

*Short Communication***CURRENT MICROFINANCE OPTIONS IN THE CZECH REPUBLIC AND THEIR FURTHER DEVELOPMENT BY THE MICROFINANCE FOUNDATION**

SVITAKOVA J., VYBORNA M.

*Department of Economic Development, Institute of Tropics and Subtropics, Czech University of Life Sciences, Prague, Czech Republic***INTRODUCTION**

In the Czech history there was a concept very similar to microfinance. During the second half of the 19th century institutions called *credit cooperatives*<sup>1</sup> were founded. The credit cooperatives contributed greatly to the accumulation of capital in the Czech region. The current concept of microfinance gives to the poorest people in developing countries a similar chance to access financial services, apart from the traditional banking system (Romero, 2006), and provides them a productive capital for the development of their business ideas.

In the Czech Republic, there are two concepts developed in the microfinance field. The first one is a commercial concept presenting microfinance as an alternative investment for European capital. It is represented by the join-stock company Microfinance. In its philosophy “microfinance” is a type of investment suitable for stabilization and supplement of investment portfolios as it is an alternative asset with safe and attractive interest and at the same time with demonstrable advantage for healthy development of world economy. The second concept works with “microfinance” as a tool of development cooperation. A typical feature of this concept is that investors are more interested in social impact of the loans than in maximizing the return on their capital (Mathauss-Maier, 2009). This concept is represented by the Microfinance foundation, which has been preparing from the second half of 2010 an extension of its educative and counseling activities with the goal to facilitate addition of microfinance into project portfolios of Czech NGOs. This support is based on the knowledge transfer and preparation of a web-based Portal for development co-operation, which all NGOs can access if they have projects in developing countries. The added value of the development portal is the part called *Microfinance!*, that it will provide a functional, specialized, technical and administrative background, for the usage of microfinance

as a form of development co-operation. Another important value of the Portal is the promotion of the work of individual NGOs in the part called *Donate!*.

**Dissemination of microfinance knowledge**

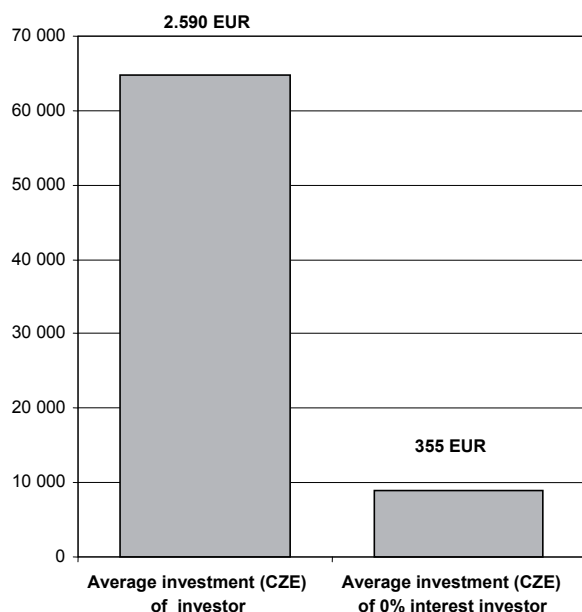
The Microfinance Foundation located in Czech Republic was founded with a basic question. *What does the microfinance in the Central Europe needs the most beside the money?* The basic answer is: to explain people what the microfinance is, how it works, and how do they contribute to microfinance. In the Czech Republic the learning about microfinance has been actually developed by two institutions. In 2010 a specialized subject called “Microfinance” was founded at the university level, realized by the Institute of Tropics and Subtropics, Czech University of Life Sciences in Prague. Before 2010 Microfinance was taught as a part of the subject called “Banking”. Until now there have been approximately 150 master degree students attending these two subjects and some doctoral thesis were written about this topic (ITS, 2011). Another source of dissemination of the microfinance knowledge are seminars realized by the Microfinance foundation as an NGO. These seminars are organized periodically for students from Czech universities, NGO employees and for the public (NFMF, 2011).

**Microfinance: Investment or development cooperation?**

In 2007 the join-stock company Microfinance developed a web-based portal for Czech investors. The portal serves as a facilitator among microfinance institutions in Mexico and Czech investors offering individual demands of Mexican small entrepreneurs. The investment has an attractive interest between 4–7.5% depending on the amount of money invested, but 10% of the investors voluntarily decide the option to invest for “12 months,

<sup>1</sup>Czech original name of credit cooperatives is *kampeličky* or *družstevní záložny*.

**Figure 1:** Average investment in CZK and EUR (2008–2010) thru the portal of join-stock Microfinance Company



Source: Microfinance a.s. office, internal database, 4.1.2011

0% interest.” Even the amount of money invested is only 1.4% of total investments, the potential is enormous (Microfinance, 2011), see Figure 1. This knowledge raised an idea to provide the microfinance also as a tool for Czech development cooperation and the Microfinance Foundation have developed an alternative web-based portal.

### Czech NGOs and their activities in Microfinance

Czech development co-operation has a long term tradition, starting in sixties of 20th century. Since 1995 Czech Republic has created government foreign aid program as the first from transforming countries of Central and Eastern European block. In this time has been a large increase of non governmental organization operating in developing Word. In 2003 the increase of foreign aid reached its peak, because it was a time of huge economic growth. Now it is currently reaching a total number of 20 NGOs with main activities in developing countries. The main goals of each organization are different. There are projects oriented towards education and enlightenment; projects focused on reconstruction after the nature disaster and war; health projects etc. (CZDA, 2010).

In 2010, Microfinance foundation provided a survey about activities in microfinance of Czech NGOs, its use in development projects and possible inclusion to the future. Possibilities of individual NGOs vary in different focus of development projects, but we can find common

features. Based on common features of NGOs activities, it can be divided into the three types:

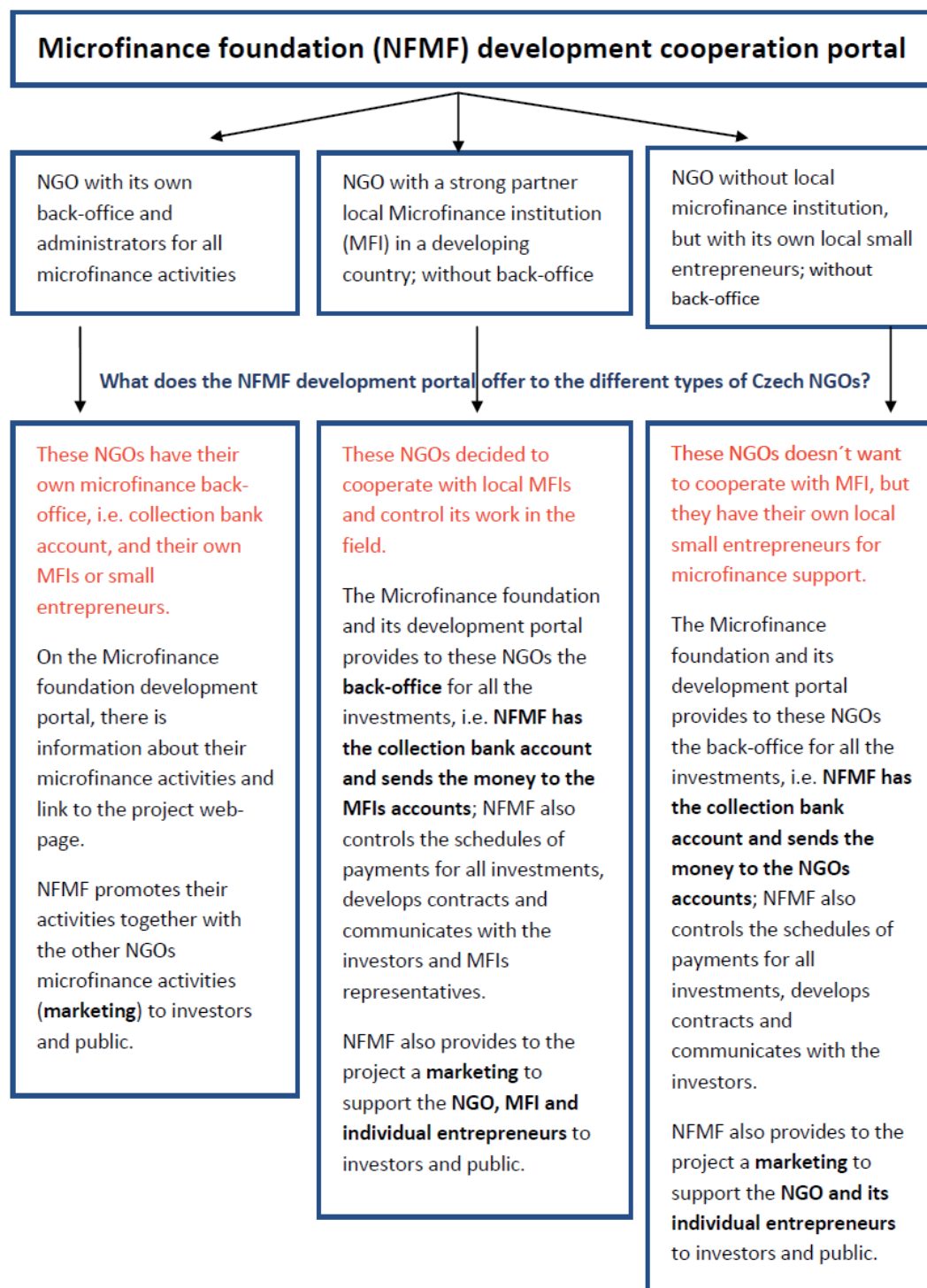
- (1) Type – NGO has a sufficient financial and human resource capacities, NGO will create own Microfinance institution operating in developing country. *Example of Czech NGO: People in need* – do not have own microfinance project but have a sufficient financial and personal capacities, prepared for implementation in the near future. – Possibility of using microfinance as a part of individual projects in different countries.
- (2) Type – NGO has already its own microfinance project in developing country. NGO is presented in operating area as a Microfinance institution and at the same time NGO. Fundraising is provided by individual NGO, through their own web-portals, selling fair trade products, etc. Microfinance is often connected as a part of activities of bigger development project. Possibilities of NGOs are limited and NGOs are not able to expand their activities into other countries. *Example of Czech NGO: ShineBean* and their project *Give a opportunity* (support of small entrepreneurs by using small loans in Kenya, Nairobi) or **Humanitas Africa** and their microfinance project oriented towards women in Zambia.
- (3) Type – NGO has a development project in developing country. All financial and personal resources are connected with realization of development project. NGO is interested in microfinance but do not have enough financial and personal capacities. *Example of Czech NGO: Siriri* and their projects in the Central African Republic Kongo or **Surya** and their projects in India.

Based on these facts a program of activities of Microfinance foundation for the period 2010–2013 was compiled. The main parts of this program are knowledge dissemination and realization of web-based development portal to support microfinance activities in the Czech Republic.

### Government support and Microfinance Foundation development portal

In May 2010, the government established the concept of Czech Republic’s foreign development cooperation for the period 2010–2017, which defines microfinance as one of the possible modalities of international development co-operation (MZV CR, 2010). Based on this conception in 2011 the Ministry for Foreign Affairs of the Czech Republic and Czech Development Agency have been supported Microfinance Foundation and the initiation of the web-based development portal to promote microfinance

**Figure 2:** Scheme of NGOs types on Microfinance Foundation Development Portal



among Czech NGOs with two grants. The first grant is focused to dissemination of knowledge about microfinance among high-school teachers and future teachers in pedagogical faculties. The second grant is dedicated to dissemination of knowledge among Czech NGOs, development of the web-based portal and involvement of microfinance into the project portfolio of Czech NGOs.

The new Microfinance Foundation development portal will be established on the web-page [www.nfmf.eu](http://www.nfmf.eu). It is simply divided to two sections. Section *Donate!* shows development projects realized by the Czech NGOs. Section *Microfinance!* develops the possibilities for investors and donors to support the microfinance activities of Czech non-profit organizations. Figure 2 explains the op-

tions of *Microfinance!* section. The Microfinance Foundation detected the three described possibilities, which correspond to the actual Czech NGO's situation in the field of microfinance. In all of them the main function of the portal is to support the realization of microfinance in nonprofit sector. For all NGOs the marketing support of their activities is very important. For those NGOs, who do not have enough own personal and technical capacities is also important the back-office support.

### CONCLUSIONS

The concept of microfinance has a long tradition in the Czech history and during the last years has been lightly developed both by the commercial sector and the nonprofit sector. Since 2010 the Microfinance Foundation, supported by the Ministry for Foreign Affairs of the Czech Republic and the Czech Development Agency, have made a significant extension of microfinance activities in the Czech Republic. The year 2011 is a key period for the Czech non-profit sector to expand their project portfolio with microfinance activities. Microfinance in hands of NGOs, together with their experiences and local support, can give a chance for access financial services to poorest people in the developing world. The Microfinance Foundation Development portal accelerates these activities by supporting the NGOs, microfinancial institutions and local entrepreneurs providing them the back-office services and at the same time informing the investors and donors on the marketing events. The way how to ensure safe support for the activities of non-profit sector and manufacturers, farmers and traders in the developing world, has been founded. Its efficiency and use-

fulness will be evaluated as an on-going activity of Microfinance Foundation continuously. In 2014 is planned the ex-post evaluation after three years of functioning of the development portal.

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*Corresponding author:*

**Jirina Svitakova, M.Sc**

Institute of Tropics and Subtropics

Czech University of Life Sciences Prague

Kamýčka 129

165 21 Prague 6

Czech Republic

e-mail: [svitakovaj@its.czu.cz](mailto:svitakovaj@its.czu.cz)