

# Microcredits



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# Microcredits & Microfinance

## Microfinance

- Microfinance is an array of financial services, including loans, savings and insurance
- Available to poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan.



## Goals of Microfinance

- Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor

# Microcredits & Microfinance

## Microcredits

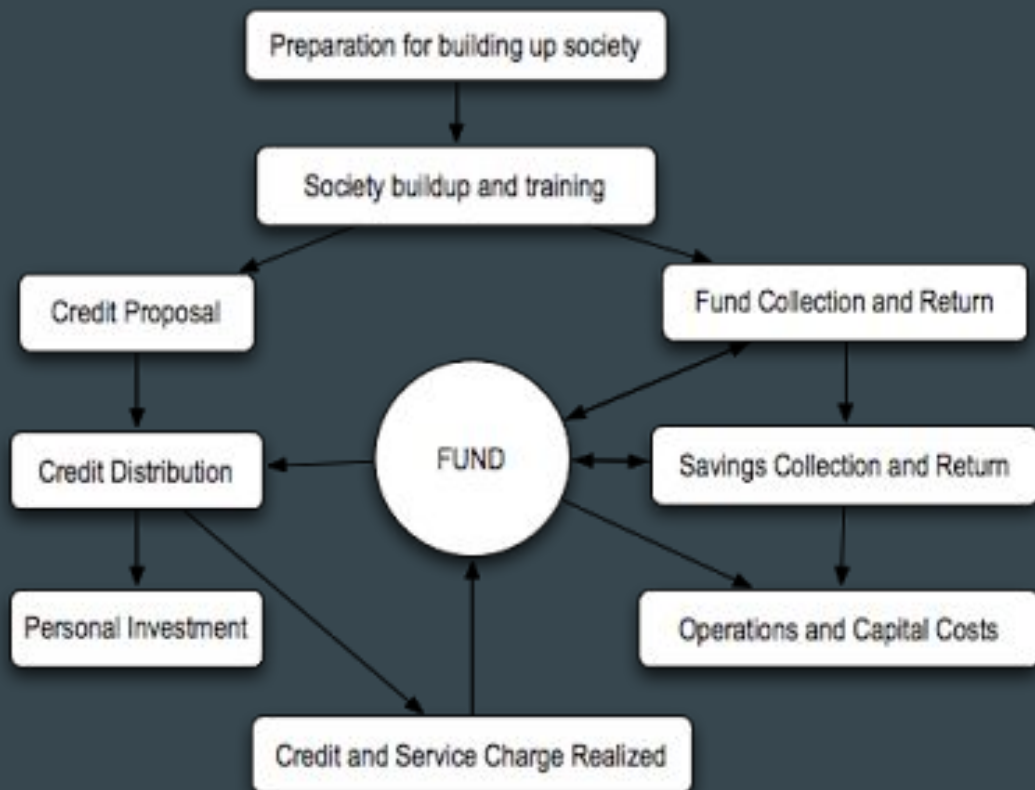
- Small loans granted to low income individuals that are excluded from the traditional banking system
- These individuals lack collateral, steady income and a verifiable credit history

## Goals of Microcredits

- To enable extremely impoverished people to engage in self-employment projects that allow them to generate an income, build wealth, and exit poverty.



# Microcredit Structure

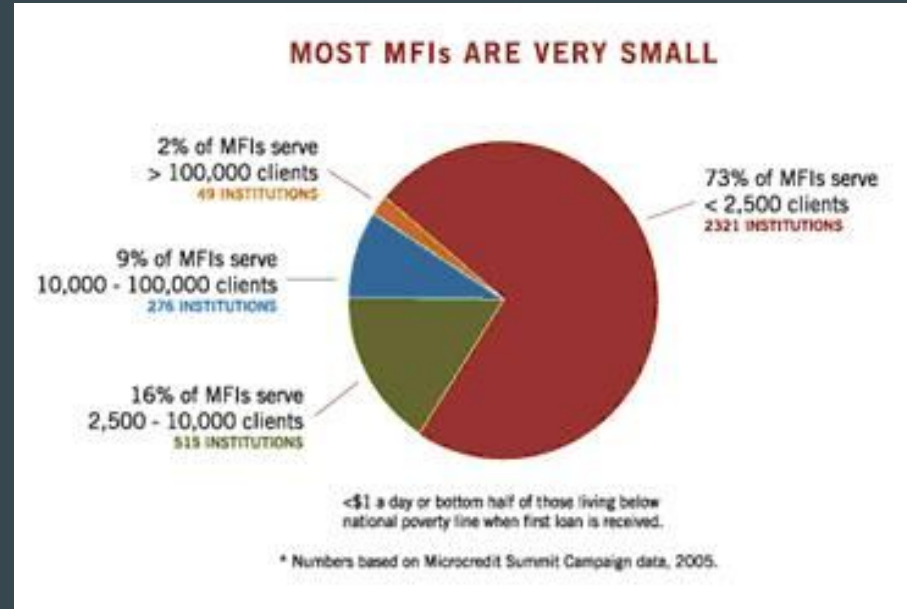




# Microfinance & Microcredits

Who offers these services?

- Microfinance Institutions (MFIs)
  - NGOs
  - Credit Unions
  - Private Commercial Banks
  - Non-bank Financial Institutions
  - Government Savings Bank
- Some Big Names include...
  - Grameen Bank (Bangladesh)
  - BRAC (Bangladesh)
  - Accion (Mexico)
  - The Rural Friends Association (Thailand)



# Development of Microfinance (K. Srnec, E. Svobodová, 2009)

1970-1980  
Expansion

1980-1990  
Growth

1990-2000  
Commercialisation

2000-Present  
Transformation

- Spreading to the most of the LDC
- Poverty reduction
- Prevalent support 'bottom-up
- Most informal types MFIs

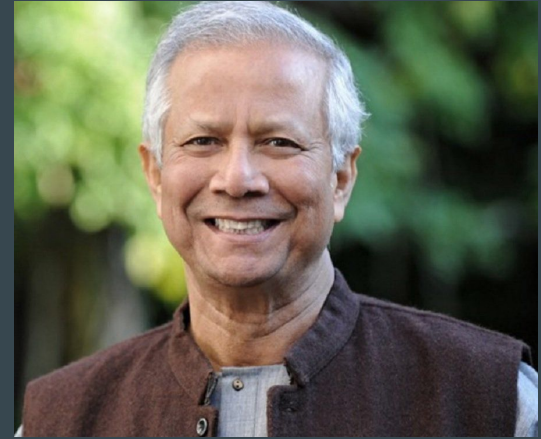
- Significant financial dualism
- Rapid growth in number of MFIs and served clients

- Important growth of formal types of MFIs
- Considerable support of NGOs and governmental organization
- Rapid growth in number of served client

- Acceleration of transformation of informal to formal types of MFIs of international, state and private organization
- Financial business
- Considerable support prevails the charity

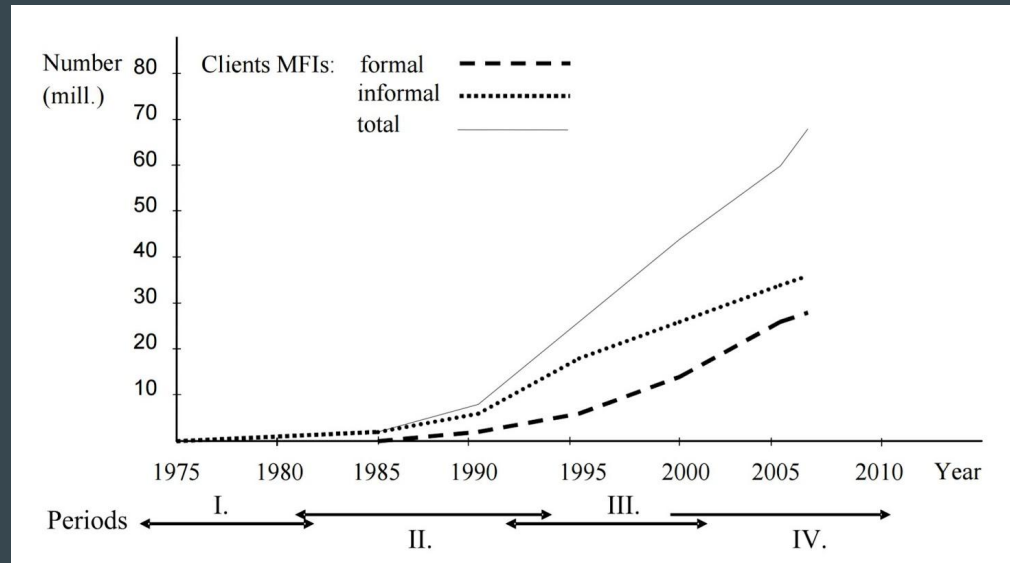
# 1970-1980 : Expansion

- Different voluntary groupings are established (e.g. Grameen Groups, ROSCA, ASCRA)
- High level of enthusiasm among persons who were at the beginning of this movement (e.g. Muhammad Yunus)
- Loaned (start-up) money is paid back, but without dividends (interest, profit)
- Micro- financial activities are characterised as:  
self-sustaining, self-expanding and self-perpetuating
- Providing social benefits and taking priority over the raising of the MFIs' profitability → Appeal on poverty reduction.



# 1980-1990 : Growth

- A rapid development of the formal MFIs, especially the South-East Asia and Latin America



source: Srnec (2007)

# 1980-1990 : Growth

- A rapid development of the formal MFIs, especially the South-East Asia and Latin America
- The coexistence of formal and informal microfinance system commonly used in LDCs is the so-called 'financial dualism'.



# 1990-2000 : Commercialisation

- Acceleration of transformation of the informal types of MFIs to formal ones.  
The 3 conditions and suitability for transformation
  - (1) Stability maintenance in the environment in which the MFIs operate; the critical triangle
  - (2) Outside sustainable development of the MFI – outside institution's stability; the triangle of outside economic stability
  - (3) Inside economic sustainability of MFI – inside institution's stability; the triangle of inside economic stability



# 2000-Present : Transformation

- Microfinance creates financial markets and builds up civilization structures in isolated and remote regions
- The rapid rising entry of financial investors into the financial markets in the poor countryside led to increasing of interest rates of the microcredit.
- Microfinance : Business Model or Charity



# Quiz

**What is the main goal of Microcredits?**

- a) To generate maximum profit for private and governmental financial institutions
- b) To enable people to engage in self-employment projects that allow them to generate an income, build wealth, and exit poverty
- c) To give a variance in people's private finance portfolio
- d) To help financial institutions give variations to create a better credit rating to their institutions

# Why Microfinance? Good for Borrowers? Lenders?

- Fills a unique niche
- Borrowers
  - Poor, little to no credit
  - Little to no collateral
- Lenders
  - Interest \$\$\$
  - Personal Gratification
- Communities Overall
  - Increased consumption
  - Greater economic potential

**LOAN APPLICATION**

**Personal Information**

Name (Last)	PUBLIC	(First)	OLIVER	(Middle Initial)	1111-1111	Home Telephone	1111-1111
Address (Mailing Address)	12345 MAIN STREET	(City)	MINNEAPOLIS	(State)	099999	(Zip)	2222-2222
E-Mail Address	JQPJQFJQF@GMAIL.COM	APPLICANT'S STATUS		UNDER REVIEW			

**Services needed**

SUBJECT	REVIEW
UNDER REVIEW	

**Current Income**

High School Graduate Or General Education (GED) Test Passed?	Yes	No	Major or Subject
High School Graduate			
Other (Specify)			

**Military (Most recent first)**

Quarters of	Credits Earned	Other (Specify)

# Case Study: Kiva

- Motto: “Loans that Change Lives”
  - Founded in 2005
- 2016: \$827,356,850 in loans to 1,928,760 borrowers
  - 1,394,336 lenders
  - 98% repayment rate
- 0% interest → local partners → interest rates increase
  - Non-profit
  - Borrowers pay more?
    - Kiva defends this
- Cockfighting controversy



# Expected Benefits of Microcredits

- Decreases poverty
- Increases household spending
- Build viable businesses
- Reduction of vulnerability
- Positive effect on household agricultural production
- Positive effect on household livestock production
- Increases women's self-employment sales and expenses, women's livestock sales, and women's business sales and expenses



# Critics/Controversy on Microcredits

- MFIs charge significantly high interest rates to poor people
  - But, Thailand's rates are much lower than neighboring countries such as Cambodia and Vietnam (10-20% compared to 30-50%)
- Government involvement through subsidies can distort markets and limit growth
- No clear evidence about positive impact of microcredits on poverty
  - Microcredit access did not lead to substantial increases in income
  - Especially little evidence microcredits effects on women's empowerment and investment in children's schooling
- Failing of projects financed by microcredits
- How can poor people save if they are poor?
- Winners are often the lenders with high interest rates

# Is Thailand Suitable for MicroFinance?

- Benefits of improvements in financial intermediation throughout the '80s and '90s
- Thailand still struggles with limited financial intermediation
- Potential for more growth with improvements to financial intermediation
- i.e. Personal wealth plays a dominant role when deciding whether or not to invest more into the business
  - Business activity determined by wealth rather than management ability/business productivity
  - Opportunity to put those funds to better use

NOTE: There are differences in high-wealth individuals' (central region) and low-wealth individuals' (northeastern region) responses

# Quiz

What is not an expected benefit of microcredits?

- a) Positive effect on household livestock production
- b) Build viable businesses
- c) Helps gender equality
- d) Decreasing poverty

# Case Study 2: Village Fund

## Description

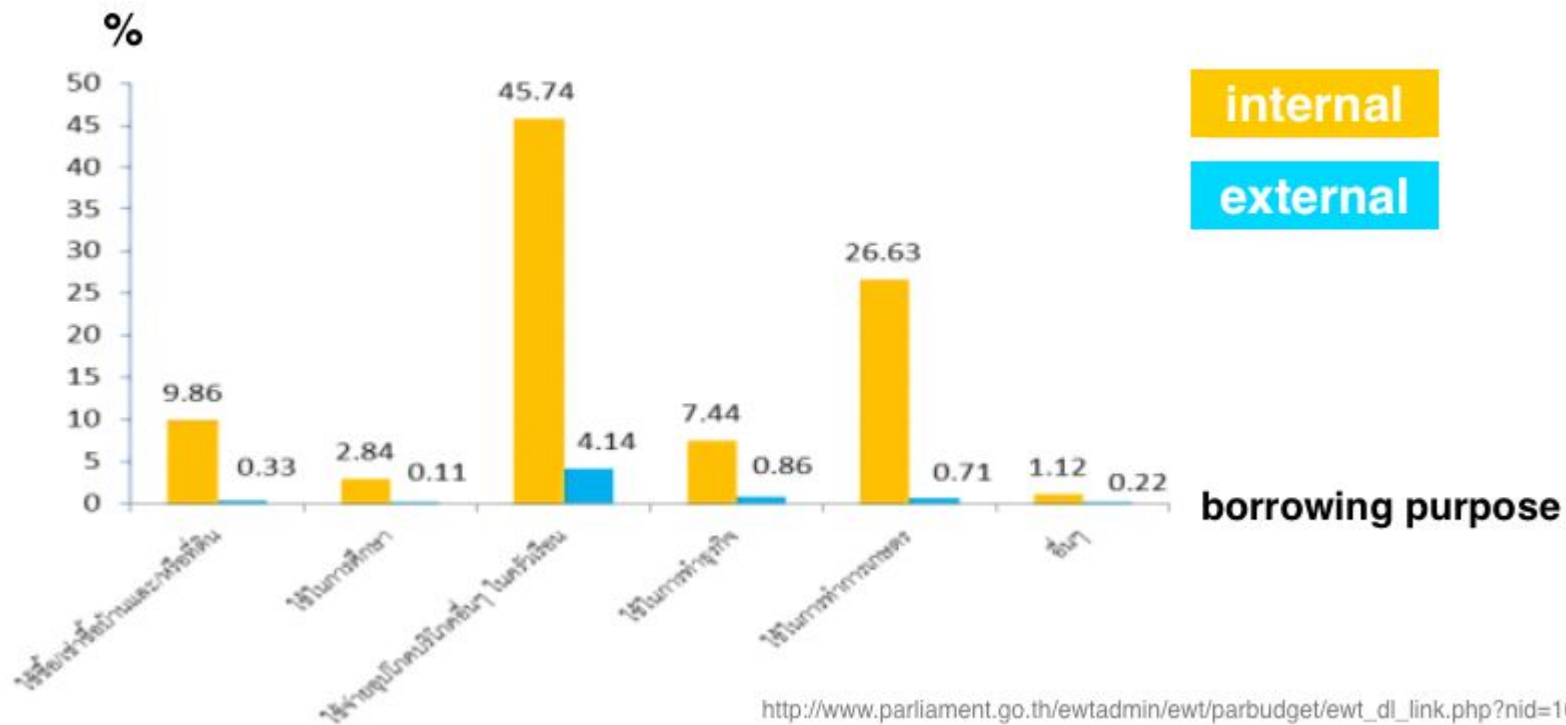
- Thailand Village and Urban Revolving Fund (TVURF)
- One of the largest microfinance schemes in the world
- Creates self sustaining microfinance banks in every Thai village - govt. supported
- Each village fund administered by an elected local committee
- Lent BT 259bn in first 5 years.

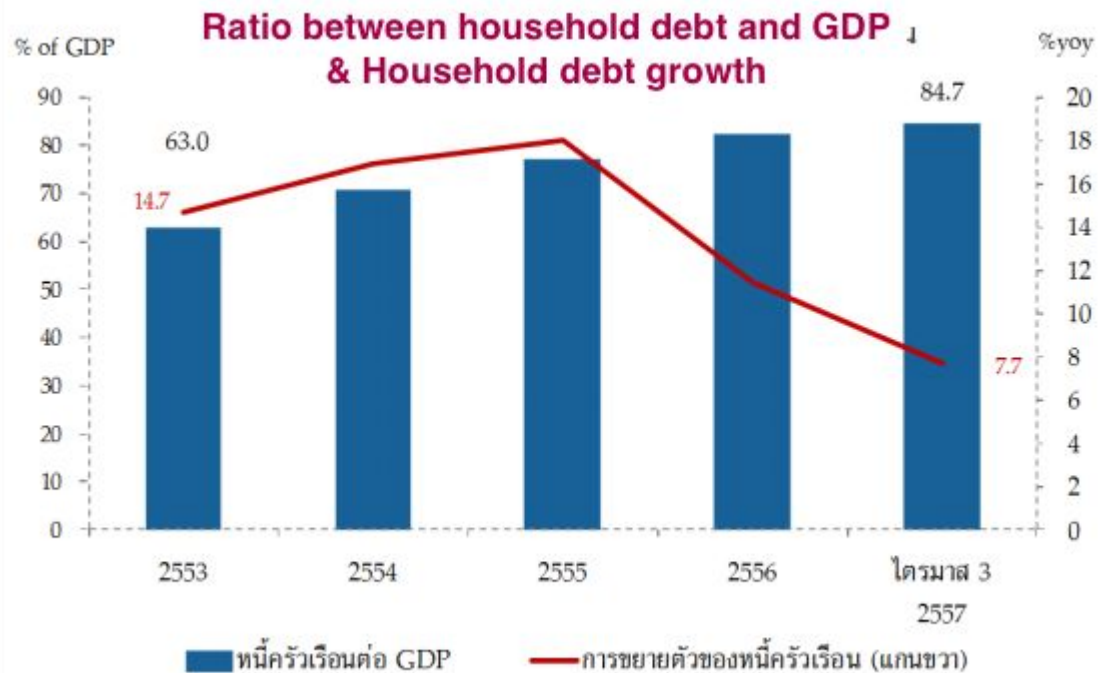
## Problems

- Microfinance activities remain dominated by government lenders, limiting access for private providers
- This slowed the lowering of interest rates due to little competition

# Result

## Household's Purpose of Borrowing (both internal&external) in 2013





[http://www.parliament.go.th/ewtadmin/ewt/parbudget/ewt\\_dl\\_link.php?nid=105](http://www.parliament.go.th/ewtadmin/ewt/parbudget/ewt_dl_link.php?nid=105)

# Result

- Increase access to financial support
- Reduce external debt
- More income
- Increasing overdue ratio
- Has positive effect on agricultural income but still inadequate to rise overall Household income.
- In 2549, 50% of village fund was operating at loss, having no money left in the fund account

# Quiz

How much money did the government lend through TVURF between 2001 and 2005? (This value made it the largest microfinance scheme in the world at its time).

- a) BT 173 bn
- b) BT 259 bn
- c) BT 700 mil
- d) BT 40.6 mil

# Other Microcredits in Thailand

## 1. Cooperative Finance (Total of 6963 in Thailand)

- A financial institution for the groups of people who have same career or live in the same community
- It pays higher return when compared to commercial banks
- Every member is significant in the cooperative decision making
- Have a total deposit of 469 Billion Baht
- Have a total credit of 1.2 Trillion Baht

## ● Problems of Cooperative Finance

- It can be easily fraudulent by the cooperative owner
  - Klongchan Credit Union's owner had swindle the money of its member
  - Right now its members still not get the money back

# Other Microcredits in Thailand

- Pawn Shop (Total of 287 shop in Thailand)
  - Under the control of Ministry of Interior and Royal Thai Police
  - It use for helping the people who have assets and need quick cash
  - From 287 pawn shops, there are 5.63 Millions clients
  - Total value of 65,235 Millions Baht
- Problems of Pawn Shop
  - If the Clients cannot pay off the loan, they will not get their assets back

