MICROFINANCE INSTITUTIONS IN LATIN AMERICA, AFRICA AND SOUTH ASIA

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Abstract
In the article of the Microfinance Institutions in Latin America, Africa and South Asia, there is describe the situation in these regions and which institutions works there.
The Microfinance institutions are devided into two big groups according to participate in microfinancing – directly and indirectly.
There are five main types of institutions directly involved in microfinance - those related to Governments, those in the private sector, NGOs, cooperative-type institutions and informal lenders Types of institutions involved "indirectly" in microfinancing are APEX organisations, Commercial banks extending lines of credit to MFIs, Development Banks who extend who extend credit lines to, and take equity positions in, Donors and intermediaries such as the EC and WWB which provide funding and guarantees.
Each type of institutions has own charactericties, and is determinated for specific help there, where is applicated.

Key words: Microfinance, rural communities, developing countries, credit unions, village banks, ROSCAS.

INTRODUCTION

To most, microfinance means providing very poor families with very small loans (microcredit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor who lack access to traditional formal financial institutions require a variety of financial products.
Microcredit came to prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and a few other countries. The important difference of microcredit was that it avoided the pitfalls of an earlier generation of targeted development lending, by insisting on repayment, by charging interest rates that could cover the costs of credit delivery, and by focusing on client groups whose alternative source of credit was the informal sector. Emphasis shifted from rapid disbursement of subsidized loans to prop up targeted sectors towards the building up of local, sustainable institutions to serve the poor. Microcredit has largely been a private (non-profit) sector initiative that avoided becoming overtly political, and as a consequence, has outperformed virtually all other forms of development lending.
Traditionally microfinance was focused on providing a very standardized credit product. The poor, just like anyone else, need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks.
Informal credit markets form an important part of the financial systems of developing countries, constituting as much as half of rural credit and a significant part of urban credit in many of them. They play a particularly important role in channelling credit to small and poor borrowers in both urban and rural areas, serving to underpin the credit requirements of a large part of total employment, income and output. Moreover, they constitute a major source of working capital for enterprises of all sizes and serve generally to ameliorate inefficiencies in the allocation of credit from formal sector. However, information about informal credit markets is fragmentary.

This article starts with definition of formal and informal microfinance institutions in developing countries. Subsequently, it briefly describes various types of informal credit markets in general, and then discusses linkages between informal and formal markets.

Microfinance institutions

Microfinance is the provision of savings, credit and/or other financial products in small amounts to primarily poor customers conventionally believed not to have the capacity to save as well as considered unwilling and unable to pay the high interest rate required to cover credit transaction costs. However, some microfinance intermediaries have achieved financial sustainability by using unconventional techniques, charging cost-recovering interest rates and obtaining high levels of repayment.
There are five main types of institutions directly involved in microfinance - those related to Governments, those in the private sector, NGOs, cooperative-type institutions and informal lenders (see table below).

Tab. 1: Types of institutions involved in Microfinance

TYPES OF INSTITUTIONS INVOLVED IN MICROFINANCE

Types of institutions involved 'directly' in microfinance

1. Government-related:
   - -BRI, Indonesia, is a state-owned bank with 2.5 million loans outstanding (1996)
   - -Grameen Bank (ex-pilot project), Bangladesh is a parastatal (25% of the equity held by the Government and 75% by borrowers) with nearly 2 million customers
2. Privately owned:
   - -Barclays Bank of Kenya Limited and Kenya Commercial Bank offer some small loans including to the informal sector
   - -Commercial Bank of Zimbabwe provides approx. US$300 loans to urban clients using solidarityy group methodology
   - -ADEMI, Dominican Republic, is a non-profit organisation managed by a board of trustees with 16 000 customers (1995)
   - -K-Rep commercial microfinance bank (ex NGO) with nearly 10 000 customers (1994)
   - - BancoSol (ex NGO, PRODEM), Bolivia private company with 46 000 customers
3. NGOs (Ownership unclear):
   - -CARE, Niger with 12 600 customers (1994)
   - -Others include Accion, Oxfam, Opportunity Trust
4. Cooperatively owned:
   - -Credit Unions
   - -Village banks: e.g. FINCA in Uganda with 4 900 customers (1997)
   - -Self-help groups/associations
   - -Self Farming Group Association, SFGA
5. Individuals:
   - Moneylenders/friends/relatives/suppliers

Types of institutions involved 'indirectly' in microfinance

1. APEX organisations, Micro Bankers Trust in Zambia working with eight members, NGOs and private companies
2. Commercial banks extending lines of credit to Microfinance Institutions (MFIs)
3. Development Banks who extend credit lines to, and take equity positions in, MFIs
4. Donors & intermediaries such as the EC and WWB which provide funding and guarantees

Binns M.H., (1998)

Formal versus informal

Human behaviour reflects the efforts of the individual to adjust himself to his surroundings. Two characteristics seem to dominate the environment of the poor: small-scaleness and risk. Rural economies are "penny economies" in which almost everything is small-scale. Participants in this penny economy produce, exchange, buy and sell, save and borrow and earn money in extremely small quantities and amounts. The market is "atomized": rice is sold not in bags but in cigarette tins; bananas and carrots not in bunches or bundles, but by the piece; eggs and cigarettes are bought singly, and sugar is bought in lumps rather than by the kilo. People save in cents and dimes, not in dollars and women save in handfuls of rice kept back from daily meals. Hence, money transactions in this economy, although very frequent, are mini-sized, too; one does not borrow or lend for long, but for extremely short periods, and interest is calculated on a daily, weekly or monthly but seldom on an annual basis.

The mini-character of rural economies has its consequences for development strategies and intervention mechanisms. Viable financial intermediation in such an environment requires a low-cost institution, making a sufficiently large number of profitable mini-loans to cover overheads, the cost of capital accumulation and the risk of default.

The formal sector's superiority over the informal one is not in doubt when it comes to financing large-scale economic development and projects of national or regional importance. It can command much more capital and afford long-term loans. But the design and cost structure of most formal finance institutions are such, that they resemble the proverbial white elephant when they try to serve a penny economy rather than a dollar or maxi-economy. Transaction and management costs of banks, in particular, could threaten their survival, because the economy of low income rural households cannot generate sufficient business volume to sustain them (Bouman 1989).

Loans for micro-enterprises such as workshops to cast and polish (spare) parts of a pump-set, to make chalks for blackboards, to mould plastic bottles, caps and T-pieces for electrical conduits, credit for iron ploughs and sickles used in cane cultivation, small repairs of pump-sets, wells and irrigation pipelines, loans for starting a small shop, petty trade or a street stall for the sale of fruit, drinks and cane juice, the purchase of a bicycle, refrigerator or TV-set - all these are largely financed by the informal sector rather ten formal one.

Informal lenders usually operate as individuals (e.g., friends and relatives, rural moneylenders, agricultural input, dealers and produce traders, pawnbrokers, and urban curb market brokers) or as groups of individuals organized mutually – as in Rotating and Accumulating Savings and Credit associations (ROSCAs and ASCRAs). However, in some countries some informal lenders are organized as partnership firms (e.g., “indigenous banks” in India), or even as companies (e.g., those non-bank financial intermediaries such as informal finance, investment, leasing and hire-purchase companies, which are exempted, to a greater or lesser degree, from central bank controls and which partake of characteristics of the informal sector). Since informal lenders can be institutions, the dichotomy between institutional and non-institutional credit is misleading, the crucial characteristic being informality and flexibility of operations, which confers on the informal sector its comparative advantage over the formal sector in respect of lower transaction costs.

TYPES OF INFORMAL INSTITUTIONS

Credit unions

Credit unions are cooperative financial institutions, owned and controlled by the people who use their services. These people are members. Credit unions serve groups that share something in common, such as where they work, live, or go to church. They are not-for-profit, and exist to provide a safe, convenient place for members to save money and to get loans at reasonable rates.

Credit Unions started operating in the 50's and are represented world-wide. In developing countries credit unions have 9 million members, 60% of which are in Africa and the Caribbean. They collect savings and provide short-term credit.

Micro/small enterprises (MSE) lending represents a small but significant share of credit unions' portfolio in most developing countries - 10 to 20%. It is estimated that credit unions provide 860 000 MSE customers with an average loan of US$176.

The demand for loans exceeds the supply of savings and therefore queuing for loans or limiting the member's loan to a relatively low multiple of savings is usual. Security is in the form of prior savings and the use of other members as co-signers. Collateral is also sometimes required.

Village banking

Village banking is a means of delivering financial services—small loans and savings products—to those who could not otherwise obtain them. While many agencies and organizations provide small loans to low-income families, not all use the Village Banking method (HAVRLAND, 2001).

Village banking was developed during the 80's as an alternative to rural credit in Bolivia, based on the assumption that village communities would make the best managers of their own banking system.

The purpose was "to organise informal banks which could use a line of credit from a financial intermediary to provide non-collateralised loans to members, a place to invest savings and promote social solidarity" (Nelson et al, 1996). In 1984 the Foundation for International Community Assistance (FINCA) was established to expand village banking through the creation of local affiliates to whom FINCA would provide technical and financial support.

Village banks can invest their savings in local business ventures or community development projects, lend them out, or place them on deposit in commercial interest-bearing bank accounts. Some village banks allow members to borrow for personal as well as business purposes. Members are generally required to save a certain percentage of their loans.

At the end of 1994 there were some 3 499 recorded village banks with 90 754 members, 95% of which were women. The 87 586 borrowers had average loans of US$90 and a repayment rate of 95%. Africa has the second highest concentration of village banks (535). 92% of its 16 652 members were women.

Loans range from US$25 to US$1 500 but most are in the US$50 to US$100 range. The active collective portfolio stands at about $8.5 million with a 97 percent repayment rate. They are usually granted for a period of three to six months.

Village banks "in rural areas" have more difficulty in building "trust and solidarity". In rural areas they suffer from large numbers of members leaving (for reasons not yet understood) and low levels of literacy not enabling all members to have the same control over the organisation and sometimes requiring prior literacy

training. Where the clients profile is not homogenous there has been abuse by dominant members.
Although savings mobilization is still key for capitalizing village banks the motivation to save is changing. Most implementing agencies have had to strike balance between empowering village borrowers to create their own management systems and providing sufficient oversight to assume accountability. These programs have made great investments in accounting training to improve banks management. This is often supplemented with literacy training.
Village banking has changed from a financial service model to an integrated provider of credit and savings with education, health, nutrition, environment, and general community development. They, originally projecting three years to autonomy, in practice find their capital accumulation slowed by member demands for greater access to saving, lower rates and fluctuating membership. Programs are exploring a number of options for ensuring members' ongoing access to financial services, including the diversification of loan products and linking either banks or their individual members to other financial institutions.
Evaluation of village banking programs indicate that their benefits are both economic and social with positive impact on banks, members, and their communities. Borrowers increase incomes, diversify and expand activities, and participate in the group and its democratic process. Some members have increased their knowledge and improved practices in management, literacy, nutrition, and health.

Self-help groups/associations

Financial self-help associations that have saving and lending as a primary or sole function, are found in two basic forms: **Rotating and Accumulating Savings and Credit Associations**, **ROSCA** and **ASCRA** for short. There is one marked difference between the two types.
ROSCAs are rural institutions in some countries, urban in others, and both rural and urban in yet others. They are traditional institutions found throughout Asia in a variety of forms. These are referred to as "kye" in the Republic of Korea, "paluwagan" in the Philippines, “arisan” in Indonesia, "pia-hueys" and "chaer" {or share) games in Thailand, and "chit funds" in India.
In the ROSCA, each time that savings are pooled, they are immediately redistributed among members in rotation, until each has had his turn and the ROSCA comes to an end. Its lifetime depends on the number of players and the periodicity of contribution; 40 participants making weekly payments means a lifetime of 40 weeks, a ROSCA of 12 players and monthly payments lasts one year. The "instant" redistribution avoids the need for safekeeping of funds. In principle, each participant draws from the ROSCA as much as he puts into it. The main advantage is that each member, except the last recipient, will reach his goal sooner than when acting on his own, because he is getting a loan from all other members. This is most clear in a ROSCA in which all members are saving for the same item, e.g. a sewing machine of US$120. Saving $10 a month individually, it would take one year to accumulate the necessary $120. In a 12-member ROSCA, all players, except the last recipient would be in possession of the sewing machine earlier, lucky number one already after one month.
The loan in the ROSCA is automatic, as is its repayment; there is hardly any administration. ROSCAs possess the advantages of accessibility, flexibility and adaptability, ranging from small neighbourhood or workplace-based institutions whose primary attraction is that they are a vehicle for savings to larger, more impersonal organizations which offer a quick means of raising funds urgently for production or consumption. Intermediation costs are reduced to a minimum and generally consist only of what amounts in effect to an interest-free loan to the organizer who takes the entire kitty in the first round. In smaller ROSCAs, where there is enough trust between participants, there may be no organizer at all. The ROSCA represents the most simple and straightforward form of financial intermediation, although there is a growing number of sophisticated variations on the original scheme.
The ASCRA, on the other hand, resembles the Credit Union. The pooled savings are kept in custody and accumulated for a specified time, at the end of which the savings are redistributed. The common period is here also one year, during which members may save to pay taxes and school fees or to meet the expenses of a recurring festival or religious ceremony, like the Chinese New Year, Christmas, or Diwali, a Hindu festival in India. Participants might also build up a fund to pay for emergencies, insurance, community development expenses or for joint investment. In fact, any individual or common purpose will do.
Meanwhile it is usual - with a few exceptions - that loans from the fund are made. Lending becomes the preferable strategy in an expanding economy and consumers' market. High interest on loans - 5 to 10 percent a month being not uncommon - make the fund accumulate very fast, thereby increasing not only the opportunity for borrowing, but also the value of members' savings. Participants might agree to save equal amounts regularly on a contractual basis or to make voluntary , unequal and irregular payments. They might also agree to extend the accumulation process over a long time, as in the five-year Bishi in Sangli; or to distribute only part of the money and aim for a more permanent fund, so that borrowers can take more and longer-term loans. However, this increases the risks of safekeeping, loan defaults, plus increasing administration and transaction costs.
Unlike in the ROSCA, loans in an ASCRA are not automatic, but subject to loan decision by a board or the consent of members, and arrangements for repayment should be made. Possibly, collateral may be required.

Loan administration typically is extensive, necessitating the need to keep records.
ASCRAs are much larger than ROSCAs; membership may number several hundred, even a few thousand, while a ROSCA usually numbers between 12 and 50, depending whether meetings are monthly or weekly. A larger ROSCA would result in a longer cycle, with the opposite effect to its very purpose: accelerated access to capital or a commodity. The ROSCA loans are automatic and the group has to be kept small and localized, because much depends on mutual trust and knowledge of each other. In this respect, the ROSCA is like the credit cooperative of Raiffeisen, who also wanted to keep the cooperative small and localized because of the principle of unlimited liability.
Besides exhibiting their own peculiarities, ROSCA and ASCRA have a number of characteristics in common. The most notable one is that both are autonomous institutions, for and by the common and not-so-common man. This fact is often overlooked by development agencies, eager to introduce their own models of "participatory democracy" in an alien culture.
In both ROSCA and ASCRA participation is voluntary. As financial institutions, they exhibit a degree of self-sufficiency, self-regulation and self-control that is exemplary. Assistance and control by official authorities are not appreciated or necessary, impede the institution's flexibility and adaptation to members' priorities and the environment. The criticism that ROSCA and most ASCRA lack permanency because of their short life cycles is true, but without much meaning on close scrutiny. Permanency runs counter to the ROSCA's very purpose of quick access to a lump sum of money and its adaptation to change.

Small Farmer Group Association

Before proceeding further on the topic of small farmer group associations, it is useful to define three key concepts of the definition.

- A **"small farmer"** , is a person actually engaged in farming, or in farm work, or fall within other categories of small-scale non-farm producers, such as artisanal fishermen, nomadic pastoralists, and petty traders;
- A **"small farmer group" (SFG)** is defined as an informal, voluntary self-help group composed of 5 – 15 small farmers from the same village or community, intent on undertaking mutually beneficial activities related to their economic and social well-being. Spontaneity is an important characteristic of such groups: they are "bottom-up rather than "top-down";
- **A "small farmer group association" (SFGA)** is defined as: an informal, voluntary, and self-governing association of small farmer groups, whose aim is to improve the socio-economic conditions of its affiliated individual members. Typically, a SFGA may involve 5 – 15 groups, serving 25 – 150 individual members, with geographic scope varying from a village to a cluster of village or hamlets. A key feature of a SFGA is its informal or voluntary character. While its members may decide to later become a more formal society like a cooperation producers´ union, they may instead decide to remain as they are. It depends on the advantages or disadvantages to member.

Saving and credit institutions are an important category of SFGA. Poor rural people often manage to save even considerable amount compared to their economic situation and they also need access to loans. Ironically, formal rural savings institutions, such as banks, have often channelled rural savings to urban uses, for want of appropriate loan mechanisms in rural areas. In contrast, informal rural credit and savings institutions, which may begin as small farmer groups or SFGAs, can fulfil an essential role in providing a secure place to hold savings and to gain access to loans on reasonable terms with a minimum of bureaucracy. A SFG that has accumulated some savings, but not enough to satisfy member needs for loans, may feel stimulated to join a SFGA in order to enlarge access to loan money.
Rotating savings and credit associations are perhaps the oldest type of informal savings and credit institutions: each group (SFG) contributes an equal amount at regular intervals to the SFGA and the resulting fund is distributed to participating SFGs in turn by rotation. Setting up accumulative savings and credit associations (ASCAs) is another form; an ASCA is a form of inter-group Rotating Savings and Credit Association (ROSCA), Village banking is a more modern technique for providing a savings and credit service to rural areas. Some of these techniques, in particular village banking, are forms of microcredit. Micro-credit was started over 25 years ago in parts of rural Asia and has since spread worldwide, including in Europe and North America, and is applied in urban as well as ruralsituations, usually with a savings component.

CONCLUSION

To conclude, informal credit markets are an important part of the financial system in developing countries. While the individual loans they deal in may be relatively small, in terms of total turnover these markets may equal or even exceed loan volume in the formal sector. For most small and poor borrowers, informal credit markets are likely to remain the only source of finance in the medium term. A systematic investigation of the many relevant policy and operational issues is necessary to provide the factual and analytical support for an optimal policy and regulatory environment. Such an investigation might also show how informal credit markets, with all their strengths and weaknesses, can be utilized in the development process.

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Received for publication on May 13 , 2004
Accepted for publication on November 16 , 2004

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