cooperative banks, building societies, or credit unions (credit cooperatives that can serve non-members). These types of institutions are often governed by cooperative laws. In addition, they may also be under another financial sector law implemented by a financial supervisory authority.
 - 1.1.5. **Deposit-taking NGOs (DT NGOs)**: these are exceptional cases, in which NGOs are authorized to take-deposits from the public. NGOs usually operate under an NGO law or similar and DT NGOs may also be covered by a special law bringing them under a financial supervisory authority.
 - 1.2. **Non-deposit-taking**: these credit-only institutions are divided into NBFIs (incorporated companies) and NGOs.
 - 1.2.1. **NBFIs**: these may operate under the NBFI law, special microfinance laws (e.g., the Law on Microfinance Organizations in the Kyrgyz Republic), or general credit laws (e.g., the Borrowers & Lenders Act in West African countries, and the Credit Act in South Africa).
 - 1.2.2. **NGOs**: similarly, credit-only NGOs may be allowed to operate under general credit laws or special microfinance laws (e.g., Law on Microcredit Organizations, Bosnia and Herzegovina; Microfinance Law, Egypt; Microfinance Legal Framework, São Tomé e Príncipe).
2. **Unregulated MFPs**: these are MFPs that do not fall within the regulatory and enforcement powers of financial supervisory authorities, even though they may be subject to legislation (e.g., AML/CFT, consumer protection, data protection and/or company law). In certain countries, unregulated or informal MFPs may be the main or the sole source of financial services for a large number of people. (NGOs in Lebanon are an example.) In some cases, informal schemes are an integral part of the culture and serve millions of people (e.g., savings groups and self-help groups). Unregulated MFPs can be formal or informal and can be deposit-taking or non deposit-taking.
 - 2.1. **Deposit-taking**: these unregulated MFPs are allowed to collect funds from the public. Such funds may or may not fit the legal definition of “deposit” according to the law (e.g., member contributions to a cooperative may not be considered a “deposit”). However, we classify them as deposit-taking simply to differentiate them from unregulated MFPs which only provide credit. They include unregulated financial cooperatives and informal savings schemes.
 - 2.2. **Non deposit-taking**: these are MFPs that provide loans, but do not fall under the financial supervisory authority. They assume many forms.

Regulated MFPs – country examples (illustrative, non-exhaustive)	
Deposit-taking	
Banks	
<u>Commercial/universal banks with significant microfinance operation</u>	Equity Bank (Kenya); Bancosol (Bolivia); Compartamos (Mexico); Banco Prodem (Bolivia); Sber Bank (Russia); Bandhan Bank (India); First MicroFinanceBank (Afghanistan); Mibanco (Peru).
<u>Specialized banks</u>	Small finance banks (India); Microfinance banks (Rwanda); SME banks (Bolivia); Microfinance development banks (Nepal); Microfinance banks (Nigeria); Rural banks (Philippines).
DTMFPs	Microfinance banks (Pakistan); Micro finance deposit-taking institutions (Uganda); Microbanks (Mozambique); Microfinancing institutions (Ethiopia); Microbanks (São Tomé e Príncipe); Financieras [<i>ODEF, Finca</i>] (Honduras); Popular financial companies [SOFIPOs], Community financial companies [SOFINCOs] (Mexico); Deposit-taking MFIs (Sierra Leone); Micro finance deposit-taking institutions (Liberia); Cajas municipales, cajas rurales, financieras (Peru); Systèmes financiers décentralisés (WAEMU); Microfinance companies (Kyrgyz Republic).
Other microfinance banks	Postal banks, Government-owned savings banks [<i>Caixa</i>] (Brazil); Agricultural banks (Ghana); <i>Grameen Bank</i> -which has its own law (Bangladesh); Local/rural banks (Indonesia); Thrift banks (Philippines).
Cooperatives	SACCOs (Ghana, Kenya, Nepal, Rwanda); Savings and credit cooperative societies [SOCAPs] (Mexico); Savings and credit cooperatives (Nicaragua, Paraguay, Peru); Financial cooperatives (Bolivia, Colombia); Savings and loans associations (Honduras); Cooperative banks (South Asia); Organizaciones de economía solidaria (Colombia); Savings and loans societies (Papua New Guinea); Credit cooperatives (Russia).
DT NGOs	Most MFPs in Bangladesh; <i>Organización Privada de Desarrollo</i> (Honduras).
Non deposit taking	
NBFIs	Entities for the development of SMEs [EDPYMEs] (Peru); MFIs (Kosovo); Credit only institutions (Liberia); NBFIs (Lebanon); Non-banking financial company MFIs (India); Regulated Multiple purpose financial companies [SOFOMEs] (Mexico); MFIs (Rwanda); Microcredit organizations (Bosnia and Herzegovina); Microcredit societies (São Tomé e Príncipe); Micro-entrepreneur credit companies [SCMEPPs] (Brazil); MFIs (Nicaragua); Credit-only MFIs (Sierra Leone); Microcredit companies (Kyrgyz Republic); Nonbank microfinance companies (Pakistan).
NGOs	Most countries have some of these.
Unregulated MFPs – country examples (illustrative, non-exhaustive)	
Deposit-taking	Financial cooperatives (many countries); SACCOs (Ethiopia); Credit unions (Guatemala, Panama, Venezuela); Savings groups or ROSCAs (several countries and regions); Self-help groups (India, East Africa).
Non deposit-taking	NGO MFIs (Brazil, Colombia, Iraq, Lebanon, Peru); Parafinancieras (Mexico); Non deposit-taking MFPs; Moneylenders.