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RESEARCH ARTICLE

Microfinance Industry: Sustainability, Outreach and Impact

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Abstract

Microfinance has been seen as a key tool for poverty alleviation in least developed countries (LDCs). Target groups of microfinance are very poor people who have no access to any financial resources and need loans. Credits help the poor in running their small businesses or in a creation of its own job opportunities. The loans are often embezzlemented, are not financial sustainable in the long term, and are frequently critised. The question is if microfinace is real universal cure and which influence has got on elimination poverty and social even economical effect. It also considers a perspective of model preferences focused on business (conditional high interests, possibility to contact intermediaters, gaining easier access into external finacial sources) or a charity that is resistant to crisis thanks to using internal financial sources. Microfinancial sector in least developed countries consists of microfinancial institutions (MFIs), microfinance products and the programs that cause poverty alleviation using an appropriate tools. Are microloans medicine or not? Is this sector indispensable for the elimination of the poverty? The results are evident in a triangle of finance that might be in a synergy of these components: financial sustainability, welfare impact (direct/indirect) and outreach (breadth and depth). This article is structured in four sections, each of them is analyzing its background, positions and limits across the microfinancial sector. Our research is based on findings of author's observations, but also on the institutions reports, an analysis and adequate literature.

Keywords: *Microfinance, Microfinancial Industry, Microfinance Institutions, Microfinance Triangle, Poverty, Sustainability, Outreach, Impact.*

Introduction

The concept of microfinance is not new. Credit groups and savings that have operated for centuries include, for instance, the „tandas" in Mexico, „susus" in Ghana, „arisan" in Indonesia, and „tontines" in West Africa, as well as numerous savings clubs/societies found all over the world. Formal credits and savings institutions have also been here for a few decades, providing customers (to the poor) - who were traditionally neglected by commercial banks - a way to obtain financial services through finance institutions. The Irish Loan Fund system was one of the earliest microcredit organizations providing small loans to the rural poor. It was initiated by Jonathan Swift in 1700s. In the 1800s more formal savings and credit institutions began to emerge in Europe. Those were institutions known as Credit Unions, People's Credit Banks, Savings and Credit Co-operatives. The concept of the Credit Union was developed by Friedrich Wilhelm Raiffeisen and his supporters in Germany in 1864. The main idea was an establishment model of groups collecting their savings collectively and also lending money to these group members. An assistance to the rural population to break out of any kind of dependence on moneylenders to be as much as self-sufficient and to improve their complete welfare was automatic [7], [17]. Since 1870 these unions have expanded rapidly, especially, to Germany, other countries in Europe and North America.

At the beginning of 1900s these models were variously adapted and started to appear in the rural parts of Latin America. One specific aim was an increase of commercialization in the rural sector, the second one was a reduction of oppresive feudal relations that were enforced through indebtedness. These banks were not owned, in most cases, by the poor but by government private banks or some agencies. Between the 1950s and 1970s all donors and governments were focused on providing credits to small marginal farmers to sustain and raise their productivity and its incomes under the small interest rates. Since 1970s some experimental programs have been implemented in Brazil and Bangladesh to encourage groups of poor women to invest in micro-business. This process of lending was based on a solidarity group in which every member of a group guaranteed the repayment of all members.

Although since 1970s many small-holders were supported by governmental agencies of increased subsidized agricultural credits, later on Raiffeisen model of volunteer cooperatives began to grow. There was a huge number of cheap credits available and demanded by the poor in a rural business sector. However, these credits were not financially sustainable [7]. One of the most significant formations which came into existence was a Self Employed Women's Association (SEWA) from India in 1972. The main objectives were to strengthen its members, improve incomes, increase employment posts as well as encourage a social security. Since 1973 SEWA has been providing banking services to the poor, self-employed and illiterate women. It has got more than 1.9 million active clients up to these days.

Grameen Bank was another formation that started to exist in Bangladesh in 1976. Prof. Muhammad Yunus designed an experimental program to serve the poor and nowadays it serves nearly 9 million borrowers, covering 97% of the total villages in Bangladesh. The initial success was a stimulation and an establishment of other microfinance institutions. ACCION International can be an example of solidarity group lending from Latin America with its lending partners particulary in the United States (US) and Africa. In 1980s problems with unsustainable financially credits occured, became serious and continued as it was in a previous decade. Arun et al. found out that it was caused due to high transactional costs, interest rate restrictions and governmental corrupted practices. It was obvious that an inappropriate rural credit assistance was designed [1], [17]. Then different attitudes of implementation in both sectors – formal and informal – appeared. Through the 1980s, the policy of common targeted, subsidized rural credit came under the lots of attacks connected with high administrative costs, agricultural development bank insolvencies, poor loan recoveries and disproportionate share of benefits related to larger farmers. The intermediaters and low-income producers were disadvantaged compared to the savers, investors or benefited larger scale producers. Through the 1990s the high repayment and recovery in the interest rates enriched large number of clients. Also a long-term sustainability of borrowed credits was achieved. Bank Rakyat Indonesia (BRI) as the largest microfinance institution in least developed countries was set up and todays serves approximately 30 million microsavers through over 4 000 branches. The strategy was pretty simple to alleviate a poverty and to multiple financial services. „The 1990s saw growing enthusiasm for promoting microfinance as a strategy for poverty alleviation. The microfinance sector blossomed in many countries, leading to multiple financial services firms serving the needs of microentrepreneurs and poor households“ [5]. This decade was known for a replacement of the term „microcredit“ that was enriched of savings and other financial services (insurance, money transfer etc.). Originally microfinance was based on volunteer activities. Presently, there is a trend to transform its „charity character“ to commercial principles to ensure legislative and formal processes such as a legislative framework, administration support, monitoring of clients and their repayment, credit abilities and the needs [7]. It is well known that practitioners and donors are focused on expanded financial services to the poor and on integrated microfinance into common financial system development. An overall effectiveness of microfinance interventions was improved and rebuilt thanks to institutional-building and its policy environment. Still a lot of challenges remain. Millennium Development Goals (MDGs), for instance, struggles for permanent poverty reduction and a view into an implementation of microfinancial possibilities as one of the key tools to achieve it.

In the last two decades there have been significant changes among microfinance providers on a small scale. As an author Nimal presents: „Many MFIs have been transformed from informal or semi-formal to formal organizational structures“ [12]. An interest in commercial sector to be engaged into microfinance logically increased and has become more and more popular. Many platforms for the private investors started to exist afterwards. An example might be still existing and cooperating platforms in Mexico, Brazil, Turkey, Bolivia and the Czech Republic named as My Electronic Loan Exchange Network [9]. The founder of this project and of the motto „Small amounts, Big difference" is Tomas Hes. This website platform has already been placing sustainable development finance to least developed countries since 2007. The options to whom donate money are distinct; there is a possibility to save them with cooperatives, to take part in a social business or to support particular person. The transfers of money are accepted according to the actual online x-rates mainly in currencies such as Czech Crown (CZK), European Euro (EUR) or United States Dollar (USD). To encourage poor people as farmers, manufactures and small traders who need capital in order to create a profit is the main objective of this project. Other impact is better stability in the local economies and a support of manufacturing jobs [9]. The purpose of carrying out the study is to find a balance between sustainability, outreach and impact in microfinancial industry.

Materials and Methods

As part of the researcher's desire to uncover the reason(s) behind the microfinancial industry in least developed countries and other parts of the world, the thought of a Mexico and other poor countries does play a leading factor in choosing this topic. In spite of the permanent resistence of the author. Mexican regions as, for example, Chiapas (HDI 0.71) or Oaxaca (HDI 0.73) as the rest of the countries related to the third world, persistently rated as one of the poorest countries in the world according to the United Nations Human Development Index (HDI) and the Report, 2013. However, these states have got a change penetrate the market and to rise its local economies thanks to the financial instrument – microfinancial industry. Firstly, the power of the sources of the raw materials should be discovered as well as other raw materials that are available, then manufactured goods provided by local people. Many organizations do exist there, providing perhaps insufficient support, having none relevant results, some exceptions do exist there, surely, such as well-known FINCA organization, Grameen Bank etc. Thus, the menaces as suggested by leading academics for microfinancial industry remains to be inflation, taxation, interest rates set up by the commercial banks. Are the microloans financial „rescue“ and the medicine for the poor? It is an attempt to provide an analytical response to this question that warrants the researcher to investigate the relationships and disproportions accross this microfinancial industry. While the social classes are postponed on an edge of the society, microfinancial tools have got a change to become involved in that is not only one reason to investigate. The literature on this topic is quite limited, the internet is not doing much either so the researcher decided to do practically research in some of least developed countries in Latin America to investigate. This article is written on the basis of the data collected from the countries that were visited by the autor (Mexico, Columbia, Peru, Bolivia) and further supported by the theories related to the microfinance. All data is carefully compiled and the analysis are based on these data. Primary data collection was done in cooperation with nongovernmental organizations (NGOs), secondary data was obtained from the scientific documents, statistical reports, offical websites and other external links. Tables and graphs or pictures were used to summarise or clarify the content of analysis where necessary.

Microfinance Target Market and Impact Analysis

To examine the country context it is very important for practitioners and donors to understand the depth of poverty in a specific country. A deep understanding of the degree of poverty and motivation group of clients and its determination working towards reducing it is principal. It helps to estimate the size and the needs of the potential market for micro-financial services and it clarifies to the MFIs more concrete goals [7]. A target market is a group of potential clients who share certain characteristics that can be a behaviour and specific combination of products and services. It represents a defined market segment. The most important of the target market is an effective demand and the capacity within that market to take on the debt. If the client's objectives are not defined well towards their target market, or a fail to design it does not meet the needs of it, there may occur some difficulties (cash flow and capacity for the debt should be known). Target markets can be identified by the client's characteristics (gender, caste, poverty level, religion etc.); the MFI wants to serve and to support a business activity which might be existing business or oriented business or any other specific in an economic sector. If the target market is being reached well, the provision of financial services and its impact analysis fulfills the expectations [7]. The goal of MFIs is to service the financial needs of underserved markets. It generally includes the following: a reduction of the poverty, an empowerment of women or other disadvantaged groups, a creation of jobs, an assistance with growing business opportunities, an encouragement of new businesses, an increase of productivity of incomes and an expansion of microenterprises. There are a lot of conditional variables in each country context. Every organizational decision has to enter and serve a target market and involve all balancing conditions. This process must keep in mind the three long-term goals of microfinance: a sustainability (to cover the costs of poor people), an outreach, and an impact.

Microfinance Clients

Microfinance clients are low income persons who do not have access to the formal financial institutions. They are excluded from the commercial banking sector [15]. These clients are typically self-employed, low-income who comes from the rural areas (small farmers, traders…) or even from the urban areas (shopkeepers, artisans, street vendors…); they are landless, indigenous persons, women and men, micro-entrepreneurs, resettled persons in remote or subsistence areas. Microfinance clients are poor and vulnerable non-poor who have a relatively stable source of income. An access to conventional formal financial institutions is directly related to income. If you are poor there are done the most expensive informal financial arrangements. Generally, in the microfinancial industry an establishment of standards to be clients protected is crucial. There are set up the main principles that are designed to ensure good ethics and smart business in this field. What could be these principles? We should mention the following – transparency, prevention of over-indebtedness, appropriate product design and delivery, responsible pricing, privacy of client data, fair and respectful treatment of clients, and finally mechanisms for redressing grievances. If there are these principles ensured, we should talk partly about the medicine that can microfinancial sector provide.

Microfinance Institutions

Microfinacial institutions (MFIs) are divided into three main structures: formal, semi-formal and informal [16]. The majority of MFIs is created as non-governmental organizations (NGOs). Many MFIs are now looking at the advantages or disadvantages of these distinct institutional types. It is also addressing to these institutional issues, including: ownership and governance, institutional growth and transformation, an access to the new sources of funding, institutional capacity [7]. Most MFIs established partnerships with donors, governments, and other international NGOs. Credit providers as well as chosen appropriate distribution channels depend on country's conditions - level of development culture, infrastructure, supply of finance etc. Foreign investments and funds are essential for microcredit development, too. All these aspects are relevant for a credit sustainability, an accessibility and the outreach to the poor.

Formalinstitutions consist of commercial banks; savings banks and postal savings banks; private and public development banks which are lending through intermediaries. All these mentioned providers are controlled by a state very often. Small credits are charged by the higher transactional costs than the big ones so it means that these small credits are not suitable for the poor. Some examples from South-East Asia (Philippines, Madagascar, Sri Lanka) show an effort in this sector to involve more affordable prices and costs to the poor [1]. Bank Rakyat Indonesia (BRI) set up, for instance, special body using village banking system operating in rural areas, giving to the poor the most favourable ways.

The same effort was seen in Columbia (Caja Social) or Bolivia (Caja de Ahorro y Prestamo Los Andes). Informal financial providers are much more important rather than the provision of services by formal and semiformal financial institutions. They represent the first source of financing as a given short-term credit, using oral agreements to conclude a contract and an interest charge that is not demanded in most cases. These might be relatives, friends, neighbours, money collectors, moneylenders and credit & savings institutions that exist and operate in almost every country of the developing world, for instance, The Women's Village Banking Program in Guatemala. Self-help groups (SHGs) are also a type of informal financial institution (sometimes semiformal). It is voluntary based. It consists mainly of self-employed women who informally support the economic activities of their members providing mutual guarantees. These guarantees borrow and lend money among themselves, encourage each to save them and facilitate an access to the bank loans. Arun [1] sees this sector as the most accessible source of financial help which is operated between family members, relatives or neighbours. On the other hand there is a lack of legal framework, administration support and insufficient information data offered to the clients. In most cases an interest is not charged and the credit is collateral-free. The purpose of the credit is primary fast consumption. Lending procedure is quick. The only cost is a transfer charge in a bank or in an account [17]. Real example can be Rotating savings and credit association (ROSCA) that is the group of individuals (5-10) who agree to meet for a defined period in order to save and borrow together. It is often called as „the poor man's bank" where money is not idle for long. Changes are done rapidly, satisfying both consumption and production needs. Number of savings periods is the same as number of members. Meetings are seasonal depending on cash flow cycles of the rural communities and might be regular – weekly or monthly [2]. On the basis of the rules each member contributes the equal amount of money at each meeting, and when a certain amount is collected, one member takes the whole sum once (rotating system).

This sum can be used once during the life for whatever purpose (rents, school fees, cars, pots, clothes, blankets etc.). It is a popular alternative method of saving. Every transaction is discussed in the meeting and well-documented. Since no money has to be retained inside the group no records have to be kept. This model of transparency and simplicity is adapted well especially in the communities where is a high illitiracy. The risk is time limited lasting on average 6 months. In general, ROSCA runs on a discipline, honor, commitment, tradition and a trust. In Mexico it is known as „tanda". Semiformal financial institutions are the most common types and financial cooperatives voluntary based on cooperation, social support and moral values. They are characterized by 1) clients who are low-income or lower-middle-income; 2) services exclusively financial in nature; 3) self-generated capital, non-dependent on outsider funding to cover operating costs (except NGOs dependent on external funds/sources). These institutions are consisted of a great many forms often identified as savings and loan cooperatives, international NGOs and credit unions. All play a significant role in the provision of financial services to the poor target groups. Many models exist in Latin America (The Foundation for International Community Assistance named FINCA – Mexico, Accion Comunitaria del Peru/Entidades de Desarrollo para la Pequena y Microempresa EDPYME Alternativa - Peru), Canada, the US likewise in Europe (Raiffeisen – Germany, Alternative Bank – Switzerland, Credit Mutuel – France etc.). Self-help groups (SHGs) are also a type of informal financial institution and sometimes semiformal. An example of SHGs is Accumulating savings and credit association (ASCA). It is similar to ROSCA in many ways. Both relies on a regular deposits of its members. ASCA holds on its savings. Money has been saved for months or years in those communities. The contributions come into the fund as savings deposits and are accumulated (savings + interest of loans - fees - fines), and redistributed yearly which depends on an agreement. Both are „folk-bankings" used in removed areas and widely spread around.

The Foundation for International Community Assistance (FINCA International) is a non-profit microfinance institution (MFIs) which was founded by an economist John Hatch in 1984. Sometimes it is called as the „World Bank for the Poor". Its purpose is to provide financial services to the world's poorest families that do not have access to the formal financial institutions. Thanks to the loans given by village banks, they can build assets, create jobs, earn extra income, and improve their living standards [11]. It has got its headquarters in Washington D. C. and many affiliated host-country institutions in Latin America, Africa, Eastern Europe, Central Asia, and in the Caribbean area. Generally, in the microfinance industry there is considered that FINCA is one of the most influential institutions in the world. It is known for reaching the very poorest market segments – particularly the female heads of households who consist of 70%. Today, mission of FINCA reaches out to around one milion and eight thousands clients in 23 countries worldwide. It has got an aim to expand and to have more than two million clients by the end of 2015. The history of assisting village banks is dated back to the eighties of the last century. An international development expert John Hatch conceived a new method for delivering assistance to the poor there. His approach to the poverty alleviation is expressed in the following sentence: „Give to the poor communities the opportunity to have financial services commonly available, and then get out of the way!" That was his idea of village banking. He made primary a small loan program for the low-income farmers in Bolivia (in 1984). The program allowed them to obtain loans without the collateral so then his program became known as Village Banking [4]. FINCA's mission is to provide financial services (credit, savings, insurance, and money transfers) to the world's lowest-income entrepreneurs to create successful and profitable businesses, build assets and improve their living standards, and create a financial safety net to be protected in the event of external shocks or any other unnecessary risks. The vision is a creation of global microfinance network that collectively serves and supports more low-income entrepreneurs than any other MFI while it is operating on commercial principles of performance and sustainability. Nowadays, it reaches nearly 2 milion clients worldwide, it has got more than 23 affiliates and about 3 300 staff (around 2 600 credit officers or supervisors). It has been helping with the creation pathways out of poverty since 1984. Last two decades FINCA operates in Africa (Democratic republic of the

Congo, Malawi, Uganda, Zambia, Tanzanie), Latin America (Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico,Nicaragua), Eurasia (Armenia, Kosovo, Georgia, Azerbaijan, Russia, Kyrgyzstan, Tajikistan) and Greater Middle East (Jordan, Afghanistan). Also symbolic gifts may be given by individuals and done through the FINCA's online catalog (pays for: egg-laying chickens, honeybees and protective wear, solar powered lighting, bulk quantities of corn to make tortillas, improvements to a grocery store, a pottery wheel and clay for a ceramics business; buys: a milk-producing cow, supplies to open a beauty salon, desks and supplies for a schoolroom, buys or repairs a bicycle to transport goods; provides life-changing loans to 15-20 women). These gifts are naturally tax deductible due to a support and reduction poverty worldwide. Regarding to the FINCA's Pilot Programs onehundredthousands clients are served yearly, consisting of 96% women and an average disbursed loan size $408. In term of the history, FINCA has raised most of this start-up money from Agency for International Development (USAID) [11]. Recently, FINCA has financed an increased share of its program start-up costs from private sector donors (corporations, foundations, and individuals). FINCA gains finances through a variety of sources: borrowings from commercial capital sources; interest income from the programs themselves; and donations - U. S. USAID; United States Department of Agriculture (USDA); other nations' governments; private foundations; corporations; service and religious organizations; and individual donors [4].

Village Bank(ing) is a microcredit methodology where are all financial services administrated locally rather than to be centralized in a formal bank. It is known that it has its roots in ancient cultures. It has been adopted recently for its useless by micro-finance institutions (MFIs) as a way to control various costs. Early these MFI's village banking methods were innovated by Grameen Bank and then developed by FINCA International that was founded by John Hatch or any other related groups. Among US-based non-profit agencies there are at least 30 MFIs that have collectively created over 800 village banking programs in at least 90 countries. The most famous MFI operating worldwide and using village bank system is FINCA [4], [17]. What is a village banking method more closely? The village banking method is the form of microlending that FINCA propagated. It is an economic democracy in action. The village banking institutions (VBIs) - range from NGOs - offer individual microloans to the solidarity group. The clients of VBIs range from the rural regions to the urban areas [21]. The village banking group supports a group of 10-50 members who are primarily mothers and women on a massive scale. According to Rupert Scofield (FINCA President and CEO) - „Women have better credit risks and they are more responsible, perhaps from having to take care of the children".

They meet weekly or biweekly to provide themselves with three essential services [4]:

- A loan from $50 to $100 – to start up or expand their own business;
- An incentive mean of accumulating savings;
- Community-based system that provides support and encourages personal empowerment.

The flexibility of this lending methodology is apparent as FINCA today provides a broad array of financial services to nearly 2 million low-income individuals across 23 countries. FINCA had more than $320 million in outstanding loans to disburse as much as $800 million in loans by year end 2001. Most village banking programs began with what is referred to here as the original Hatch model which compares actual program information to the original Hatch loan model projections [13]:

- First cycle participants will remain active borrowers for nine four-month cycles (3 years).
- Village banks will grow; encourage the others to join the program.
- Clients save 20% of their current loan size/cycle. Loan sizes increase every one-year period plus accumulated savings in following years (Table 1).
- Clients are mainly women borrowing loans $50 dollars - $300 reaches by the third year.
- Projected loan-size growth rate is 500% over during twentyeight-month period.

This model shows an opportunity to compare actual program information to the original Hatch model projections. Another question of this paper is about how village banking definitely works. Is this village banking method maintainable and working seriously – dealing with the problem of the poverty? From the basic point of view, the village banking is an informal group about 20-30 members, largely female heads-of-household.

Table 1: Original hatch model projections

Loan Cycle (four-month)	Loan Size per Borrower	Savings per Borrower per Cycle	Cumulative Savings Per Borrower
1	$50	$10	$10
2	$60	$12	$22
3	$82	$16	$38
4	$120	$24	$62
5	$182	$37	$99
6	$281	$56	$155
7	$300	$60	$215
8	$300	$60	$275
9	$300	$60	$335

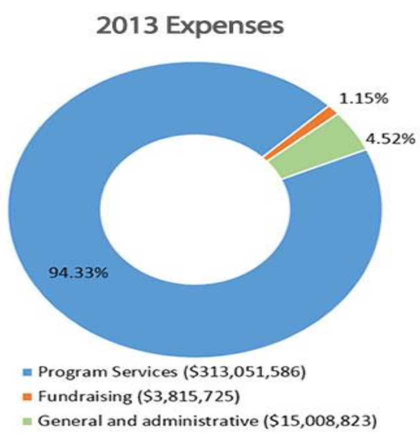
Source: Village Banking Dynamics Study: Evidence from Seven Programs [13]

If the program is „on mission" in a normal village bank about 50% of all new members entering the program will be severely poor - representing families with a daily per-capita expenditure (DPCE) of less than US$1; the rest are moderately poor (DPCE=$1-2/day) or non-poor (DPCE>$2+). These women meet once a week their members at home to throve themselves operation capital loans, skill training, plus motivation. Borrowings normally start from $50 to $100 or more. Normal credit time is four months. It is paid up in 16 weekly installments [11]. The repayment rate is outstanding. Globally, an average of FINCA [4], a repayment rate is over 97% in its worldwide network. It is good or even better than most commercial banks usually expect. An examples are the achievements of the previous year 2003. The following Figure 1 provide a comprehensive overview of successes, milestones, and financial performance. This is the real showcase to its poverty alleviation work that was made across FINCA's global footprint.

Microfinance Products

Microfinancial products consist of the main principles as credits, savings, (micro)insurance and additional services. Credits are borrowed funds with specified terms for repayments. When there are insufficient accumulated savings to finance a business and when the return on borrowed funds exceeds the interest rate charged on the loan, it makes sense to borrow rather than postpone the business activity until sufficient savings can be accumulated, assuming the capacity to service the debt exists [20].

The principle of microfinance is a provision of small credits to the poor. Mostly they are provided to help to run business activities, generate revenues, increase



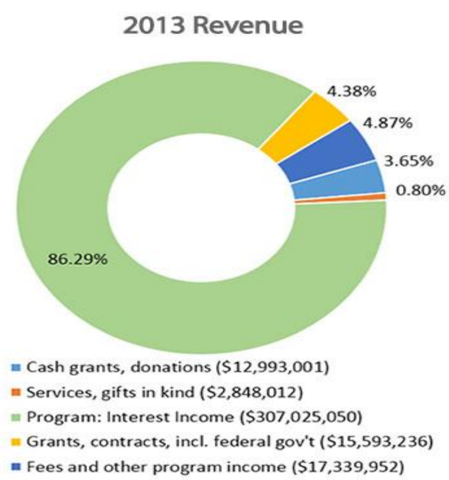


Figure 1: Expenses, 2013 and Revenue, 2013

Source: FINCA. Financials and Reports [4] self-employments, and cover universal consumption and all associated social certainties or any other special occasions. For instance, FINCA donates from $25 to $5 000 or from €25 to €10 000 depending on donors' country origin (online FINCA website, section „Ways to gift"). On the other hand, BRI provides credits in a range of $200-800 [7], [17]. These credits are without collateral, short-term from 6 to 12 months and repaid weekly or biweekly.

Vast majority of MFIs strive to reach sustainability, cover all the demands of clients, ensure efficient operations with minimized costs and stimulate clients for their loan repayments. The interest rates are distinct depending on the conditions of every region or state where are microfinancial loans provided. In Asia it is between 15-20% yearly where this sector is advanced and often donated by the government, on the contrary with Mexico or any other Latin American countries there is 60-100%, comprising up to 30% of operational costs [9]. In microfinance there are applied two main credit distributions – to the individual or to the group. If someone applies for an individual credit, collateral is needed in comparison to the group lending system where the loan is guaranteed and ensured by all members [6]. All processes are without exception financial and administrative exacting.

Savings mobilization has been a controversial issue since microfinance started to exist. Rutherford (2009) and Zeller (2003) claim that even poor people who do not have enough financial means should save money despite illnesses or sudden social events in their life cycles or even try to invest into their businesses. That is the main reason for saving money in saving periods. According to Rutherford (2009) the poor can save, do the savings and want to save money. The exceptions are, for instance, disabled people, elderly people or widowers/widows. Common problem is that the poor do not have any access and none awareness of the concrete financial institution. Also in many regions there are problems to store the money, it can be stored in a very primitive conditions such as a simple shelter and easily stolen from there. Moreover, the danger is an inflation. To spend money immediately on the ordinary needs it is much better rather than save it [15]. MFIs and funds are mobilizing definitely higher amounts of savings so that those can provide higher credits. Savings are compulsory as the percentage of received goods in some cases. The importance of savings' practices and ensuring payments of the credit are useful tools for microfinance intermediaries. Sufficient savings could fill up the role of self-sufficiency and sustainability in daily life of the poor [7]. Table 2 cans concretely point out the main features of microfinancial industry, what can be strenghtened or weakened. On the other side the main opportunities and threats are evident.

Table 2 : Swot analysis

Strengths	Weaknessess
- Qualified consultant team - Innovated Services - Effective and Sustainable help to families - Low operational costs - Active cooperation between villagers - New experience educated by villagers - Innovative services to the Poor	-Lack of consultants, trainning seminars, institutional and human capacity - Not fullfiled regulations in the community - Not completed interests, goals of the project -Absence of needed capital of villagers or any other possession guaranteed to MFIs - Money safekeeping
Opportunities	**Threats**
-Widespread of internet network -Movement to new market segments that makes profit to Poor (sold products etc.) -Extend awareness of microfinance - Accessible instrument eliminating poverty -Cost-effectiveness = recycled expenses -Creation of financial funds -Extend of social services to the Poor -Better access to other financial services in commercial banks -Governmental support and donor subsidies -New LDCs where can be loans distributed	-Penalization payments by MFIs -International market, non-accepted microfinancial products -Distrust by sponsors -Financial and outreach transparency -Fluctuation of capital in financial markets -Increased interested rates by banks -Not provided financial capital by banks -Higher taxation-introduced product by the Poor -Capture of microfinance market by more than one MFI and its competitiveness there -Underlying inflation

Source: By author, January 2015

MFIs experiment with other financial products and services such are credit cards, smart cards, payment services or microinsurance. Microinsurance is a product which will be offered more extensively in the future by MFIs because of the growing demand among clients. The main purpose of having microinsurance is to prevent unexpected events due to client's death, wedding, health care, loss of the property or natural disasters (floods, draughts, harvest looses) to cover all necessary costs. This kind of financial service should be affordable and beneficial to the poor [3]. The successful redistribution of insurance must be performed well, in least developed countries it is made through the agents or recommended channels of MFIs or insurance companies to customers. Definitely, insurance companies provide adequate know-how of insurance products, pricing and risk assessments to sustain. MFIs have got required experience how to deal with the poor and know the environment well. Ledgerwood (2000) sees the right model of offering the insurance, for example, at the Self Employed Women's Association in India where insurance service needs of its clients are met. Another example is the Grameen Bank in which its members are required to save 1% of their credit's insurance due to unexpected member's occurrences.

Additional services support MFIs activities. These activities involve basic skills of the field business in agriculture, technology, management (linkage between MFIs x mediator x client), finance, marketing and other more specific linkages such as family planning, basis of hygiene or human rights. These services are offered beyond the common credit so that meet the needs and demand of the rural poor. The disadvantage are MFIs' higher operating costs [18].

Conclusion

During the last few decades microfinance has been spread mainly in least developed countries, however, the exceptions in developed countries, for istance, Europe there are evident and subsidized by European Comission thanks to the microfinance Progress program. The most significant development of MFIs has been in Asia and Latin America but in different ways. The founder and the main actor of microfinance was prof. Muhammad Yunus - his Grameen Bank and Grameen Bank model that encouraged growth of many MFIs in Latin America, Asia or Africa as Kiva and PRODEM (later Banco Sol).

On the other hand, in Latin America it was inBolivia – Banco Sol – that started to support unemployed and isolated inhabitants by increasing incomes [10] and the largest MFI in Mexico named Compartamos with its unaswered questions regarded to the potential conflict of interest between protecting the interests of underlying clients and delivering shareholder values. The question is - could these two contradictory objectives exist in a harmony? According to the Gutierrez-Nieto [6] MFIs are distinct in Asia, Africa and Latin America where MFIs have more assests and their character much more commercial nature and the outreach of the rural poor is higher in Asia than in Latin America. In India and Bangladesh the market is overfed and credits are often subsidized by the government, the result is lower interest rate. Usually the rate is between 12% and 15%. In Latin and Central America the market is in a progress that is reflected on the local interest rates that are from 40% to 70%. The Figure 2 shows the highest interest rate in Uzbekistan exceeded 80% and the second highest in Mexico around 63% measurable in 2011.

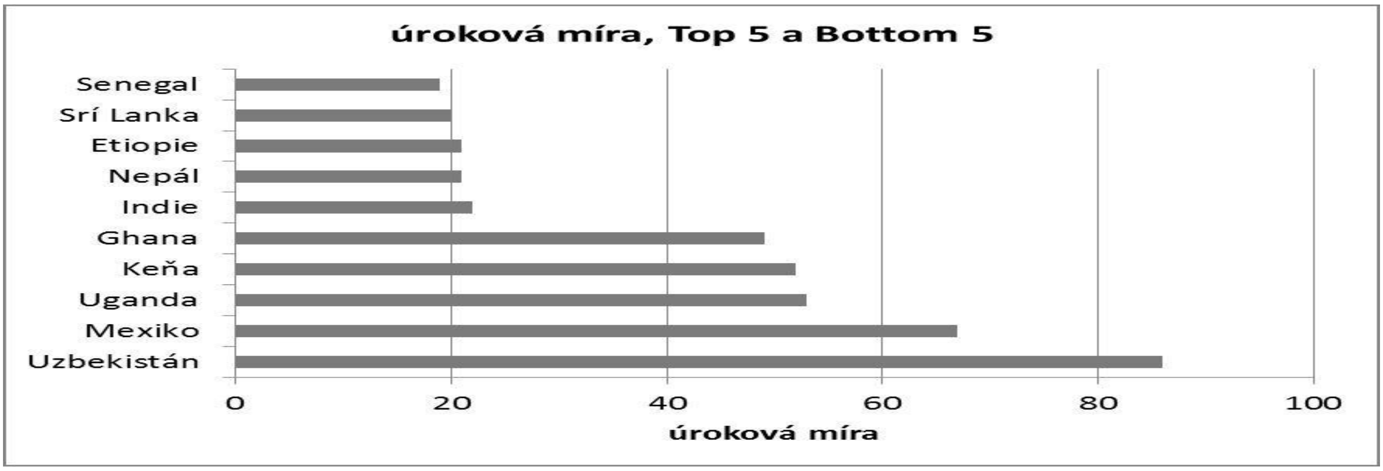


Figure 2: Comparison to the interest rates in selected countries

Source: Microfinance and micro-loans in least developed countries [14]

In the 1970s the initial success of microfinance programs originated many essential problems of the poor that might be resolved by access to credit alone - the ability to start businesses, to acquire assets, to finance any kind of emergency needs (unexpected expenditures) and to insure against illness and unpredictable disasters. A major part of this vision has certainly been realized but still much remains to be done. „Majority of microfinance institutions are not so big and vulnerable to constraints on their resources and to the risks inherent in single-issue portfolio. Most depend upon donors and governments to remain in operation", claim Zeller M. and Meyer R. L. There is visible much waste and duplication, and some programs have decreasing loan recovery rates, even as competition for borrowers rises from banks and other financial institutions. Examinig the failures of credit programs struggles for small farmers and the achievements of other ones that showed the need for new understanding of the ways that poor households make - borrowing, spending, and saving decisions. It was predominantly neglected in policy-making strategies and on issues related to the food security that explores The International Food Policy Research Institute (IFPRI). Many household surveys were evaluated worldwide and brought innovative approaches and models at some MFIs, those are Individual lending, Latin American group lending, Grameen Bank solidarity lending, Village banking and Self-reliant village banks; having specific methods, products, appropriate clientele, financial analysis and projections with the loan application, and documentation. The objective was clarification of conditions that microfinance organizations and its programs have to improve and focus its own development. The main research reached the concept of „triangle of microfinance" - the need for any MFI to manage contemporaneously the problems of outreach (reaching the poor both in terms of numbers and depth of poverty), financial sustainability (meeting operating and financial costs over the long term), and impact (having identifiable effect upon clients' quality of life). The success rate of any MFIs shows fulfilling of these tree aspects of the triangle that makes the concept valuable, see Fig. 3.

Microfinance was seen as a new approach to the poor. Since 2005 microfinance has become very popular and effective in poverty alleviation in the world and brought many unexpected. That was also when the United Nations (UN) determined the year 2005 as the International Year of

Microcredit.

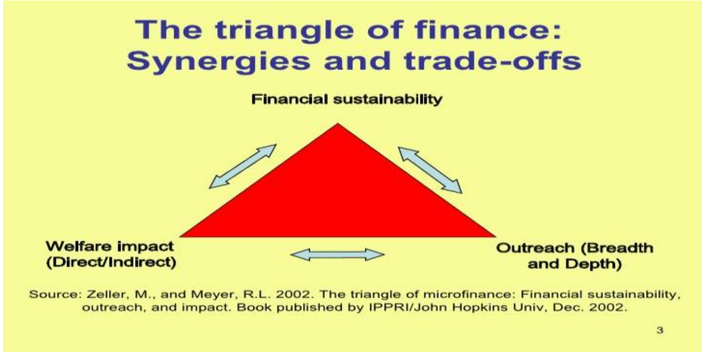


Figure 3: The triangle of finance

Source: The Triangle of Microfinance, Financial Sustainability, Outreach, and Impact [19]

In this year Muhammad Yunus was awarded by the Nobel Peace Prize. The main purpose of microfinance is not just reducing of the poverty but also a financial sustainability of families or the whole communities, self-sufficiency and improvement of living standards predominantly for women. Common MFIs have got two main goals – to maintain financial sustainability and to reach the poor [8]. It was ascertained that almost every MFI has got three main sources of financing available, those are borrowings, deposits and equity. MFIs offer not only the microcredit but also other added services such as family planning, insurance, health care or even marketing of client's products eventhough these added services are not universally included in the definition of microfinance [7], [18]. MFIs face problems risk assessment in four main areas: portfolio risk, management risks (management efficiency, management information, decentralized operational system), ownership and governance (organizational and ownership structures, adequate oversight of management, sufficient financial depth), and „new industry" (new products and services, growth management) [7]. Mersland and Strom (2009) point out limited incomes that are poor able to provide and an importance of building savings if they need to borrow extra money or if something unexpected is happening.

Presently, it is estimated that approximately 1 billion people will be still living in extreme poverty in 2015 and nearly 2.6 billion people will have no access to formal financial services. Microfinance providers work to eliminate this gap and to offer non-financial, business development and health services. Microfinance activities have specific effect on economic, sociopolitical, cultural, personal and psychological level. LDCs are confident that microloans are medicine solving partly the alleviation of the poverty across the nations.

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Abbreviations

AlSol	Alternativa Solidaria Chiapas
ASCA	Accumulating Savings and Credit Association
BRI	Bank Rakyat Indonesia
CEO	Chief Executive Officer
CO	Credit Officer
CCT	Conditional Cash Transfer
CZK	Czech Crown
DPCE	Daily Per Capita Expenditure
EUR	European Euro
FINCA	The Foundation for International Community Assistance
GDP	Gross Domestic Product
HDI	Human Development Index
IFPRI	The International Food Policy Research Institute
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MFI	Microfinancial Institution
MyElen	My Electronic Loan Exchange Network
NGOs	Non-governmental Organizations
ROSCA	Rotating Savings and Credit Association
SEWA	Self Employed Women's Association
SHGs	Self-help Groups
UN	United Nations
UNDP	United Nations Development Programme
US	The United States
USAID	Agency for International Development
USD	United States Dollar
USDA	United States Department of Agriculture
VBI	Village Banking Institution
WBG	World Bank Group