

The Roots of Microfinance

Davide Castellani

01/05/2015



Project co-financed by European Union



CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of PlaNet Finance is strictly prohibited

Objectives

- Understand the roots of Microfinance and the evolution of the Banking Sector
- Get an overview of the informal finance sector and its key characteristics in developing countries

Content

- 1. The Evolution of the Banking Sector in Industrialized Countries**
- 2. Informal Finance in Developing Countries**
- 3. Key Characteristics of Informal Finance**



1. The Evolution of the Banking Sector in Industrialized Countries

1. The Evolution of the Banking Sector in Industrialized Countries

“to those who have applied themselves to that branch of political economy which relates to increasing the comforts and improving the morals of the inferior classes of society, it must be obvious that every endeavour to encourage and enable them to provide for their own wants rather than rely on the gratuitous gifts of the rich are of great advantage to the whole community”



Priscilla Wakefield
founder of England's first saving bank in
1797: a penny bank for children

1. The Evolution of the Banking Sector in Industrialized Countries

The Irish Loan Funds

Appearance

- Weekly repayment rates
- Interest free

1720

Boom

Charities become financial institutions

1823

Creation of a credit bank commission

1836

Decline

Introduction of interest rate ceilings

1843



1. The Evolution of the Banking Sector in Industrialized Countries

The Cooperative Movement in Germany



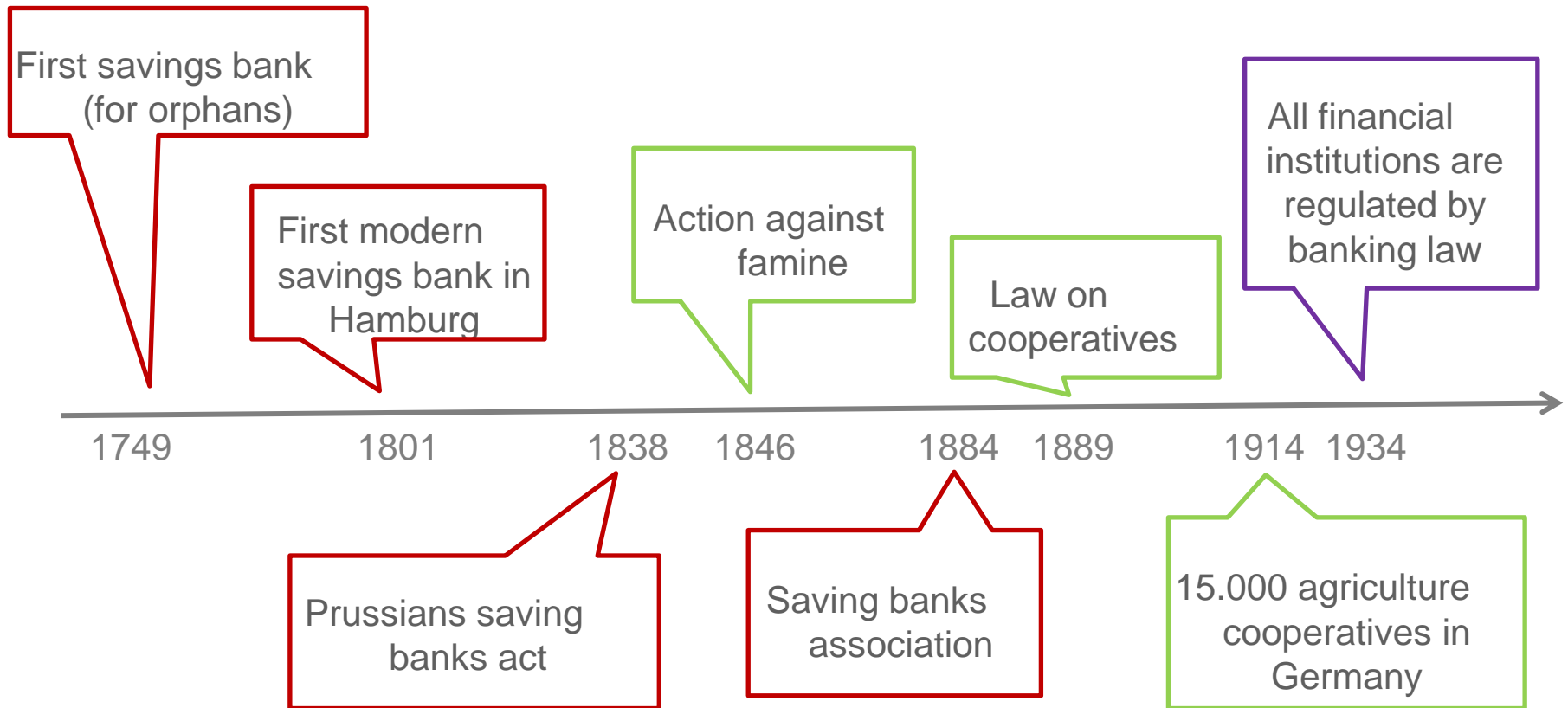
Friedrich Wilhelm Raiffeisen
(* 1818, † 1888)



Hermann Schulze-Delitzsch
(* 1808, † 1883)

1. The Evolution of the Banking Sector in Industrialized Countries

Cooperative and Savings Banks in Germany



1. The Evolution of the Banking Sector in Industrialized Countries

Today's German Banking Sector (as of 2007)



446 savings banks
and 12 federal banks



1.235 cooperative banks with
2 cooperative central banks



260 private banks (5
major banks, 159 regional
banks etc. and 96
branches of foreign
banks)



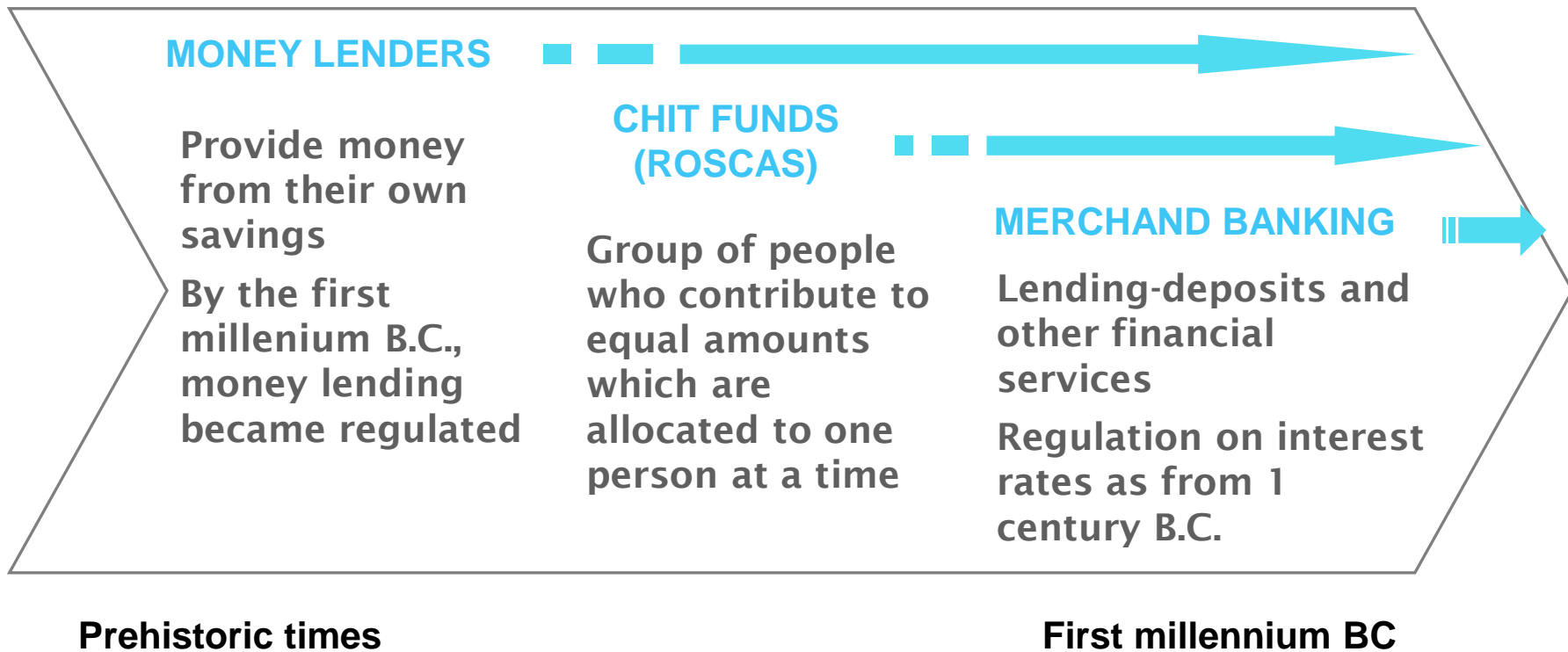
The German banking sector is one of the most developed
(and competitive) world wide!



2. Informal Finance in Developing Countries

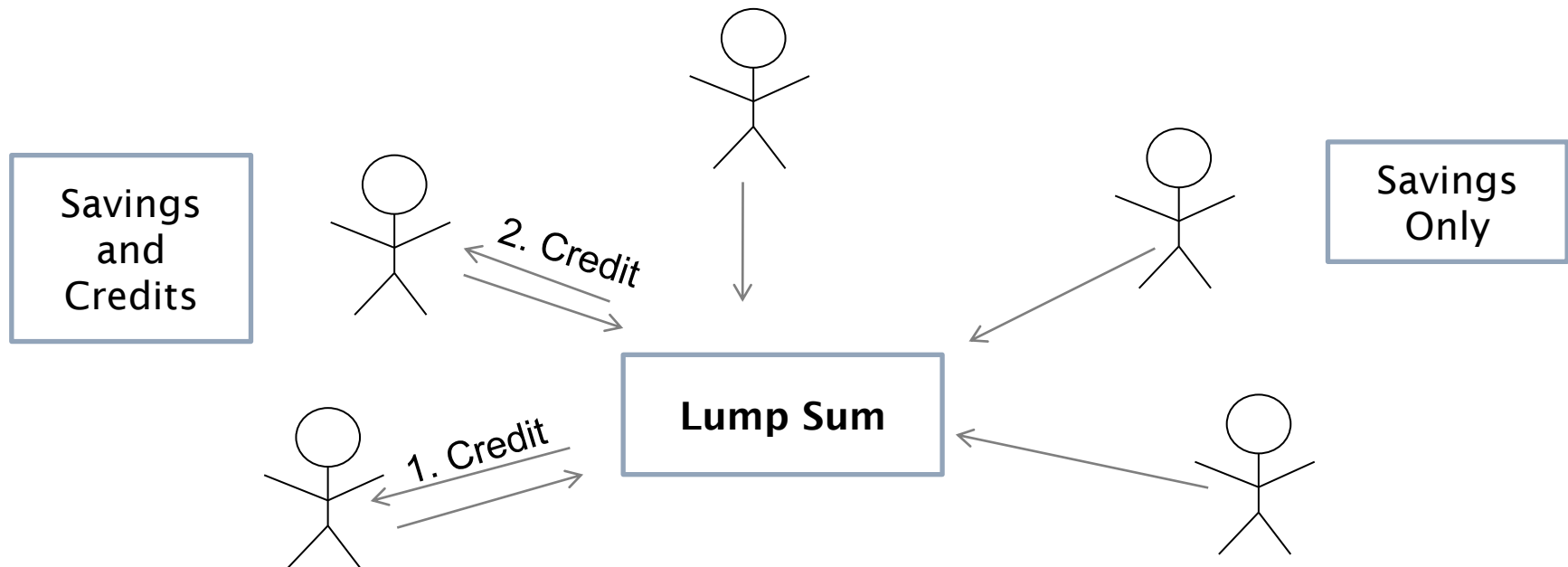
2. Informal Finance in Developing Countries

India



2. Informal Finance in Developing Countries

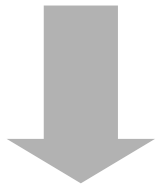
What is a Rotating Savings and Credit Association (ROSCA)?



2. Informal Finance in Developing Countries

Informal financial activities

Non commercial transactions



Friends and relatives

Group arrangements for savings



- **Saving clubs**
- **Credit clubs**
- **ROSCAs**

Informal finance organised on a commercial basis



- **Money lenders**
- **Pawnbrokers**
- **Landlords**
- **Traders**
- **Susu collectors**



3. Key Characteristics of Informal Finance

3. Key Characteristics of Informal Finance

Type	Condition of access	Amounts	Price	Duration	Safety/ Collateral	Information problem
ROSCAS	Membership	Limited (depending on deposits)	High	Short- to middle-term	None	Reduced when small groups
Friends and Family	Friendship, Family affiliation	Reduced to high	None or very low	Short- and long-term	Reciprocity	None
Money lender	Personal trust	Limited	Extremely high (interest rates)	Short-term (sometimes 1 day)	None	Reduced as long-term relationship
Merchants	Personal trust	Volume of merchandise	Integrated into price of merchandise	Short-term	None	Reduced as long-term relationship
Pawn Shops	None	Depends on value of pawn	High, difference when bying back the pawn	Short-term	Pawn	None
Money keepers	None	Little money due	Management expenses	Long-term	None	Reduced as long-term relationship

Literature

Adams, Dale (1992): Taking a Fresh Look at Informal Finance.

Hollis, Aidan and Sweetman, Arthur (1997): Complementarity, Competition and Institutional Development: The Irish Loan Funds through Three Centuries.

Seibel, Hans Dieter (2005): Does History Matter? The Old and the New World of Microfinance in Europe and Asia, University of Cologne Development Research Center.



Thank you
