Table 1: Microfinance Lending Models

Microfinance Lending Model 1: Associations
An association is formed by the poor in the target community to offer microfinance services (micro savings, microcredit, micro-insurance, etc.) to themselves. The association, which can form on the basis of gender, religion, or political and cultural orientation of its members, then gathers capital and intermediates between banks, microfinance institution (MFI) and its members.

Microfinance Lending Model 2: Bank Guarantees
A donor or government agency guarantees microloans made by a microfinance/commercial bank to an individual or group of borrowers. Compulsory deposits by borrowers in such banks are also included in this model.

Microfinance Lending Model 3: Community Banking/ Grameen Bank USA/ VillageBanking
Community Banks/Village Banks are formal versions of 'associations' and are created by members of a target community who wish to improve their living standards and to generate employment. By offering microfinance services, these banks seek to develop their communities. Guarantees are provided by social collateral (peer-pressure) as services are distributed through 5-member groups (i.e., Grameen) where each member's eligibility for loans is based on his/her peer's performance.

Microfinance Lending Model 4: Online Community Platforms/KIVA
Borrowers are screened and then the loan is crowdfunded with small contributions from a large audience.

Microfinance Lending Model 5: Cooperatives
Cooperatives are very much like Associations and Community Banks except that their ownership structure does not include the poor. A group of middle or upper class individuals may form a co-op to offer microfinance services to the poor.

Microfinance Lending Model 6: Credit Unions
In a credit union, members of a target community gather their money and make loans to one another at low interest rates. Compared to community banks, credit unions are smaller and non-profit oriented, charging interest rates that merely allow sustainability.

Microfinance Lending Model 7: Non-Governmental Organizations (NGOs)
Unlike community-based models, NGOs are 'external organizations'. Their activities range from offering microfinance services (loans, insurance, savings, etc.) to improving credit ratings of the poor, training, education and research. NGOs may also act as intermediaries between the poor and donor agencies (e.g. UN, World Bank) and operate locally, as well as globally (through physical or online presence).

Microfinance Lending Model 8: For-profit Banks
Commercial Banks, as well as specialized Microfinance Banks offer various financial services to the poor but the main purpose may be to secure a return on investment. Unlike other models, the aim is social development as well as financial progress beyond institutional sustainability.

Microfinance Lending Model 9: Rotating Savings and Credit Associations (ROSCAs)
ROSCAs are small groups, where each member makes regular monthly (or weekly, quarterly or annually) contributions into a common fund, which is given entirely to one member at the start of each cycle (e.g., weekly, monthly, quarterly). The benefit of this model is the matching of a client's cash flows with the loan, the ability to structure the deal without interest rates, and the absence of overhead costs.