

Defining microfinance

Microfinance is used here as a wider term, comprising banking and non-banking, formal and nonformal financial institutions with financial services of a small scale, mostly to low-income people. Microcredit institutions provide only credit; microfinance institutions in the wider sense provide savings, credit and possibly other financial services. The term microbanking is used for regulated microfinance institutions belonging to the banking sector. In Indonesia for example, these include the microbanking units of BRI and other commercial banks and rural banks (*BPR*) licensed under the law (*PAKTO27*) of 1988. Similarly, CGAP (2008: xiii) uses a wide definition of microfinance institutions: "MFIs are defined as licensed and unlicensed financial institutions that include nongovernmental organizations, commercial banks, credit unions and cooperatives, and agricultural, development, and postal savings banks. They range from specialized microfinance providers to programs within larger, multipurpose development organizations." (Appraisal Guide for Microfinance Institutions: A Technical Guide, by Jennifer Isern and Julie Abrams with Matthew Brown. CGAP, Washington DC 2008).

Here are the first documented uses of the term microfinance:

- H D Seibel, Microfinance for Microenterprises: Some Practical Experiences of Linkages between Formal and Informal Financial Institutions in Indonesia. Royal Tropical Institute Amsterdam, International Symposium on *Sharing Poverty or Creating Wealth? Access to Credit for Women's Enterprises*, Amsterdam, January 1991 (see book publication, edited by Jaya Arunachalam, WWF India, Madras)
- H D Seibel, Microfinance for Rural Microenterprises: Financial Innovations in a Deregulated Policy Environment/*Keuangan Mikro bagi Usaha-usaha Kecil Pedesaan*. Bank Indonesia, Jakarta 1991
- H D Seibel Draft Microfinance Policy Paper. Asian Development Bank, Manila 1993. *Revised and published as*: H. D. Seibel, Financial Systems Development and Microfinance: Viable Institutions, Appropriate Strategies and Sustainable Financial Services for the Microeconomy. TZ-Verlagsgesellschaft, Rossdorf / GTZ, Eschborn 1996 (ISBN 3-88085-515-3)

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