

**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE
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Ph.D. Thesis

**Transformation of FINCA Programs
into Micro-banks and Influence of
the NGOs in Mexico**

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Martina Drašarová

Declaration

I hereby declare that this thesis, submitted of fulfillment of requirements for PhD degree, at Faculty of Tropical AgriSciences of the Czech University of Life Sciences Prague, is wholly my own work unless otherwise referenced or acknowledged in the text.

In Prague 08. 08. 2016

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Abbreviations

AlSol	Alternativa Solidaria Chiapas
ANMYF	Asociación Nacional de Microfinancieras y Fondos
ASCA	Accumulating savings and credit association
ATM	Automatic teller machine
BANRURAL	Banco Nacional de Desarrollo Rural
BRI	Bank Rakyat Indonesia
CAME	Consejo de Asistencia al Microemprededor
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social
CCT	Conditional cash transfer
CDSP	Programa de Patrocinio Infantil
CGAP	Consultative Group to Assist the Poor
CIV	Intervenciones Complementarias
CNBV	Comisión Nacional Bancaria y de Valores
CrediComun	Servicios para el Desarrollo Comunitario, S. A. de C. V.
CSP	Programa de Supervivencia Infantil
CZK	Czech crown
DEAC	Desarrolladora de Emprendedores A. C.
DPCE	Daily per capita expenditure
EBRD	European Bank for Reconstruction and Development
EDPYME	Entidad de Desarrollo para la Pequeña y Microempresa
ESF	Emergency Social Fund
EUR	European Euro
FINCA	The Foundation for International Community Assistance
FIRA	Fideicomiso Instituido en Relación con la agricultura en el Banco de México
FINCOMUN	Servicios Financieros Comunitarios, S. A. de C. V. Sociedad Financiera Popular
FOMMUR	Fondo de Microfinanciamiento a Mujeres Rurales
FONAES	Fondo Nacional de Apoyos para Empresas en Solidaridad
FMO	Entrepreneurial Development Bank
GAPP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IA	Impact Assessment
IFC	International Finance Corporation
INAES	Instituto Nacional de la Economía Social
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
KtW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Countries
LDP	Programa de Desarrollo de Liderazgo
MISFA	Microfinance Investment Support Facility for Afghanistan
MDGs	Millennium Development Goals
MFI	Microfinancial Institution
MFIs	Microfinancial Institutions
MIA	Microfinance Impact Assessment
MXN	Mexican peso
MyElen	My Electronic Loan Exchange Network
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
PA	Participatory Appraisal

PRSP	Poverty Reduction Strategy Paper
PRONAFIM	Programa Nacional de Financiamiento al Microempresario
PRONASOL	Programa Nacional de Solidaridad
ROSCA	Rotating savings and credit association
RRA	Rapid Rural Appraisal
SAP	Structural Adjustment Program
SEWA	Self Employed Women's Association
SOFIPO	Sociedades Financieras Populares
SHCP	Secretaría de Hacienda y Crédito Público
SHGs	Self-help group
SPSS	Statistical Package for the Social Science
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
USAID	United States Agency for International Development
VBI	Village banking institution
VIMEX	Voluntarios Internacionales México A. C.
WB	World Bank
WBG	World Bank Group
WTO	World Trade Organization

Abstract

Microfinance has been seen as a key tool for poverty reduction in developing countries. Target groups of microfinance are very poor people who have no access to any financial resources and need loans. Microcredits 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 criticised. The question is if microfinance is real universal cure and which influence has 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 financial sources) or a charity (more resistant to crisis thanks to using internal financial sources). In general, Latin America has excellent conditions for microfinance; the macro-economic growth which countries in Latin America had shown during the last decades set up advantageous conditions for well-known microfinance institutions and its development. Microfinance sector contributes by its profits to the common financial institutions which have already got a significant position in the market. In principle, Mexico struggles for better conditions for the poorest class of the population and due to this fact offers products of microcredits as the assistance to start-up small businesses. From the economic point of view, Mexico tries to be much more self-sufficient and sustainable. Microfinance institutions earn regularly an undisputed importance in the process of regional expansion, representing a crucial factor in the alleviation of poverty likewise insecurity for large segments of the inhabitants. The work is based on information from relevant sources that can easily identify the current status of microfinance. This thesis researches the microfinancial sector and the program FINCA (Foundation for International Community Assistance), including causing non-governmental organizations in Mexico. The purpose of this paper is to focus on the current situation of functioning microfinance sector in selected Mexican states as well as to identify impacts of microfinance activities in this country. It describes microfinance sector due to its lack of opportunities to gain microcredit. Credit distribution and its awareness about these services is passed. Administrative procedures are difficult and information shortage restricts credit accessibility. This leads more in usage informal sector, based on family members or groups. The paper demonstrates suggestions for improving and operating in this sector that might be involved in legal framework for microfinance in Mexico.

Keywords: Mexico, FINCA, MFIs, NGOs, microfinance, impact analysis

Abstrakt

Mikrofinance jsou v poslední době považovány za klíčový nástroj v boji proti chudobě v rozvojových zemích. Cílovými skupinami mikrofinancí jsou velmi chudí lidé, kteří nemají přístup k žádným finančním produktům a potřebují úvěry. Malé úvěry pomáhají chudým v podpoře jejich stávajícího drobného podnikání či ve vytvoření vlastních pracovních příležitostí. Úvěry jsou často zpronevěřovány, nejsou dlouhodobě finančně udržitelné a mnohdy jsou i kritizovány. Otázkou je, jsou-li mikrofinance skutečným všelékem a jaký vliv mají na snížení chudoby a dále jaký mají sociální či ekonomický efekt. Také se zvažuje pohled preferencí modelu zaměřeného buď na podnikání (podmíněné vysoké úroky, možnost kontaktování zprostředkovatelů, získání snazšího přístupu k vnějším finančním zdrojům) anebo na charitu (více odolný vůči krizím díky užívání vnitřních zdrojů financování). Z celkového pohledu má Latinská Amerika výborné podmínky pro mikrofinancování. Podmínky makroekonomického růstu v posledních desetiletích zaznamenaly vzestup a speciálně mikrofinančním institucím zajistily vlastní konkurenceschopné prostředí a rozvoj. Mikrofinanční sektor přispívá svými zisky značnou měrou do finančního sektoru především v rozvojových zemích, kde se těší stále větší oblibě. Mexiko usiluje o lepší životní podmínky pro nejchudší obyvatelstvo a nabízí mikroúvěry jako pomoc k nastartování drobného podnikání, čímž se země snaží o to, aby byla více soběstačná a její rozvoj udržitelný. Mikrofinanční instituce jsou nesporně důležité v procesu regionální expanze, reprezentující zásadní faktor ve snižování chudoby. Práce je založena na relevantních zdrojích, které mohou snadno identifikovat současný status mikrofinancí. Disertační práce zkoumá mikrofinanční sektor a program FINCA, zahrnující působení nevládních institucí v Mexiku. Smyslem této práce je zaměření se na současnou situaci fungování mikrofinančního sektoru vybraných mexických států, a také identifikovat dopady mikrofinančních aktivit v této zemi. Popisuje mikrofinanční sektor na základě nedostatku příležitostí získání malých úvěrů. Distribuce úvěrů a vlastní povědomí o těchto službách je opomíjeno. Administrativní procesy jsou složité a zejména nedostatek informací limituje získání úvěrů. To vede k užívání neformálního sektoru, založeného na rodinných příslušnících anebo skupinách. Práce demonstruje návrhy ke zlepšení a řízení tohoto sektoru, který by měl být zahrnut do legální mikrofinanční soustavy v Mexiku.

Klíčová slova: Mexiko, FINCA, mikrofinanční instituce, nevládní organizace, mikrofinance, analýza dopadu

1 Introduction

The Foundation for International Community Assistance (FINCA International) is a non-profit microfinance institution (MFI) 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 (Hatch, 2004). 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%.

Mission of FINCA reached out to around 1 million clients in 21 countries worldwide in 2013. It had got an aim to expand and to have more than million clients by the end of 2013. 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 (FINCA, 2013a).

MFIs, Mexican and Czech non-governmental organizations (NGOs) are a component of successful rural development and work. These organizations expand in all fields especially in the communities where the assistance is highly requested. Volunteers impress in villages and remote areas to raise the living standards of local people and to integrate them into the market economy there. All contribute to the rural's advancement with the interal microfinancial connections.

The literature review is divided into general part and a part focused on Mexico. General part conducts information about the microfinance, basic division of microfinance institutions, microfinance products, existing microfinance providers, risk factors and other important sections. Microfinance clients are also specified. Credit distribution channels of microfinance institutions are outlined – predominantly group lending system with strong impact on social relations in both sectors (formal, informal). Microfinancial institutions long-term sustainability, the role of government and occurring risks are illustrated in its fullness. The overall view into the microfinance sector and the world situation is described, primary with the focus on the situation in Central America in Mexico. Transformation of microfinancial institutions towards commercial sector that is supported by the ideas of many organizations in formal and informal parts. It is about the discussion on both sides.

In the second part, there is characteristic of the state Mexico, its socio-demographic description, economic development and information about the poverty situation. Specifics of microfinancial sector are deeply analyzed through the present rural finance, formal institutions, informal institutions and saving services. Then the microfinancial situation is described there, with concrete and still collaborating microfinancial institutions. Non-governmental institutions are implemented as a part of this whole process. Some examples and comparisons with other parts illustrate complete picture of microfinance sector in Mexico. Description of gathered data provides overall picture given by the descriptive evaluation. Finally, several views into this problematic and its improvement suggestions are discussed.

2 Literature review

2.1. The role of microfinance in the poverty alleviation

2.1.1 Historical development of microfinance

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 (BPR), 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 (Ledgerwood, 2000; Keller, 2003). 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 oppressive 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 (Ledgerwood, 2000). One of the most significant formations which came into existence was an Employed Women's Association (SEWA Bank) 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 30 thousands 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 more than 4 million borrowers. 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 particularly in the United States (US) and Africa. 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. (2002). 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.

In 1980s problems with unsustainable financially credits occurred firstly and 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 (Arun *et al.*, 2009; Zeller, 2003). 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

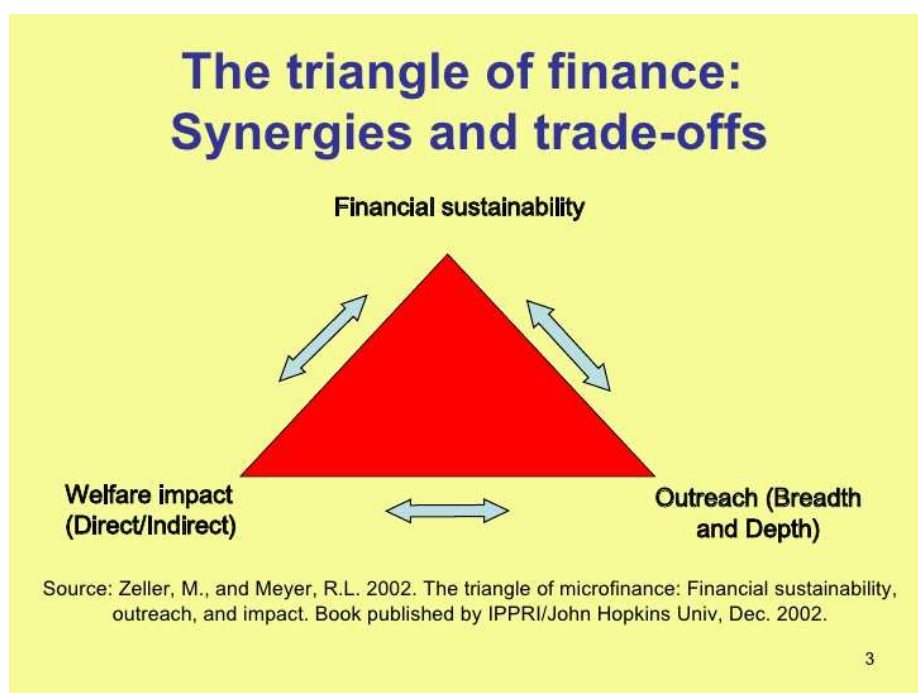
savers, investors or benefited larger scale producers. Through the 1990s the high repayment and recovery in the interest rates enriched large number of clients. Also a long-term sustainability of borrowed credits was achieved. Bank Rakyat Indonesia (BRI) as the largest microfinance institution in developing countries was set up and today serves about 22 million microsavers. 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“ⁱ*. This decade was known for a replacement of the term „microcredit“ that was enriched of savings and other financial services (insurance, money transfer). 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 repayments, credit abilities and the needs (Ledgerwood, 2000). 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 1990 - 2010 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“* (Nimal, 2007). 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. 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 developing 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

ⁱ Global Envision, Exploring Market-Driven Solutions to Poverty, 2006.

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 (MyElen, 2013). Examining 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, this is 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. Concept of the „triangle of microfinance” is the key to manage successfully the synergies and trade-offs. It is a 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 picture 1.

Picture 1: The triangle of finance



Source: Zeller M, Meyer RL. 2002. The Triangle of Microfinance.

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. In this year was Muhammad Yunus awarded by the Nobel Peace Prize and one year after the Grameen Bank as well. 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 (Mersland and Strom, 2009). It was ascertained that almost every MFI has got three main sources of financing available, those are borrowings, deposits and equity (Gaul, 2009). 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 (Ledgerwood, 2000; Zeller and Meyer, 2002) even though these added services are not universally included in the definition of microfinance according to the Ledgerwood (2000). 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), Ledgerwood, 2000. 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 approx. 1 billion people will be still living in extreme poverty in 2016 and nearly 2.6 billion people will have no access to formal financial services (WB, 2015). 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.

2.1.2 Political background and credit distribution

Global political restructuring was caused due to oil crisis in 1970s and the end of „regulated capitalism“. Weber argues that there was a great effort to create so called „new right“ to construct neoliberal political framework on a global scale. Political decisions, norms and regulations were done as a social policy of particular developed countries (Weber, 2006). The principal providers of productive loans and credits were common governmental agencies that

had none access to previous credit facilities (Ledgerwood, 2000). In 1980s some experiments with microcredit schemes were done. These schemes were seen as a tool for poverty alleviation on the micro-level. Year 1986 was important in this field of microfinance – an establishment of the Emergency Social Fund (ESF). It was with a cooperation of Bolivian government and Bolivian program termed as one of the World Bank programmes in general such as Structural Adjustment Program (SAP) in this case, also International Monetary Fund (IMF) and the World Bank (WB) cooperated. Main goal was a provision of technical support and credits to the poor businessmen, then supported production and generation of income. This started on the basic level and continued to the macro level restructuring. Cooperatives and non-governmental organizations (NGOs) were used as a distribution channels to provide credits. Later on this micro-credit scheme was used as a model of programs of WB in Africa and Latin America. Long-term poverty reduction strategy was the ESF framework. According to the WB's studies, social funds that provided credits became the most popular in credit distribution system. Consultative Group to Assist the Poor (CGAP) with the WB created terms for combating the poverty and to gain the best practice in microfinance (Weber, 2006). At that time subsidized credits were often criticized due to high losses and recapitalization for further operating. Ledgerwood saw the new vision in sustainable financial institutions as an integral part of the financial system (Ledgerwood, 2000).

In 1990s there was high inequality between developed and developing countries. There was a significant shift to micro-political poverty reduction. It did not mean only the meeting and supply of basic human requirements but also existing of political rights and obligations. Then these requirements were done on the local level and more understandable to everyone. The result was that the main global institutions as the IMF, the WB or World Trade Organization (WTO) had poverty alleviation as the main objective in institutional terms. Poverty Reduction Strategy Paper (PRSP) was created by the WB and the IMF consisting of key decisions that were made about the poverty alleviation to enhance Heavily Indebted Poor Countries (HIPC), (Weber, 2006).

2.1.3 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 crucial. 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 (Ledgerwood, 2000). 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 types of 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 (Ledgerwood, 2000). 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 two long-term goals of microfinance: a *sustainability* (to cover the costs of poor people) and an *outreach*.

2.1.4 Who are 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 (Rutherford, 2009). 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.

2.2 Types of microfinance institutions (MFIs)

MFIs are divided into three main structures: formal, semi-formal and informal (Thi and Lensink, 2007; Keller, 2003; Srnec, 2008; McCarty, 2001). 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 (Ledgerwood, 2000). 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.

2.2.1 Formal institutions

These formal institutions 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 states 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 (Arun *et al.*, 2009). 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).

2.2.2 Informal institutions

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 example, 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 (*et al.*, 2009) 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 (Zeller, 2003).

Rotating savings and credit association (ROSCA) is a 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 (Bouman, 1983). 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 illiteracy. 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“.

Groups as **relatives, friends or neighbours** represent very often the first contact and the first source of short-term credit. Usually there is none interest rate and none charge. Lending process is done in an oral agreement between borrower and lender without none specific formalities. There agreements are done on mutual honour and trust (Ledgerwood, 2000; Zeller, 2003).

2.2.3 Semiformal institutions

The most common types of semiformal financial institutions are financial NGOs 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 many forms and 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 - 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. The process of functioning is explained above. 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. Another example is **Grameen Bank**. It has been a Nobel Peace Prize microfinance organization since 2006 that started functioning in Bangladesh in 1976. Prof. Muhammad Yunus was the leader of the research project in local rural areas that was focused on credit distribution to the poor because of exclusion from commercial banking sector. The mission was an improvement of financial services targeted to the rural poor (Zeller, 2003). The main idea was a provision of small credits to support business activities, encourage incomes and create employments.

This project was successful and in 1983 was transformed into an independent bank under the governmental legislation. The Grameen's objective has been to promote financial independence among the poor with its scheme to provide credits to the small groups of at least two people. These groups work as collateral for payments. Social pressure leads to wider interaction of its members and a progress in their solidarity within the community. Firstly, only two members can get small credits and afterwards if both are repaid other ones that can apply for it. Nowadays, net income is nearly 11 million USD and it serves around 9 million borrowers (the majority of 98% are women). 90% of the bank is owned by the poor and it is rare that only 10% is owned by the government (Grameen Bank, 2011)ⁱⁱ. The bank also accepts deposits, provides other services and runs several development-oriented businesses including fabric, telephone and energy companies.

The biggest emphasize was given to the other semiformal institution named as **The Foundation for International Community Assistance (FINCA International)**. FINCA is the Foundation for International Community Assistance with its headquarters in Washington D. C. It was established in 1984. It is non-profit microfinancial organization that is working on the basis of provided microloans. It is an organization that serves its financial services (microloans) to the low-income entrepreneurs in the developing countries. It gives access to the Poor without none guarantor and its repayment of the loan to the group not the individual. The objective of this non-profit organization is a creation of new job opportunities in areas where is a lack of them especially in the state sector; an increase of family incomes; an increase of living standards; an alleviation poverty etc. In most cases the loans are provided to women. In 2008 women created 70% of the clients and the rest men in 30%. The mission and the objective of this organization is a formation of a strong global microfinancial network that might be serving low-income people.

FINCA is consisted of two subjects: FINCA International and FINCA Microfinance Holdings. These two subjects are cooperating in an agreement of partnership. FINCA International is a non-profit and increases its financial sources, creates new services to the customers, does the demografic researches and measures the contribution for the clients. FINCA Microfinance Holdings is a „daughter“ company of FINCA International and affects with the responsible partners such as IFC (International Finance Corporation) and WBG (World Bank Group) that all

ⁱⁱ NEW INTERNATIONALIST. People, ideas and action for global justice. Microcredit and Grameen Bank. 2012.

share FINCA's mission. Nowadays, the services of the Poor are plentifully used. The extend of the poverty is enormous so that UN (United Nations) created a program of MDGs (Millennium Development Goals) with its fulfillment to the 2015, it was not finally fulfilled, and leading to:

- a) Alleviation of the poverty and social exclusion;
- b) Achievement of the global elementary education system;
- c) Gender equality in the society;
- d) Decreasing of the children mortality;
- e) Improvement of the mother's health;
- f) Fighting againts the illnesses as malaria, HIV, AIDS ...;
- g) Ensuring of environmental sustainability;
- h) Building of global partnership for the development;
- ch) Sustaining of international peace and safety.

During the years 2012-2015 investments of IFC and from the other European developing banks and private investors took in action around \$74 million. This financial injection caused a formation of daughters company which assignment doublet of the amounts of the clients. FINCA cooperates in the public sector, too. Thanks to the cooperation of the distinct institutions including bilateral and multilateral organizations – realizations of the programs are much more extended in the whole world. FINCA is subsidized by million grants, fulfilling the operational and strategical goals. Cooperation brings an expansion into new regions, progress in new products, improvement of new mechanisms of providing microloans, progress of non-financial additional services for the clients etc. FINCA as the other organizations tries to be equal with its charitable mission and it needs to attract capital for its extension.

Main partners of the organization FINCA are:

- United States Department of Agricultural (USDA)
- United States Agency for International Development (USAID)
- European Bank for Reconstruction and Development (EBRD)
- Microfinance Investment Support Facility for Afghanistan (MISFA)
- Kreditanstalt für Wiederaufbau (KfW)

FINCA belongs to the MFI with its excellent protection of the clients, observing basic complex of the client's protection. Client's code is consisted of special customs, traditions and behaviour as to avoid excessive indebtedness, determination of transparent and responsible prices, suitable collection procedures, ethical behaviour of the staff, protection of the details and client's privacy, and mechanisms for the rectifications. Microloans fulfil the missions to help the clients to build up its own successful businesses, and simultaneously they meet the requirements and conditions of them against the risks. Before the provided microloan, the organization organize training during its process. Clients are familiarized with the structure of microloan, how to use money, how to save and how to extend their businesses. Training of the credit group is indispensable for the correct function of microfinancing and for the long term process of the organization as well. Since the beginning of the 21 century, FINCA has been done an exploration of client's psyche and to know much more about the world of the indigents.

FINCA organization was established in 1984 when the founder John Hatch, economic expert and international expert for the development designed new way how to provide financial assistance to the poor farmers during his activities in Bolivia (at that time there was well-marked inflation). This new program gave access to the farmers to gain the loans without guarantor where the main were the interest rates that could not the farmers afford. The program brought the groups of individuals that could participate in loans repayments and investments together. After these affairs the Hatch model started to be implemented as the „village banking“ process. The first official mentions about this organization are dated back to the year 1986 when John Hatch started up the first small program in Salvador – loans to the women. A focus of provision finance to the women was successful, the living standards of families were improved, financial opportunities were implemented, and children literacy in the elementary schools was enhanced. Business of women flourished even after two given microloans. The yields were increasing. John Hatch was persuaded that founded a new version how to raise the poor families up from the poverty. An advantage was that women started cooperate and supported each other and did business together. If one of the business rised up, other customers used the services due to face-to-face communication and satisfied services (FINCA, 2013a).

Village banking has been a central point of built economy since that time. Shortly it became well known. It estimated around 14 000 clients with its loans up to \$630 000. This fact pointed out the huge demand between MFIs about the working capital among poor people in the developing countries. John Hatch upgraded his program and instructed others in his program called „Village banking“. Other programs came into existence in Latin America. After the success in El Salvador, FINCA expanded. Other programs were opened in Mexico, Honduras, Guatemala and in Haiti in 1989. In 1992 Africa it was implemented likewise. The main reason was to discover if the programs can be successful even in other continent than in Latin America. One of the first African countries that entered into this program was Uganda. At that time there were political conflicts, instability, spread of HIV and AIDS. Unfortunately, after this action, there was shown how small awareness about the microfinance was. Nevertheless other countries followed: Malawi, Tanzania, Zambia and Democratic republic Kongo. Till the end of 1994 FINCA offered financial services to more than 50 000 farmers (families) with low incomes in Africa and in Latin America. In 1995 there was an enlargement into other continent – Asia where the first program was initiated in Kyrgyzstan. In Kyrgyzstan was a high unemployment where was a lack of basic economic principles. Microfinancial principles were not known there at that time. FINCA managed it well that the local economy could be implemented into this program without none problems. The program started to be successful in Kyrgyzstan and started to be a model for other countries in that region as Georgia or Azerbajdzan in 1998. Then Armenia and two provinces from Russia (Samara and Tomsk) were interested in it in 1999. Tajikistan was joined in 2003. In 2007 FINCA made a commitment to gain at least 1 million people that will use this microfinancial program until the year 2010. FINCA Jordan where was the program supported by the Jordanian queen was established in 2008ⁱⁱⁱ. FINCA offered to the Jordan and Afghanistan approved and negotiated contracts of purchase, expressly dividing sale of the goods for cash and with specific supplement including administrative costs and other transactions. In 2008 FINCA extended its donors and investors by the affiliation of British branch. In November 2009 there were some branches opened in Canada. Year 2009 was important in the history due to its cooperation with the German national bank – ensuring of obligations in value of \$21.2 million for the microfinancing the fund. This fund owned and still owns private investors. The fund was significant because the private investors were able to supply \$100 million for supplementary loans (betterment of infrastructure, investments into benefits for the employees and to the branches etc.). The development and formation of FINCA programs through the years is visible in the table 1.

ⁱⁱⁱ The emphasis was given to the harmony of Islamic religion, the interest rate in Jordan is 3.75% in July 2016, Central Bank of Jordan; the interest rate in Afghanistan is 15% in July 2016, Central Bank of Afghanistan.

Table 1 Development and formation of FINCA programs

Year of established FINCA program	Developing region	States
1984	Latin America	Bolivia, Kostarica
1986	Central America	El Salvador
1989	Central America	Mexico, Honduras, Guatemala, Haiti
1992	Africa	Uganda, Malawi, Tanzania, Zambia
1995	Central Asia	Kyrgyzstan
1998	SouthWest Asia	Georgia, Azerbaijan
1999	SouthWest Asia	Armenia, Samara + Tomsk (Russia)
2003	Middle East	Afghanistan
2008	Middle East	Jordan

Source: by the author, FINCA Annual Report 2009.

In 2010 FINCA had more than 750 000 clients in four continents in the world. FINCA is a successful organization and struggles for „breaking through“ a vicious circle of the poverty in the 21 century. As was mentioned in the introduction, FINCA's mission is to provide financial services (mainly credits, savings, insurance, and money transfers) to the world's lowest-income entrepreneurs to create successful and profitable businesses, build assets, 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 million clients worldwide, it has got 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 (e. g. Democratic republic of the Congo, Malawi, Uganda, Zambia, Tanzania), Latin America (e. g. Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua), Eurasia (e. g. Armenia, Kosovo, Georgia, Azerbaijan, Russia, Kyrgyzstan, Tajikistan) and Greater Middle East (e. g. Jordan, Afghanistan).

Also symbolic gifts may be given by individuals and done through the FINCA's online catalogue. It 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. It buys: a milk-producing cow, supplies to open a beauty salon, desks and supplies for a schoolroom. It buys or repairs a bicycle to transport goods; provides life-changing loans to approximately 15-20 women. These gifts are naturally tax deductible due to a support and reduction poverty worldwide. Regarding to the FINCA's Pilot Programs 100 thousands clients are served yearly, consisting of 96% women and an average disbursed loan size \$408.

In term of the history, Dr. Hatch (Hatch, 2004) FINCA has raised most of this start-up money from Agency for International Development (USAID). 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 (FINCA, 2013b). We should come out the mission statement that FINCA has. It is a provision of financial services to the world's lowest-income entrepreneurs so they can create jobs, build assets with its impact of improved living standards. Vision of this institution is to be a globally network serving collectively more a more entrepreneurs on commercial principles of performance and sustainability than any other MFI. FINCA is leading the way in expanding access to financial services towards low-income and underserved communities that are passed out by the common public. Global Index mentions: access to the financial services by the poor. It allows them to be more productive in their entrepreneurship and to have more control over their lives and livelihoods. According to the World Bank, approximately 2 billion have not any opportunity to use formal financial services (WB, 2014). Main reasons when the Poor are financially excluded are seen in a picture 2.

Picture 2: Main reasons of financially excluded people



Source: by the author. 2015.

The division of **involvement and key principles** of FINCA are important and mentioned in following sections (FINCA, Annual Report 2008).

Deliver Financial Services

- a) Individual & business loans – families's supports, expand businesses and employ themselves;
- b) Savings accounts – safe and affordable place for hard-earned money to get over hard times and major life milestones;
- c) Agricultural loans – for farmers to coincide with the rhythms of planting and harvesting;
- d) Education loans – credits to finance education, uniforms, tuition fees, books;
- e) Money transfers – affordable and safe way to send and receive money, FINCA keeps clients productive and focused on their businesses;
- f) Retail agents, mobile banking and ATMs – increase convenience and reduce costs to those clients living in remote areas.

Boost Local Economies and Jobs

Clients are employing themselves, providing services and goods to their communities. This encourages building assets for their own families. It is also about generating jobs in local economies.

Empower Women Worldwide

According to the Global Index findings, women are 20% less likely to be formally banked than men. And 17% less likely to have taken out a loan from a financial institution. Over 30 years, FINCA has empowered both men and women entrepreneurs even though the poverty affects more women.

Innovate to Expand Financial Inclusion

Payment service technologies and mobile phone usage are widespread in most countries. In 2020 even smart phones might be omnipresent. This fact is being transforming the microfinance industry. New technologies and approaches are applied, operational costs are cutting down, and services are improved in each country slightly differently.

- a) Mobile banking - saves travel time and keeps clients' money, avoids being robbed in a transit;
- b) Agent banking - through the service provider, clients can easily access to their funds, make payments and deposits in more places;
- c) Payment kiosks - deposits and loan payments are more convenient;
- d) Tablets - client's digital geo-location, capture of household information, accurate data collection (social data, infrastructure data, economic data);
- e) Biometrics – biometric fingerprint scanning and providing easier identification (e.g. medical care).

Research and Development

Actual examples that is FINCA working on:

- a) Agricultural loans for small-scale farmers;
- b) Microinsurance to protect clients' families and their assets;
- c) Non-bank delivery channels;
- d) Training and developing livelihoods, such as selling solar lanterns;
- e) Programs that enable the poorest members of society to rise above destitution and build viable economic activities.

FINCA has always had a strong commitment to client's protection best practices ever. It helps them and FINCA thrives. Key principles are important to be successful and thriving in the microfinance industry:

- Products are designed to meet the needs of the clients not more;
- Clients do not borrow more money that are able to repay;
- Clients fully understand pricing, conditions and other terms;
- Clients are threatened respectfully and fairly especially during debt collection process;
- All clients data remains private forever;
- Clients have option to communicate in case of complaints.

FINCA's initiatives are enormous. The most significant are: an access to non-financial services such as adequate water system, energy system, transport network, education or sanitation or medical facilities, it would greatly support the economic security, productivity and quality of life of the poor. FINCA is in a unique position to make a positive impact in most LDCs areas, understanding client's needs. FINCA's geographic reach is among the widest of the leading microfinance network – subsidiaries in Latin America and Caribbean (Mexico, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua), Africa (DR Kongo, Malawi, Nigeria, Tanzania, Uganda, Zambia), Eurasia (Armenia, Azerbaijan, Georgia, Kosovo, Russia, Tajikistan, Kyrgyzstan), South Asia and the Middle East (Afghanistan, Jordan, Pakistan). During the last decade FINCA is one of the best-managed microfinance institutions in the world due to the global economic crisis. How is the economic meltdown affecting FINCA? The impact is mixed, but relative to the world's broken and endangered commercial banking sector. FINCA's condition is astonishingly solid and extremely bright in its imminent future, argues its founder John Hatch. For instance, the overall program in 2008 experienced a slow-down process. Capital became available even if affiliate loan portfolio flattened but did not decline. Despite of this fact, repayment rates remained around 97% so that FINCA could sustain profitable in its loan services to the existing respectable clients. Moreover, many FINCA programs have been transformed into regulated, deposit-taking institutions. FINCA has risen to the occasion of mobilizing savings from current clients and general public. This change has leveraged to finance ever-faster and larger growth in new scale of client's lending and outreach (FINCA, Annual Report 2008).

FINCA's turning point concluded fiscal year 2008 with nearly 745 000 clients with its increase of precisely 9.1% over 2007, including more than 21 programs at that time. Over 3.7 million people were served by FINCA's financial services. Outstanding loans grew to \$348.4 million, that is increase of 22.5%, while the total disbursed loans reached \$817.4 million. An advantage of FINCA is highly diversified international portfolio of loans serving to the poor. Eurasia remained the strongest contributor to FINCA's network. This part of continent added over 53 000 new clients, for a total of nearly 264 000 clients paying on time in 99%, provided services of disbursed loans \$371.8 million. In Latin America, concretely in Mexico (partly in Guatemala, Haiti), there was a new record surpassing over 100 000 client's mark. This was the first program in the network achieving this mentioned milestone. Other findings speak clearly: 26 000 additional clients, 290 000 clients in total, \$324.5 million in loans, an average loan \$461. African outreach remained at a constant level – slight increase has been taken down at the first decade of 21 century. Year 2008 was ended with more than \$11 million in savings. Portfolio quality improved to nearly 95%, it was measured by the on-time repayment. FINCA has launched initiatives to improve client-support technology (software applications, technical assistance, research, new product development ...) and other staff training on the professional and volunteering base to gain expertise in a huge scale (e.g. mobilization teams). This was done through generous grants from the following organizations including Credit Suisse, Citi Foundation, GE Capital-Global Banking (\$1.5 million grant programs to Malawi and Jordan), Visa, USAID etc. FINCA had 25-year anniversary in 2010. The goal of served 1 million clients through 100 000 Village Banks was reached.

FINCA's methodology is simple – providing financial services to the world's lowest-income businessmen can withstand any kind of global financial crisis shockwaves. The main key stability is apparent in FINCA's clients' database of thousands people. On the other hand, it is based on many supporters. Since the beginning of the 21 century, FINCA has provided much more than loans. There was a set of financial instruments and services that ensure to the clients more security standards in their way out of poverty. To do this and to fulfil this potential, FINCA has been transformed into an organization with its unique model. This unique business model has a goal - to leverage donations with its investments and to maximize the capital for all lending clients. This meant the change of the main principle in that field. Programs were transformed into regulated financial institutions able to access commercial capital, moreover, expand outreach to more a more clients. In 2014, there is visible expanding outreach in increase in clients to more than 1.8 million up to 9%, increase in client savings to over \$130.2 million up to 66%, and increase in total value of loans disbursed \$1.6 billion up to 10%

(FINCA, Annual Report 2014). In 2014, FINCA focused on innovation: reevaluating how operated, counted delivered products and services and made easier access and transact with the final customer. Loans were given to low-income individuals and entrepreneurs with socially responsible financial services. There were also added other services, including the existing: money transfers, credit insurance, life insurance, health insurance, savings accounts, savings groups, credit lines, loans for micro and small businesses, educational loans, agricultural loans, „green energy“ loan, Village Banking and more. In this way, there are supported micro and small enterprise owners, where is a need to be supported. To these vulnerable people there is a possibility of given way to manage their living ups and downs. A huge part of this innovation and development is the technology, basically on both sides. Financial institutions use mobile phones and electronic payment/deposit system on common basis. These financial tools are very essential and have got great impact in the poorest communities. It is still continuing in using detail agents and mobile banking accesses to the FINCA's services. It is about new partnerships either communication or technology companies. FINCA is also making efficiency processes to make microloans easier and faster to obtain clients, to save client's money and time (FINCA, Annual Report 2014).

A transformed and transforming FINCA organization was seen in the last decade(s). Over 1.2 million FINCA client family members in Africa and Latin America received enhanced credit-life insurance benefits. For example, in Mexico there was implemented a new electronic payment technology system in cooperation with corporate partner *Visa*, providing that financial support. *Visa* also made a grant, available for client from Latin America, that gained financial literacy training for. *Credit Suisse* developed a global training strategy and its implementation process to enhance skills at all levels of the organizations. Then, The *City Foundation* invested much money into the Africa, Latin America and Middle East regions to improve operations there. FINCA's technology - concretely database software has changed and improved its functions such as higher and better financial controls, transparency of money flowing, efficient loans delivery, better reporting, feedback etc. Not even mentioned technologies assist to the poor. A loan of \$100, \$500 or \$2000 is a fortune. It is enough to make investments that make their businesses productive. In most cases there is a lack of sewing machines, refrigerators, special equipments suitable for agricultural purposes etc. Whatever their need, all FINCA clients share the dignity and purpose that comes with owning their own businesses and working to care for their families. They share the excitement that comes from opening a first bank account. They share the dream of making a better world and life for their children (FINCA, 2013).

FINCA's microfinance subsidiaries are controlled and owned by FINCA Microfinance Holding Company LLC (FMH), it is the majority owner. It is unique social investment partnership that scale up and serve people in need. There are next unique partners that share FINCA's mission: a Dutch development bank (FMO); International Finance Corporation (IFC); microfinance investment firm (Triple Jump) and Triodos Bank from Netherlands; responsAbility Global Microfinance Fund from Zurich; and development bank from Germany (KfW). In 2014 there was consolidated statement of activities. As was mentioned before FINCA international is a non-profit organization. The majority shareholder of FINCA microfinance Holding Company LLC (FMO) controls and owns the network of 23 microfinance subsidiaries, program services are delivered through them, of course. The total revenue is consisted of FMH microfinance operations as well as donations, grants, other additional support needed to help the whole work. Great point is that FINCA grew steadily in the past two years. It has already issued 1.7 million loans valued \$1.6 billion. At the end of 2014 there was net portfolio outstanding of \$949.3 million, it has represented 14.5% increase since 2013. This means that the total deposits value grew by 66.1% from clients to \$130.2 million. Due to these facts, FINCA consolidated expenses which were classified in 3 categories: general and administrative expenses, program services and fundraising. FINCA spent \$378.9 million (96%) of the total consolidated expenses, redistributed towards program services to benefit low-income clients. Fundraising expenses were \$3.6 million. General and administrative expenses were \$12 million. According to the United States Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards were done the financial statements for FINCA (FINCA, 2013).

Expenses in 2014 consisted in percentage of: 96% program services, 0.9% fundraising, 3.1% general and administrative ones. The Revenue in 2014 was following: 89.1% program and interest income, 3.6% donations and cash grants, 3.5% program income and fees, 2.8% grants, 1% services and gifts of kind. In table 2 and table 3 there are key indicators for the FINCA network related to the three-year summary and summary by the region in 2014 (FINCA, Annual Report 2014).

Table 2: FINCA network three-year summary, 2013-2014

	2012	2013	2014
Total Borrowers**	990 000	1 146 000	1 203 000
Year-End Gross Portfolio	\$636 600 000	\$840 600 000	\$966 900 000
Total Amount Disbursed	\$1 191 194 000	\$1 464 727 000	\$1 605 900 000
Portfolio at Risk>30 days*	1.5%	1.5%	1.9%
Total Savers**	311 522	767 000	1 039 000
Total Deposits from Clients	\$44 200 000	\$78 400 000	\$130 200 000

Source: FINCA, Annual Report. 2014.

* % of loans past due greater than 30 days. ** Includes clients who are both borrowers and savers.

Table 3: Summary by region, 2014

	Average Disbursed Loan Size	Year-End Gross Loan Portfolio Outstanding	Total Amount Disbursed	Portfolio at Risk >30 days*	Savers
Africa	\$518	\$142 100 000	\$285 900 000	2.2%	624 000
Eurasia	\$1 850	\$573 700 000	\$806 600 000	1.3%	83 000
Middle East and South Asia	\$763	\$75 600 000	\$102 600 000	1.1%	268 000
Latin America and Caribbean	\$697	\$175 500 000	\$410 800 000	4.2%	64 000
Total	\$938	\$966 900 000	\$1 605 900 000	1.9%	1 039 000

Source: FINCA, Annual Report 2014.

Tables include gross loan portfolio, disbursements and savings.

Mexican microfinance portfolio is much more concentrated on the state of Morelos and Puebla (60%). In year 2012 the portfolio of the clients was created mainly by 96% rural women (Ahorre Dinero, 2013). The goal of this organization is to gain entrance to at least 30 Mexican states. A big call is an improvement of effectiveness, maintaining of the function and competitiveness. The organization tries to find new strategies leading to the decrease of the total costs especially operational. It offers basically small, short-term loans to moderate the market risks. There are still problems with the findings of qualitative and qualified staff. The field of activity is distinguished by extreme operational costs. The final rentability of the organization is strong in comparison to other MFI there. When the operational costs increase, it is not supposed

the elimination of FINCA's profit. On the contrary, the organization is able to compensate higher volume of microloans. State development banks and private investors are participated on the competitiveness of FINCA.

In 2008 the milestone of outstanding loans rised up to 4% (after the 30 day maturity) in comparison to the year 2007 when it was 3.9%. In 2008 there was a huge increase of the refund costs. Investments of the state mexican development banks and private investor decrease deceleration of economic development. Long-term financing poses 72% of resources (22% is a debt in foreign currency as USD, EUR). Even in this case there exist 30 day period of repayment in obedience to standard steps of MFI. The organization tries to sustain appropriate market risk in an adequate form. Short-term maturity of the credit (30 days) is able to be comparatively flexible and to regulace the services promptly. The organization is being under the pressure due to the risks of interest rates from its financial sources. This is reviewed in every 4-month period. Annual combined interest rate is 55.5%. The main source of operational regulation is a profit (83% in year 2008). In Mexico the capital of FINCA grew up about 40% between 2003-2008. In December 2008 own capital of FINCA Mexico was 27.8%. Credits provided by FINCA represents around 95% of all microloans provided by MFI (MIX Market, 2013). In the appendix 8 there are seen activities and its differences done in years 2013 and 2014 such as operating revenues (contributions, programs) and operating expenses and the end assets of the concrete years. Net assests fall down of about \$11 700 000 in year 2014.

FINCA's conditions in Latin & Central America are highly known and connected with unadequately incresing oil and food prices, tropical storms and hurricanes. Global financial crisis impoverished families throughout FINCA's seven programs hold in Latin America during 2008. Despite these extraordinary challenges, FINCA's programs in Latin America continued to lead the network. It served more than 290 000 clients and disbursed over \$324.5 million in loans averaging \$461. Table 4 shows the differences between countries in Central America in the number of village banking groups, its total clients, an average loan size and the amount lent in 2007. Mexico had the highest number of village banking groups with its total clients up to 113 000. A suprise was the average loan size that was the highest in Ecuador eventhough this country was on the third place in case of the numbers of village banking groups.

Table 4: Microfinance situation in Central America

Country	Village Banking Groups	Total Clients	Average Loan Size	Amount Lent in 2007
Ecuador	4 776	60 233	\$691	\$96,593,238
El Salvador	1 155	11 559	\$411	\$11,890,647
Guatemala	5 970	44 759	\$312	\$32,206,380
Haiti	1 405	18 397	\$251	\$7,431,756
Honduras	2 219	19 626	\$386	\$15,251,011
Mexico	8 370	112 858	\$475	\$143,812,287
Nicaragua	2 520	22 574	\$288	\$17,332,239
Totals	26 405	290 006	\$461	\$324,517,559

Source: FINCA, Annual Report 2008.

Table 4 shows following facts: **Ecuador** produced over 500 000 oil barrels regularly and daily, more than 46% of the population lives below the national poverty line. At that time FINCA served more than 60 000 clients and disbursed \$97 million in loans. FINCA Ecuador was honored in the field of microfinance as one of the most coveted recognitions in this field, published by the Microfinance Information eXchange. It became the first fully-licensed bank network that reached \$4.9 million in total savings. **El Salvador** served more than 11 000 clients in 2008 with an average loan just \$411. \$2 per day had around 40% inhabitants. **Guatemala** has the highest percentage of population living below the national poverty line, it is about 56%. Average loan is only \$312. There was served more than 44 000 clients. In 2014, there is expanded access with banks and with the financial services.

Haiti was devastated by hurricanes, shortages of food and fuel. Around 800 000 persons were displaced, 3 000 000 starving people threatened. Damages of communication infrastructure caused \$1 billion, completely cutting off remote villages where operations were located. FINCA Haiti serves more than 18 000 clients where 78% survives less than \$2 per day. An average loan size is only \$251. Five years after the other devastating earthquake (in 2010), the economy was strengthened. FINCA Haiti is increasing daily, get at 110% to more than 21 000 clients. **Honduras** served more than 19 000 clients. During a year FINCA was able to collect and relent savings and access commercial capital to be served more than 50% of Honduras living below the national poverty line. In 2014, FINCA began linking farmers with technical assistance to assist them to improve their yields and to assist them to sell their products in the markets. In **Mexico** there became the first program in the network that served over 100 000 clients. FINCA

operated in 20 of 31 Mexican states plus in the capital city (Federal District). In 2008 it disbursed \$143.8 million in loans, assisting more than 112 000 clients (95% women). An average loan size is \$475. Year 2014 opened access to the financial sector more in partnering with banks and convenience stores to offer faster and easier access to the financial services. **Nicaragua** has been the most affected country by the global financial crisis and economic deterioration in 2008. Clients expansion was more than 22 000. Thanks to the grant from the US Department of Agriculture 8 400 rural Nicaraguan women could gain access loans for building their food crop businesses. An average loan is \$288.

Village Bank(ing) is a microcredit methodology where are all financial services administered 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 usefulness 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 (Zeller, 2003). 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 micro loans to the solidarity group. The clients of VBIs range from the rural regions to the urban areas (Westley, 2004). The village banking group supports group of 10-50 members who are primarily 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 (FINCA, 2013b):

- 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 more than one million low-income individuals across 21 countries. FINCA had more than \$320 million in outstanding loans to disburse as much as \$800 million in loans by year end (FINCA, 2013c). Most village banking programs began

with what is referred to here as the original Hatch model (Painter, 1999) which compares actual program information to the original Hatch loan model projections:

- 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 5).
- Clients are mainly women borrowing loans \$50 dollars - \$300 reaches by the third year.
- Projected loan-size growth rate is 500% over during 28 months period.

Table 5: Original Hatch Model Projections

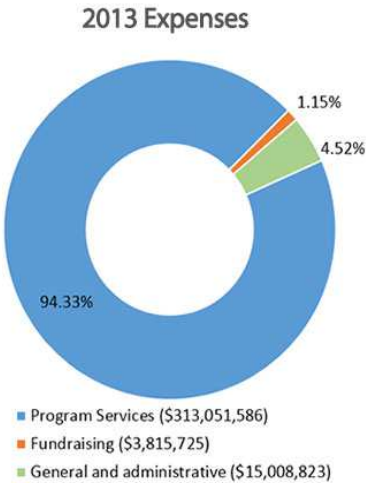
Loan Cycle (4-month)	Loan Size per Borrower	Savings per Borrower per	Cumulative Savings Per
1	\$50	\$10	\$10
2	\$60	\$12	\$22
3	\$82	\$16	\$38
4	\$120	\$24	\$62
5	\$182	\$37	\$99
6	\$281	\$56	\$155
7	\$300	\$60	\$215
8	\$300	\$60	\$275
9	\$300	\$60	\$335

Source: Painter J, MKNelly B. 1996.

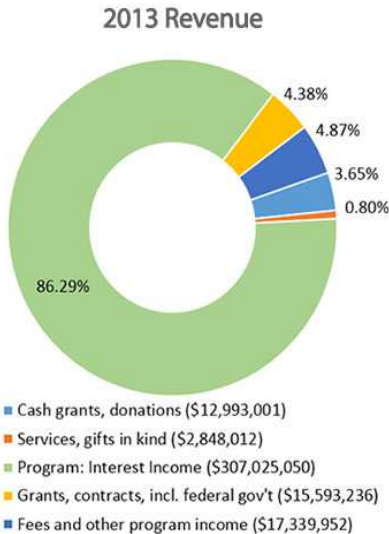
This model above show an opportunity to compare actual program information to the original Hatch model projections. Another question of this doctoral thesis is about how village banking definitely works. Is this village banking method maintainable and working seriously – dealing with the problem of the poverty? From the basic point of view, the village banking is an informal group about 20-30 members, largely female heads-of-household. 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 at home of their members 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 (Hatch, 2004). The repayment rate is outstanding. Globally, an average of FINCA a repayment rate is over 97% in its worldwide network (FINCA, 2013b). It is good or even better than most commercial banks usually expect. Financing of the programs is still solving and it is in the process of discussion. An examples are the achievements of the year 2013. The following graph 1 and graph 2 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.

Graph 1: Expenses



Graph 2: Revenue



Source: FINCA, Financials & Reports. 2013.

The way of lending usually takes 4 weeks. Repayments should be done every week so the total calendar of the repayments might be done 16 times. Before the first provided microloan (\$50-100) there is the first statement of the group responsible for the loan. It is about 4 weeked cycles of the meetings. The name of the group is named afterwards. The program is explained, organizational theme is done and some savings are withdrew. During the second meeting there are involved in other members and the restrictions and other policies are done. On the third meeting there is a fulfillment of the application about the loan and it is set to the FINCA Internation – to the headquarters of the state. On the fourth meeting every member has got its own microloan check or money in cash. There are given papers where are all the processes written and calculated step by step.

An example: loan of the client is \$100 for 4 months, interest rate 3% per month, the goal is 20% in savings, one-week payments are following:

Capital of FINCA= \$100

Interest rates for the organization FINCA = $3\% \times 4 \text{ months} \times \$100 = \$12$

Savings: $20\% \times \$100 = \20

Total payment for the client is \$132

Weekly repayments (16 weeks) = \$8.25 (\$6.25 princip, \$0.75 interest rate, \$1.25 savings)

The fulfilment of the obligation looks like as following process. Thanks to the first loan clients are able to buy the first inventor as vegetables, equipment etc. Clients give to this a special price +30% and try to sell it in a week. Every day the clients “cancel” 1/7 from its working capital (\$14.28) and 1/7 of its weekly repayment (\$1.18), it is daily income is \$3.11. For the first week it is done, client has to add its capital and to buy other goods. This means that the loan, interest rate and the savings are covered (Hatch, 2004).

Providers of Financial Intermediation Services

<u>Formal sector</u>	<u>Semiformal sector</u>	<u>Informal Sector</u>
Central bank	Savings and credit cooper.	Savings associations
<i>Banks</i>	Multipurpose cooperatives	Combined assoc.
- Commercial		
- Merchant	Credit unions	Informal fin. firms
- Savings		Indigenous bankers
- Rural	Employee savings funds	Finance companies
- Postal savings		Investment comp.
- Labor		Self-help groups
- Cooperative		non registered
<i>Development banks</i>		Individual moneylenders
- State-owned	Village banks	Commercial
- Private	Development projects	Noncommercial
<i>Other nonbank institutions</i>		(friends, relatives...)
- Finance companies	Registered self-help groups and savings	
- Term-lending institutions	Nongovernmental organizations (NGOs)	
<i>Building societies and credit unions</i>		Shopkeepers
<i>Contractual savings institutions</i>		NGOs
- Pension funds		
- Insurance companies		
<i>Markets</i>		
- Stocks		
- Bonds		

Source: FAO. 1995.

2.3 Microfinance products

2.3.1 Credits

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 (Waterfield, Duval, 1996). 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 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 thousands depending on donors' country origin (FINCA, 2014). On the other hand, BRI provides credits in a range of \$200-800 (Ledgerwood, 2000; Zeller, 2003). 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 motivate 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 more advanced and often donated by the government, on the contrary with Mexico or any other Latin countries where it is 60-100%, comprising up to 30% of operational costs (MyElen, 2012). 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 (Gutierrez-Nieto *et al.*, 2009; Ledgerwood, 2000). All processes are without exception financial and administrative exacting.

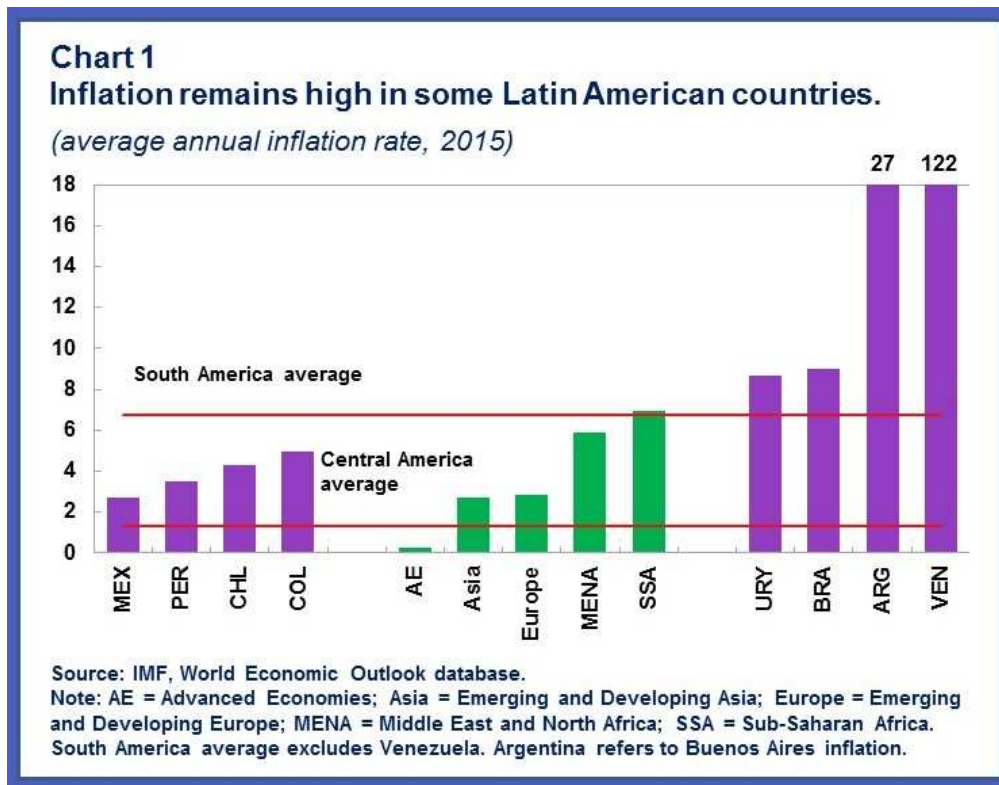
2.3.2 Savings

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 illness 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 inflationⁱⁱ – the average annual inflation rate of some chosen Latin American countries is seen in the graph 3, and it still remains high. Decreased global commodity prices and the normalization of monetary policy in the US caused the currency depreciation in Latin America. To spend money immediately on the ordinary needs it is much better rather than save it (Rutherford, 2009). The opinion of Ledgerwood (2000) is that 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. For instance, the graph 3 shows two of the region's largest economies – Argentina and Venezuela – have the highest inflation rates in the world. Mexican inflation is relatively low.

ⁱⁱ A falling currency is expected to create inflation by driving up the price of imported services and goods.

Graph 3: Inflation in Latin American countries



Source: Carriere-Swallow Y, Gruss B. 2016.

2.3.3 (Micro)Insurances

MFIs experiment with other financial products and services such as 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 in cases of the client's death, wedding, health care, loss of the property or natural disasters (floods, draughts, harvest losses) to cover all necessary costs. This kind of financial service should be affordable and beneficial to the poor (Brown, 2009). The successful redistribution of insurance must be performed well, in developing countries it was done 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. The agent model also works in Mexico (Nguyen, 2008). 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 in cases of unexpected member's occurrences.

2.3.4 Additional services

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 (Zeller and Meyer, 2002).

2.4 Existing microfinance providers

In general, microfinance providers are found in both the private and the public sectors. To identify market gaps when considering and providing financial services to the microenterprises, it is important to determine who the existing providers are and how well all the needs are being met in the market. Donors should be able to determine who is really active in microfinance and who might require any kind of funding or support. Basically, in areas where there is no microfinance activity, common practitioners can determine who their competitors are and the effects they have on the marketplace such as increasing demand, oversupplying, awareness, saturating or distorting the market etc.).

The effect of government programs on private providers is important, depends on their approach, government-run microfinance programs that can contribute to successful microfinance activities or the influence the opposite site. Governments that operate subsidized, inefficient microfinance programs through social, health services negatively influence the provision of sustainable microfinance services (Robinson, 1994). Usually governments have little or no experience with implementing microfinance programs and no incentive to maintain long-term sustainability. Government programs related to microfinance are often perceived as social welfare, some grow too large without none institutional base, and fail to coordinate efforts with local NGOs or self-help groups. Governments that forgive existing debts of the poor to the state banks can have enormous effect on private sector MFIs whose borrowers mistakenly understand that their microloans need not be repaid either. Universally, both donors and practitioners should determine the impacts of existing or past credit subsidies or debt forgiveness (Yaron and Piprek 1997).

There exist many arguments what is the government role, what should be done or not. Some people argue that the role is in a creation an enabling environment for the success on both sides – microentrepreneurs and private sector MFIs – and the governments should not lend funds directly to the poor. Others argue that the governments should provide financial services to the enterprisers directly on the commercial basis to sustain continuously an access to microfinance and to avoid distorting the financial markets. One example of well-running government operation is in Indonesia – the Bank Rakyat Indonesia – a profitable bank that serves low-income clients. The effect of private microfinance providers on other suppliers is a little bit distinctive. Basically, private sector MFIs are often NGOs operated by local leaders in the communities or other indigenous groups. These groups are frequently supported by international donors, NGOs that are involved in the start up phase. Some private MFIs deliver subsidized services or subsidize interest rates; others are trying to create self-sufficient operations and rely less and less on another external sources from the donors. Several are using fundings through commercial banks. In conclusion, both banks and nonbank financial intermediaries may provide services to the microfinancial sector.

All MFIs have to operate under the specific given conditions that are set by the government according to the legal status and in terms of national policies. Surely, the government can be helpful by providing financial support to the new created MFIs at the beginning, providing a legal framework for its institutional and operating structure (Zeller and Meyer, 2002). Zeller points out that every market imperfections legitimate role to invest into financial development (Zeller, 2003). Financial structure of every MFI and its sustainability has to be ensured and designed by the government. A lack of strong policies and favourable framework has been described as one of the basic impacts (SOS Faim, 2006). According to the authors McCarty (2001), Tietze and Villareal (2003) or Diagne and Zeller (2001) governments are inefficient providers of microcredit and these authors argue that these programs are not sustainable although they are highly subsidized by the government. Instead of these social policy measurements, the governments would be more helpful by providing capability building sources assisting to the MFIs or by providing technical assistance in the local communities, villages or cities.

2.5 Risk factors of MFIs and view of microfinance

Microfinance activities are based on the best practices and play the important role in providing financial services to the poor successfully. However, there have been some failures more than successes:

- MFIs aim at segments of the population that has no access to the business opportunities because of lack of markets, inputs, demand;
- MFIs are not able to cover the minimal scale of costs;
- MFIs are short of perspective policy framework with appropriate challenges;
- MFIs fail to manage their funds proportionately to meet and cover the future needs, the result is a liquidity problem;
- MFIs lack of perspective, sustainable, and expending financial management.

MFIs and commercial banks are vulnerable to liquidity problems (maturity, currency, term structure etc.), the risk features are different. It is because of the MFIs client base (low income people, small loans...) digger in ownership structure and in lending model (basically small short term loan). It is important to regular and establish minimum standards for MFIs, this was adapted from CGAP 1996b. The considerations are following: minimum capital requirements, capital adequacy, liquidit requirements, asset duality and portfolio diversification.

Many professionals and authors claim that the main constraint of microfinance is being as a subsidized credit. It is not enough sustainable, unable in commercial environment and it leads to the dependency on governmental policies and decision-making processes. South-East Asia, Middle East and North Africa still continue in the process of state-owned subsidized rural banking infrastructure, some of them are successful in transformation from development rural banks into demand-oriented services, comments Zeller (2003). Diagne and Zeller (2001) suggest that access to credits is not very effective tool just for poverty alleviation, it should also consider other features and the whole perspective as perfect insfrastructure system in rural areas, easier access to the market and into the socioeconomic environment. An example might be small field in the province in Oaxaca, Mexico where, predominantly, small-holders does have an average size farm 2 hectares. This is not enough for them to produce sufficient amounts of agriculture products to be self-sufficient. In that area the land is often affected by water shortages; even if they would diversify their activities they will not survive for the long-term period, the initial capital is greatly needed there. The highest risk of microfinance is definitely seen in agriculture sector. Everything depends on nature conditions. Cash flows are seasonal. Prices and production are unstable. Households are usually oriented on monoculture cultivation

rather than to diversificate its production (to deal with at least 2 crops during the year) that would be one of the steps to be fulfilled by MFIs to increase the salaries of poor peoples.

Wright (2009) did the studies in Latin America (e. g. Peru) to see how the microcredit programs are operating in these areas. Basically, group lending system for women was widely spread out (individual credit is not possible to gain). The main problem were embezzled money by the group boss. Then, the corruption and social base – high pressure existed there, this was causing unclear and unfair processes. Women were recognized as the best alternative to keep, save, share, and take care of saved money. Another failure is visible in managerial skills of upon MFIs' staff. There is a definitive lack of appropriate skills to be positive for clients related to the prospective „business structure“ and the client's needs. In the past decades, lots of MFIs are depended on the grants or any other credits provided by banks in local currencies. The danger is in floating foreign exchange rates, and the foreign debt is mostly denominated by hard currencies. Currency risks are moved on towards investors eventhough they are looking for hedging instruments to enable more and more the local currency lending system (Reille and Forster, 2008).

Positive impacts of microfinance are evident. Microfinancing offers a lot of positive effects on the low income inhabitants. One of the most important positives is a reduction of defenselessness of the Poor. Improvement of socio-economic conditions is another one as well as building the new abilities and experience up. Poor people build its own micro-economies and they are economic active. Microfinancial assistance can help from the new job opportunities to prosperous business. Increased incomes create new job opportunities for the Poor, when they have got children, it is known that these children attend at least elementary schools, enjoy more social life and studies. Education of MFI clients in the financial sphere rise up and in specific business sectors, too. Medical and eating habits are on the higher level in comparison to the rest inhabitants. Clients of MFIs are aware of protection against diseases (HIV, AIDS, malaria, cholera, typhus etc.). Women are more informed about gynaecological problems, pregnancy and contraceptive methods etc. In most parts of communities there is often problem with unplanned pregnancy. Nowadays, MFI clients are deeply interested in planned pregnancy in 90%. Last but not least, microfinance can impress as a tool of environmental protection and it can contribute to a formation of sustainable (rural) development. It can have impacts and be environment-friendly; purchase of better working machines; limitation of damaging interventions ... Particularly according to the consumption of active MFI clients is visible positive impact of microfinance – costs for education, costs for medical care, costs for making business etc. (Barnes, 1996).

Negative impacts of microfinance are obvious, too. In 20 century microfinance were widespread in most developing countries (Africa, Asia, Russia, Latin America – El Salvador, Mexico, Honduras, Costa Rica...). Many people considered „new world of microfinance meant for the Poor, roughly the same potential as green revolution and its success in agricultural“, claimed Buckley (Buckley, 1997). Nevertheless, is it possible to consider microfinance as a tool against alleviation of the poverty? It is demonstrated that microfinance have negative impacts on the lives of the Poor. In the last decade there are negative impacts particularly in South-East Asia (India), where microfinancial schemes have got limits that do not fill expected expectations. It is demonstrated that the microfinancial loans do not contribute to the long-term economic growth in the regions. As a model region can be Bangladesh where microloan has 15-20 million households when 2/3 of them do not use the microloan as the investment but for straight consumption. This phenomenon can not increase the living standard even self-sufficiency and future prosperity. The biggest problem is high indebtedness that is in fixed regions (South-East Asia, Latin America, Africa, India, Bangladesh), reason – often +60% interest rate. The concept of „borrowed money“ is practically the same as „being a debtor“. In most parts in today world the access towards microfinance are more or less easy. Majority of MFIs try to prevent to indebtedness by saving accounts or insurance services. This method is not solution. Most clients are able to have a profit that is not so high to cover even savings or insurance facilities. This problem is often in agricultural-business activities when are the clients dependent on climatic conditions, yields of the crops, soil fertility ... (Mayoux and Hartl, 2009).

Bad family situation where the domestic violence is another negative impact of microfinance. It comes through when woman is successful in her business and her husband does not have control above her incomes (Johnson, 2009).

Another restrictions are that the systems of microfinancing are not payable in many cases of extreme poverty. It is found out that microfinance must be provided to the clients daily and regularly within \$2 - \$3. The reason is simple. A big problem and an obligation is the sustainability of provided services as well as the quantity of clients to whom might be the services provided versus the effort for creation of the cheapest schemes for the Poor. Even small fixed loans are due to high costs for the personal relatively expensive although thanks to the group schemes there is an attainment of 100% maturity. Overwhelming majority of cases it is necessary to rely on fixed financial support from the state or international investors.

In some areas there are not the microfinance favourable and their purpose is being disappearing. Other problematic factor is frequent absolute and financial illiteracy of the Poor. These poor people are not able to evaluate the risks connected to the provided loan. In consequence of these realities it is referred to Mr Mohammed Yunus: „Microfinancial services in appropriate conditions lead to the identical problems that might be in its original similarity solved out“ (Yunus, 2011). Table 6 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 6: SWOT Analysis of Microfinancial Industry

STRENGTHS	WEAKNESSESS
<ul style="list-style-type: none"> - 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 	<ul style="list-style-type: none"> - Lack of consultants, training 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
<ul style="list-style-type: none"> - 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 	<ul style="list-style-type: none"> - 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

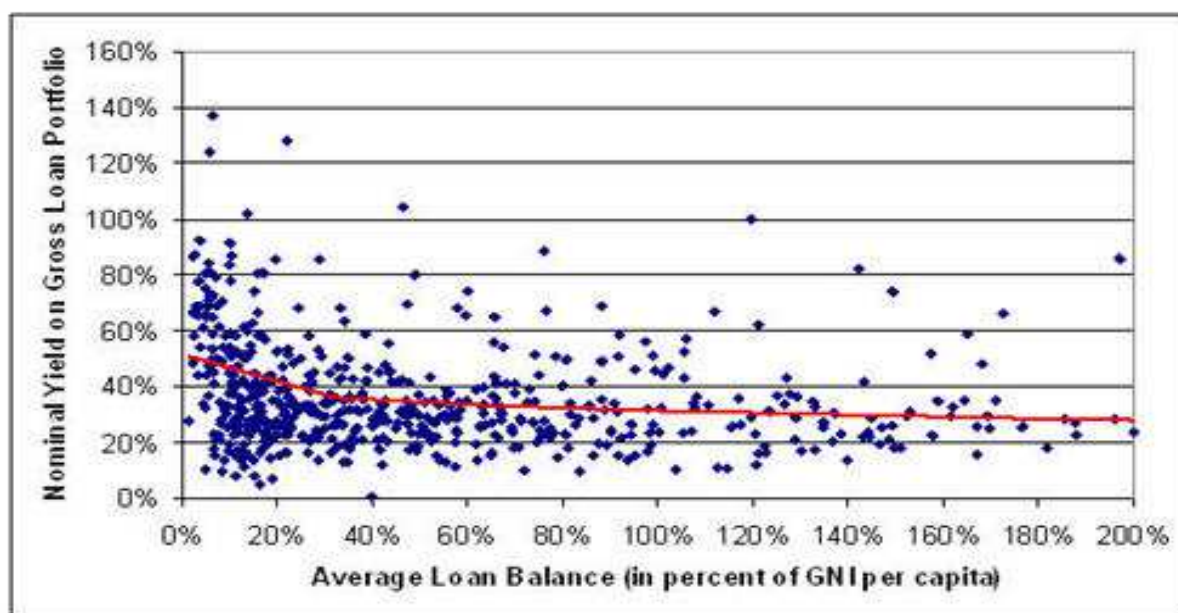
Source: by the author, on the base of own observing, 2015

2.6 Brief characteristic of MFIs in developing countries

During the last few decades microfinance has been spread mainly in the developing countries, however, the exceptions in developed countries, for example, Europe, are evident and subsidized by European Commission 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 known as Banco Sol). An interesting fact is that Banco Sol was also the first microfinance bank that became a commercially regulated. It became a microfinance bank and reached international capital markets. At least 40 NGOs followed Banco Sol and transformed themselves into commercial banks during the years 1993-2003 (Montgomery and Weiss, 2005). Srnec argues that transformation or commercialization of MFIs is considered as a shift from informal unregulated non-profit MFIs to formal MFIs that are profitable and have its own legal status (Srnec, 2008).

On the other hand, in Latin America it was in Bolivia – Banco Sol – that started to support unemployed and isolated inhabitants by increasing incomes (Montgomery and Weiss, 2005), and the largest MFI in Mexico named Compartamos with its unanswered 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 (et al., 2009) MFIs are distinct in Asia, Africa and Latin America where MFIs have more assets and their character is 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 graph 3 shows the world's average of interest rate that is around 35%. There is also visible inequality of interest rates, for instance, in Mexico there is the value higher than 60%, in Sri Lanka the value is lower than 20%. Graph 4 shows the fact that the value of the loan does not explain the difference between an average of interest rates (Rosenberg, 2008).

Graph 4: Average loan balance depending on the ratio loan to income of inhabitants



Source: Rosenberg R. 2008.

The criticism of high interest rates refers to the fact that the clients are not able to repay their loans even to stick to those given interest rates that are very often higher than 60%. The society demands from the people concrete microfinancial settings, grants given by MFI or private investors. From the history it is known that low-income people are able to repay its high interest rates. In the history, there are some mentions about borrowing money from loan sharks eventhough their interest rate was even many times higher than interest rate of MFIs. Today's interest rate is accepted. In comparison to the value of interest rates of traditional banks, the interest rates of MFI is still acceptable for the applicants (Armenrariz, Morduch, 2005). The average interest rates of institutions are in the table 7.

Table 7: Averaged interest rates of institutions

Institution	Interest rates of Mexico in %	Interest rate of the Czech republic in %
Commercial institutions	20	9
MFIs	45	XX
Loan sharks	300	150

Source: by the author, based on European Central Bank – Interest rates. 2014.

Chosen interest rate shows particularly the amount of costs that might be covered. The costs are during the realization increasing due to the bad effectiveness of the local market, due to bad infrastructure, mentality of inhabitants. To determine specific interest rate for the real example is

complicated. It is essential to know the environment a culture of the area or region, and equally the operation system of MFI. In case when the interest rate is convenient for both sides, we can discuss about the “strategy of double victory” (win-win strategyⁱⁱⁱ). A possibility of MFIs sustainability without external financial sources is formulated on the base of four steps provided microloans, explained at the table 8 (Mayoux, 2009).

Table 8: Four steps of provided microloans

Level of lending	Structure
1 st	Low subsidized loans; minimal interest rate; covers the costs; enable to increase capital.
2 nd	Subsidized loans are limited; loans are provided on the base of interest profit.
3 rd	Achievement of financial stability; capital formation for providing microloans.
4 th	Capital is comparable to banking institutions without external subsidies; financial sustainability.

Source: by the author, based on Gender and Rural Microfinance: Reaching and Empowering Women. 2009.

Table 8 explains the four steps of providing microloans. On the first step there is recommended to provide loans that are donated by low loans with minimal interest rates. This interest rate might cover the costs and might enable to increase the capital for the financial fund that is available to the groups on the base of rotating system. The rotating system provides the loan to the group if the loan is repaid by the previous group. On the basis of increasing interest rate it is the financial fund increased. Then, it is possible to provide the loans to more groups parallely. In this step can be the loan subsidized but the measure of subsidized money is considerably limited so that the loan might be provided by the financial fund created on the basis of profits from the interest rates. Then it is possible to have financial sustainability. It creates sufficient financial capital for providing loans. In the last step, MFI is able to handle with the capital that is comparable to the capital of classical banking institutions, at the same time it is reached financial sustainability of MFI without external subsidies. In these days appropriate financial sustainability is complicated and prolonged process (Krutílková, 2011).

ⁱⁱⁱIt is a success on the side of loans and the stability, development of MFI. Measure of interest is acceptable on the side of MFI and the applicant.

2.7 Characteristics of Mexico

2.7.1 Socio-demographic description

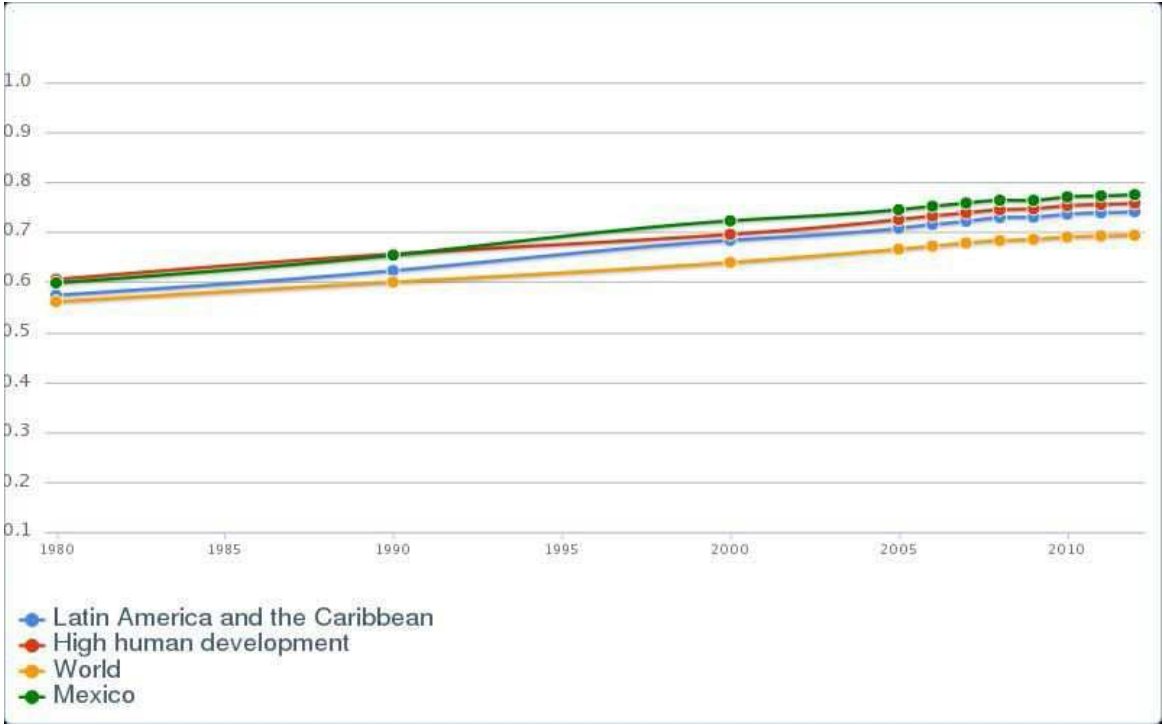
The total population in 2012 was 115 million (INEGI, 2015). It is the most populous Spanish-speaking country in the world, the second-most populous country in Latin America after Brazil. Throughout the whole 20th century Mexico's population was characterized by rapid growth. Eventhough this tendency has been reversed and average annual population growth over the last decade was less than 1%, the demographic transition is still in a progress. The capital city (Mexico city - Ciudad de México) consists of 9 million, and its all metropolitan part has got nearly 28 million (2012), city Guadalajara (6 million) and Monterrey (3.5 million). There are some ethnic minorities living as Mestics (80%), Creoles (12%) and Indians (8%), living in the absolute and moderate poverty. They do understand and speak more than 140 dialects; the most frequent and spread one is the dialect Nahuatl, Maya, Zapoteco and Mixteco. The density in the capital is 5920 person/km² in comparison to Chihuahua 14 person/km² in the north.

2.7.2 Economic development

Mexico has been a federative republic since 1917. It is a member of the United Nations (UN), Organization of American state (OAS), a part of Latin American Integration Association (LAIA) and a member of North American Free Trade Agreement (NAFTA). Mexico is the second largest economy in Latin America. It is an „emerging market“, „developing country“ or „newly industrialized country“ although it is the eleventh largest economy in the world (mil. MXN 18 889 429 of GDP for 2015, Statistics, Banco de México 2015). It has an ongoing industrialization where agriculture activities are still significant but are rapidly being outpaced by industrial (especially manufacturing) activities. This means that Mexico is not fully developed, as many regions within the country have a quality of life equivalent to those of Western Europe, whereas there are other regions with education, life expectancy and economic advancement equivalent to those countries found in Sub-Saharan Africa. Since 1990 Human Development Report has been published, the Human Development Index (HDI) introduces an alternative measurements of every national development, consisting economic growth or level of income. It represents well-being processes and measures a composition of three basic dimensions of population parameters as education, income or health.

Since 1980 Mexico's HDI has already increased in 0.9% annually from 0.598 to 0.775 today (the highest HDI has Federal District 0.8837 and Nuevo León 0.7336 equal to the Czech republic, the lowest Chiapas 0.7185 and Oaxaca 0.7336 equal to Vietnam or Iran). This gives a rank of 61 out of 187 countries with comparable data. The HDI of Latin America and the Caribbean as a region increased from 0.574 (1980) to 0.741 today, placing Mexico above the regional average. HDI is comparable to Costa Rica. The differences with the rest of the world are seen in Graph 5.

Graph 5: Human Development Index: Trends 1980 – present

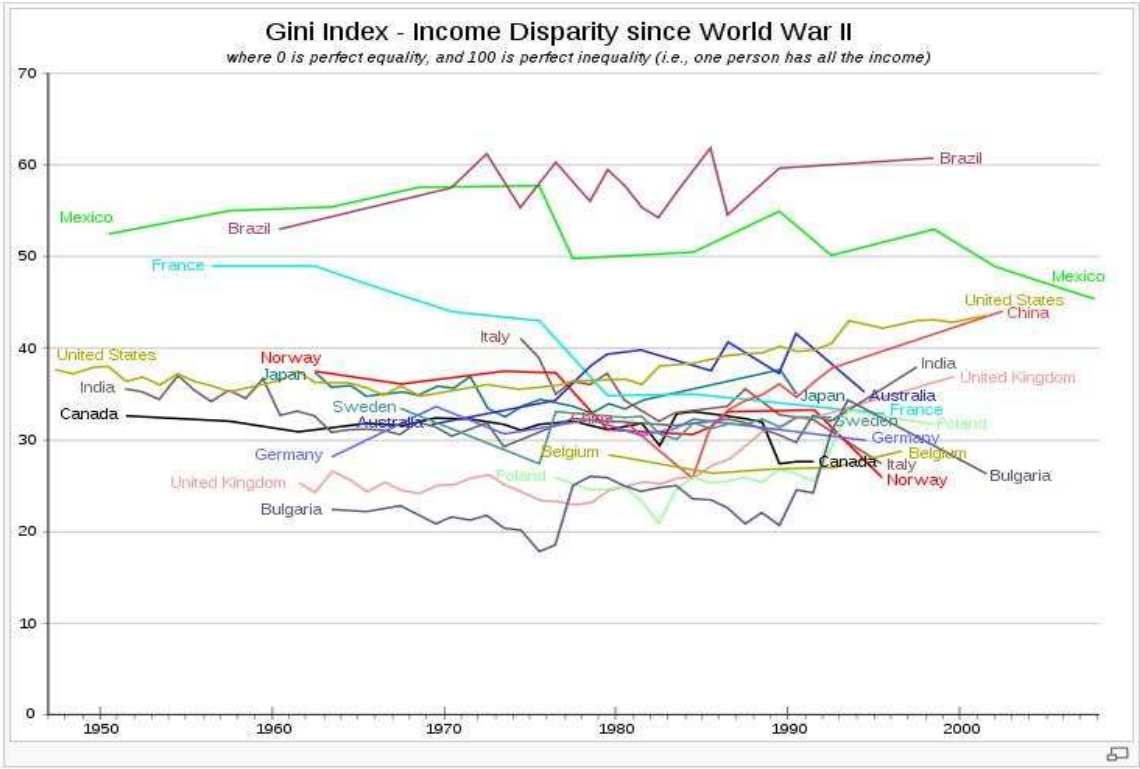


Source: UNDP. 2012.

Mexico is the eleventh of thirteenth largest economies in the world. The Gross Domestic Product (GDP) was \$1.15 trillion in 2011 and grew up to 3.5% during 2013 with its recovery in 2014, year 2015 brought \$1.291 trillion. Mexicans' export raw materials (oil, silver), high-technology products (pharmaceuticals, aircraft, computer and office machinery, communications equipment) and manufactured goods that represents 19.6% of total Mexican exports. The major export partners are the United States 76%, Canada 6% and Germany 1.5%. Imported are vehicles' parts, electronic machinery equipment, engine parts and copper by the following import partners as the US 60%, China 6% and South Korea 5% (WB, 2015).

An improvement of the living standard can be measured by the GINI coefficient. In the graph 6 we can read that Mexico had the biggest unproportions in 1976. In comparison to Costa Rica, the distribution of incomes in Mexico is not stable. Mexico is one of the countries with the highest level of inequality. Inequality of the income distributions are influenced a lot of by the investments to the human resources and to the capital formations including the soil, natural resources, access to the elementary education and to the health care. High and low inequality of the income distribution has got an impact on the economy in Mexico. Latin America is typical for the high inequality in comparison to the rest of the world (Szekely, 1997). Up to these days economic inequality is a major problem in Mexico as it has been already mentioned. According to the observers Mexico was one of the 15th countries of the worst income distribution in the world reported Gallardo in 90s. Huge contrasts were between poor and wealthy people. During the years 1990-2000 there is a disproportion of accrual richness in the north that has risen up about to 5.9% whereas in the south there was a decline about 0.4% (Gallardo, 1998). In the graph 6 there has been seen the income disparity since the World War II. The explanation is: where is a curve near by zero, it means the perfect equality, where it is near by onehundred it is perfect inequality. Mexico and Brazil have evinced the highest disproportions since 1950 while Brazil is the „leader“. The latest available data about the income inequality in Mexico was 0.459 in 2014 (OECD, 2016).

Graph 6: Gini Index – Income Disparity since the World War II



Source: Lopez FA. 2006.

In more than 300 cities is around 25 million inhabitants without an adequate housing, water system, electricity, basic health care. In the rural areas the situation is the worst, many inhabitants live under the extreme poverty. In 2000 there was estimated that 59% people had none access to the drinking water, 49% women did not have any prenatal care. In Mexico, there are approximately. 72% of economical poor families (\$3/day). It is given that 2/3 of Mexican people are able to buy only basic necessities, the rest of the poorest ones can not buy none milk products, it is due to minimal wage/salary. 1/4 of Mexicans suffer for the malnutrition. As a consequence of the malnutrition many people die. This fact results in the increase of children mortality and it decreases the human age. People who live in the poverty suffers not just the after-effect the veer H1N1 but the continuing arming and drug addiction (National Population Council, 2014).

2.7.3 Poverty situation in Mexico

In Mexico the poverty is characterized as the lack of essentials such as nutrition, shelter, clean water, education, health care, income and any other social securities. It is reflected in the country's poor ratings mainly in these fields: institutions and infrastructure, education and labor market efficiency. The direct consequence of these poor ratings is around 1/10 of Mexican population that work in the black market without any form of social security (so they are often exploited). Nearly 25 million inhabitants make less than \$14/day, over 5 million is unemployed and 25% of the workforce is underemployed. In rural areas the average salary is 3.5 times less in comparison to the urban areas that explains emigration from the Mexico to the United States states Research for social and economic development in Mexico (Research for Social and Economic Development, 2012).

The Mexican government currently uses a multidimensional system to measure the poverty threshold and divides it into: extreme poverty, moderate poverty, and overall poverty (CONEVAL, 2005). According to the National Council on Evaluation of Social Development Policy (Spanish: *Consejo Nacional de Evaluación de la Política de Desarrollo Social*, CONEVAL), approx. 52 million Mexicans lived in the poverty in 2010. That was around 46% of Mexico's total population. Meanwhile, extreme poverty (urban areas: less than \$76/month/person; rural areas: \$53/month/person) reduced slightly from 10.6% to 10.4% (11.7 million people). Thanks to the goal-directed social-economical programs such as the „Oportunidades” conditional cash transfer initiative and the „Seguro Popular” offering universal free health insurance, extreme poverty remains more or less steady.

Since 2013 federal government has been focused on the following programs working in 5 lines that are included in the National Development Plan: „Inclusive Mexico”, „Mexico in Peace”, „Prosperous Mexico” and „Mexico as an actor with global responsibility” (WB, 2013). It might help to reduce an awareness of the poverty and has a huge impact on the residents. Despite these changes and many efforts, Mexico continues to suffer – social inequality and a lack of opportunities (jobs, education, health care), see human indicators in table 9. The index of gender inequality is in all the mentioned countries lower in comparison to the year 2011.

Table 9 Human Indicators

Indicators	Mexico	the US	The Czech Republic	Democratic Republic of Kongo
- index of poverty (%)	0,015	no data	0,01	0,208
- index of gender inequality	0,448	0,299	0,136	0,628
- index of gender inequality*	0,373	0,280	0,091	0,593
- index of health	0,898	0,923	0,91	0,59

Source: UNDP. 2011, 2015*.

3 Aims of the thesis

The aim of this research is to analyse microfinancial environment in Mexico, involving the problem of the poverty itself, the effectiveness and impact of microfinance is equally important. It means to describe the functions of the FINCA program and its reasons for transformation processes into Micro-banks; observe interests of MFIs and NGOs plus Czechs' activities and its influences there. Moreover, know how the system of microfinance and village banking methods work, and how it is all financed. In particular, practical part will either show the number of clients using microcredits, household livelihood improvements, increase in paid employments, stabilization of savings from the customers and its ability to save money and receive the loan, and finally improved financial sector stability. The obtained data analysis should prove the hypothesis mentioned below.

The hypothesis is following:

- (1) **Small FINCA's microloans are not sufficient for people to start up or expand their own business** especially in the area of the capital where the prices are higher, in comparison to other thriveless parts. Provided loans are expected to be much higher. **Do microfinance services enable the clients to develop businesses and increase employment in their areas?**

- (2) **How high is the awareness of the existing microloans and FINCA's services in the target areas?** Some clients know these microfinance services and use them, other ones know them but do not use.

- (3) Analysis of socio-economic situation of the target households. **Microfinancional positive impacts and long-term sustainability** might be the priority of this sector.

4 Materials and Methods

This research is being organized in number of steps. These steps are: literature and data collection, field study, and finally data analysis. The methodology tools and data analysis are described and all other variables are presented and explained. The most significant findings are elaborated then.

4.1 Study area description

Picture 3: Map of study area



Source: by the author, 2016.

Note: State of Guanajuato, state of Mexico City (the capital), state of Oaxaca, state of Chiapas.

State Guanajuato is located in the north-central Mexico with its capital city Guanajuato, the largest city is León. It is bordered by the states of San Luis Potosí to the north, state Jalisco to the west, state Zacatecas to the northwest, state Michoacán to the south and Querétaro to the east. Its area is extended more than 30 000 km². Geographically it is a part of the Mexican Plateau, the Sierra Madre Oriental and the Trans-Mexican Volcanic Belt. The highest peaks are over 3 000m. The climate is mostly semiarid, rainy season is typical in summer with average annual temperatures between 15-20°C. This state has been important for livestock and agriculture since 1920, today it is much more focused on the automobile industry, leather goods etc. The latest data available for the state Guanajuato provided by the government of Guanajuato are from the

year 2014 and recorded rapidly increasing tendency in values of indexes to HDI (0.712), life expectancy (75.1 years, median age 24 in 2013) and adult literacy rate (97% in 2013). GDP growth in this state is \$25,759.40 million and it has increasing trend (KNOEMA, National Institute of Statistics and Geography of Mexico – Guanajuato, picture 3).

State of Mexico City is one of the most populous cities in the world (nearly 1 500 km²) and significant financial centre in the whole American continent. It is situated in the Valley of Mexico that is particularly high located plateau at the altitude of around 2 300m above sea level. It is also a part of Trans-Mexican Volcanic Belt in the south-central Mexico. Up to these days there are the rests of the famous Lake Texcoco dated back to the Aztec period (year approx. 1325). This city has especially a subtropical highland climate - differences are visible in all the parts of this capital which depends on the location. The average annual temperatures are between 12-16°C. The latest data available for the state of Mexico City provided by the government of Mexico City are from the year 2015 and recorded also sharply increasing tendency in values of indexes to HDI (0.83), life expectancy (76 years in 2015) and adult literacy rate (98.8 % in 2014). GDP growth in this state is \$411.4 billion and it has increasing trend (KNOEMA, National Institute of Statistics and Geography of Mexico – Mexico City, picture 3).

State Oaxaca is located in the southwestern part of Mexico of about 94 000 km². It is bordered by the states of Puebla to the northwest, Guerrero to the west, Chiapas to the east, Veracruz to the north. It has also coastline on the Pacific Ocean (approx. 533km). It is well known for its cultures and indigenous inhabitants such as the Zapotecs and the Mixtecs. It is mountainous state formed of the Sierra Madre del Sur, the Sierra Madre de Oaxaca and the Sierra Atravesada. The elevation is variable from sea level to nearly 3 800m. Climate is different, depending on the regions and their locations. Climate is mostly hot and semi humid or humid, average annual temperature is about 18°C. This state is economically marginalized for the main reason that is a lack of education, housing and infrastructure. State Oaxaca is predominantly leader in agriculture, mining and for producing wind energy in the region Tehuantepec. The latest data available for the state Oaxaca provided by the government of Oaxaca are from the year 2014 and recorded relatively invariable tendency in values of indexes to HDI (0.681), life expectancy (72.5 years, median age 24 in 2013) and adult literacy rate (93.5 % in 2013). GDP growth in this state is \$10,076.45 million and it has rising trend (KNOEMA, National Institute of Statistics and Geography of Mexico – Oaxaca, picture 3).

State Chiapas is located in southwestern Mexico with its area of more than 73 000 km². It is bordered by the states of Tabasco to the north, Oaxaca to the west, Veracruz to the northwest, and by the departments of Guatemala to the east. It has also a coastline with the Pacific Ocean to the south. This state is geographically distinct at the altitudes and the average temperatures – the Gulf Coast Plains, the Pacific Coast Plains, the Sierra Madre de Chiapas, the Central Highlands, the Eastern and the Northern Mountains. Rainfall average is more than 3 000mm per year. Chiapas has rich natural vegetation and it is good at planting of tropical crops especially in the lowlands. It is a home of indigenous peoples and Mayan culture. The latest data available for the state Chiapas provided by the government of Chiapas are from the year 2014 and recorded relatively stable tendency in values of indexes to HDI (0.667), life expectancy (72.5 years, median age 22 years in 2013) and adult literacy rate (90.4 % in 2013). GDP growth in this state is \$11,957,977.89 thousands and it is increasing (KNOEMA, National Institute of Statistics and Geography of Mexico – Chiapas, picture 3).

4.2 Data collection and data processing

Based on recommendations of Ledgerwood (2000), the combination of empirical evidence and secondary data were needed at household level. Selected data were completed at the commune level. Secondary data sources were gained from the literature review that included view into socio-economic development of Mexico. General overview about microfinance sector was described from available sources, firstly, in historical context. The main focus was given on the aimed and researched sample of four chosen Mexican states. Secondary data were collected and used from relevant databases of the world organizations, for instance, the UN, the UNDP, the WB, the IMF as well as scientific databases, journals, publications and scientific documents with the background researchers, international websites and others. The valuable information sources of the microfinance sector in Mexico were the reports and statistical databases of Statistical office in the Mexico City, MFIs, NGOs, FINCA and other case studies related to this sector.

For the empiric data collection was used the combination of Rapid Rural Appraisal (RRA) and Participatory Appraisal (PA). These methods belong to the qualitative Impact Assessments (IA) methodologies for microfinance industry. During the years 2000-2010 these methods have moved to use a single method to multiply pluralistic approaches and methods. Hulme (2009) claims that the mix of methods and approaches combine the advantages of particular ones and better it fits to the final objectives. RRA and PA are used basically for identification of vulnerable groups in a specific village or community; and they are also used by benefactors to check the impact of activities of MFIs on the poor. RRA and PA use similar techniques. Generally, RRA provide

community-based data in a short period while PA is focused on the target's group empowerment. The participation within the village or community is required. The extension of gained data depends on a time-scale (Zeller *et al.*, 2006). Due to time limitations of this thesis these two mentioned methods were used eventhough other IA methods offer another possibilities but they also require group control and are suitable for long term periods. Ledgerwood (2000) recommend these chosen methods because of its easier and short-term implementation, only a few samples are needed, and various tools might be implemented such as, for example, social mapping, meetings, business constraints in time-scales etc. Naturally, there are limitations of these methods - advantages and disadvantages. The biggest disadvantage is less apparent precision than it is in classic survey. Then, gained data from the respondents must be cross-checked and compared with other sources to get distinct perspective on the same case. Finally, it is a question if the answers of respondents are valid, some of them can be modified.

Both, the quantitative and qualitative data were gained for this thesis in the autumn periods in 2013 and 2015. Both sources of data illustrated Mexican microfinance sector and the microfinance situation in four chosen Mexican states (Guanajuato, Mexico City, Oaxaca, Chiapas). It has also given an overview into the country's poverty reduction strategy.

The thesis study was realized at households and commune level, following the RRA and PA methods (Hulme, 2009; Ledgerwood, 2000; Zeller *et al.*, 2006). Firstly, the local governments and their representatives were contacted in the states where the research was done. Then the meetings in their offices took place, involving facts and interviews about the credits provided to the poor (credit source, credit size, credit period, credit purpose, interest rate etc.). These representatives assist at the understanding of the roles of the local MFIs, NGOs, the hierarchy of the community members and in its social and economic principles, including basics about credit distribution. Secondly, target groups of households in rural and urban communities were chosen and identified so research was carried out in four Mexican states covering the capital named as Distrito Federal (D. F.), state Oaxaca in the south-west, state Chiapas in the southern part (on the border with Guatemala), and Santa Fé in the state Guanajuato in the northern centre in Mexico. Most of the respondents were people who moved to the cities to find a job but they were not successful and came back. The total number of respondents was 952. This sample consists of clients (684) and non-clients (268) of microfinance institutions. The sample frame was set up from clients that have been using microfinance services at least from 6 months to 5 years. All of these clients had applied for microloan for the first time. The sample represents all age categories (from 18 to more than 60 years) and all levels of education (elementary, secondary, university degree).

A profile of the sample according to the state, type of area, and gender is shown in the results. Primary data were collected in autumn periods in year 2013 and 2015. Concurrently the following microfinance institutions were selected for the research: Fincomún (Servicios Financieros Comunitarios S.A. de C.V.), CrediComún (Servicios para el Desarrollo Comunitario, S.A. de C.V.), CAME (Consejo de Asistencia al Microemprededor), VisionFund México, AlSol (Alternativa Solidaria Chiapas) and FINCA (The Foundation for International Community Assistance). These MFIs have been selected as the most important providers of microfinance for their wide reach in Mexico not merely in the states of research. Thirdly, local governments did all the necessary permits if there were needed. A person who could help with the translation was not present, in general, all of the respondents were able to use Spanish language. Respondents were asked individually in their houses and in a small groups – sometimes more households were participated during the sessions (frequently under the control of the head of the community). The meetings later took place in neighbourhoods and were followed by other relatives, friends or bystanders. Target groups were interviewed as well as local authorities and other key persons in the local environment. Local authorities and key persons had crucial status for the majority of people. In some cases if they would not be participating personally, people did not believe in this research and they could have problems to trust the researcher.

Field survey was conducted on the data basic collection through semi-structured questionnaires and participant monitoring. The questionnaire was divided into two main parts focused on the data of credit information and on the households' data of savings information. The questionnaire had a lot of predetermined questions with concrete answers, and another were opened. From many point of views, this was enable to the collection of standardised data necessary for an socio-economic analysis. All acquired data were summarized and evaluated especially in the Guanajuato area where was the highest support of the author. The reason was an affiliation with this locality (the authors's father worked near by and did business there), the locality is also quite famous for applying the microloans and its huge interest in microfinance sector. All questionnaires were prepared in Spanish and in English for the academic purposes. At the beginning the questions were oriented on the basic overall information and then focused on credit – what is the income of households, if the credit is needed, if people borrow money, if there is access to the credits, who basically borrow money, if there is possibility to obtain it if some problems occur, what is the reason for taking it out, credit size, credit period, credit sufficiency, interest rate, sanctions for delayed payments, satisfaction with the services of MFIs, problems with the microfinance services and small credits suitable for the individuals or for

lending in a group of people. Second part was about the questions related to saving opportunities and insurance products. Questions were about the manners how people save money, what is the frequency of saving, what is the reason for it or if they are able to save it. The findings were limited and rare. In actual fact, rarely examples have its current accounts, other ones jewellery or lend money to the other members in rotating system for a specific period and with a small interest rates.

Besides, that the methods of RRA and PA were used, Microfinance Impact Assessment (MIA) has been used as the mixed method, too. MIA is a research carried out to identify the changes brought about by programs of microfinance. In general, the major challenge in Impact Assessment is to find the link between changes that occurred through the microfinance program. It means that the occurred change in the target clients may be an outcome of other factors or development process or other development initiatives taken by representatives, governments, MFIs, NGOs etc. These external factors might be considered while there is the impact or change to the microfinance program attributed. Credible association between the identified changes and program participation strengthen the final findings and the interpretation abilities. MIA's purpose is the utilization e. g. by microfinance researchers (proclamation if microfinance is effective tool in poverty alleviation, positive and negative side of microfinance and its limitations), practitioners (assistance to achieve and improve microfinance products or services), donors (justification of investments in concrete microfinance programs) etc. MIA is able to find out and answer following principles: recognition of socio-economic conditions and microfinance impact in selected areas or recognition of microfinance as a tool for poverty elimination. According to Barnes, Sebstad (2000), an impact assessment is a study to identify changes. These changes result from concrete program by employing methods to establish association between participation and changes experienced in the program. The MIA begins with clearly stated objectives that indicate all types of impacts that are examined. It covers both quantitative and qualitative impact assessment methods. The quantitative part is based on survey of the samples done through questionnaires.

All obtained data were finally processed by using SPSS statistical program (Version 18.0., 2010). Simple statistical tests and cross tabulations were performed such as T-test and the Pearson's chi-squared test. T-test is an analysis two samples through the use of statistical examination, commonly used with small sample sizes and testing the distinctions between those samples when variances of two normal distributions are not known. The t-test assesses whether the means of two groups are statistically distinct. In details - this analysis is used when the comparison of two groups is requested and the groups are statistically different from each other. This t-test looks the

same as t-distribution or t-statistic to determine the probability of distinctions between examined samples. To conduct a test of more than three variables, an analysis of variance (ANOVA) must be utilized. Pearson's chi-squared test is a statistical test that is often applied to sets of categorical data to evaluate observed difference between the sets of change. It is convenient for data from large samples and the most widely used of many varieties. It also tests a null hypothesis that relies on the frequency distribution of certain and observed events within the sample where it is consistent with a concrete theoretical distribution. Pearson's chi-squared test is used to evaluate two types of comparison such as the test of independence (evaluates unpaired observations on two variables put in a contingency table, they are independent on each other) and a test of goodness of fit (shows frequency distribution that is dissimilar from a theoretical distribution). The main difference between t-test and Pearson's chi-squared test is in the number of samples and their variables. The level of significance was set up at 95% for both tests. The mentioned hypotheses were set relating to the impact of microfinance services. Each part of the research was tested by using statistical analysis of collected data. All gained data were described and presented in tables or graphs.

5 Results in MFI(s), NGO(s) and other affiliated programs

Mexico has got one of the most flexible and the biggest microfinacial markets in the world. The characteristic phenomenon is a continual growth and „supply“ of new clients. One of the most significant MFI is Banco Compartamos in Mexico established in 1990. The main purpose of it is contribution to the development of Mexico. In 2010 it has got more than 2 million clients. Today's Banco Compartamos is run by *Comisión Nacional Bancaria y de Valores, Secretaría de Hacienda y Crédito Público* and *Banco Mexico* (Mix Market, 2013). Not merely FINCA International and Banco Compartamos is there, Servicios Financieros Comunitarios, S.A. de C.V. Sociedad Financiera Popular (FINCOMUN), CAME and Servicios para el Desarrollo Comunitario, S.A. de C.V. (CrediComun) have a great perspective for the microfinancing in Mexico. In 2000 the demand for the microloans was about \$5.1 million (Ashby, 2000). In 2008 there was a research that indicated a huge increase of interest in microloans between 2006 and 2008. In Mexico there is a contribution of MFI into the transformation of families, development of new projects, support of women particularly. The need of microloans is high not even due to the contrasts between the Poor and the Wealthy. The question is if microfinance is an appropriate tool for the solution of income inequality in Mexico. Mexican microfinacial representatives worry about new coming of MFIs. There are some worries about the future clients and about the political risks. New studies of Mr Marulanda Consultores regards to the microfinancing with a big criticism. The research points out the microfinancing in Mexico as a situation of „uncertain maturity“. The potential success

can be reached only in cases of effective solving of the problems (Centre for Financial Inclusion Blog, 2015).

In the last years microfinance are termed as very promising tool against the poverty alleviation. This optimism might be right. Microfinance might be a model that can, indeed, influence the world economy. In these days the majority of the world capital is being in hands of giant companies. It comes about the huge concentration of capital and retail markets that are in hands of companies such as Wal Mart Stores, Carrefour, Metro, Tesco, The Home Depot etc. The position of small entrepreneurs and small firms is marginal in the world economy and their participation is still decreasing. Certainly these small firms create job opportunities which are not well-paid because of using primitive technology and because they are occupationally expensive. Their contribution of GDP (Gross Domestic Product) is minimal. Small stores can cause in a very limited space and their success is depended on goods redistribution of big chains that's are much more closer to the clients; the highest prices save the clients time rather than it is in cases of supermarkets.

These all facts evoked questions: If providing of small loans and a creation of small entrepreneurs is a good strategy which should be promoted by the governments and universal organizations. Clients of microfinance are clashed more and more with the competition in a form of supranational organizations-firms. It is sure that they can not compete successfully. Are not the microfinance just the sale of illusion that is in a market economy? Is there a place for everyone? Is it just about the opportunity that is given to the Poor and depends on a form of a loan (Schneider, 1997)?

5.1 Mexican financial sector

It is estimated that 80% of Mexican population does not have any access to the commercial banks. According to the WB Mexico is increasing slowly in cases of microfinancing, the world's increase is 35%, an increase in Mexico is only 20%. It economically affected 9% of economic active population. The reason is in a small spread out of the NGOs and an absence of successful microfinance organizations. Year 2000 was called as the boom of microfinance. Microfinance present for the Mexican government unique alternative in financing large scale of levels of the inhabitants. Due to this reason there were established and used new programs and instruments which could help expand formal microfinancial institutions. Under the rule of the president Vicente Fox it was a huge increase of MFIs. He supported this idea in 90s in 20 century when Muhammad Yunus visited Mexico. The unemployment rate was 4.3% in Mexico in autumn 2015

(OECD, Annual Report 2015). Employment prospects for women are worse rather than for men in the global scale. To enable poor people to start small businesses through the access of financial services – microcredits are important. It is needed to build a stronger position in the market, to generate income and expand activities thanks to the spread of microfinance services. Then the contributions to the economic development of the areas, regions and the Mexican states will increase and will be prosperous.

According to the Peparah, Koomson (2014), microcredit is described as a context of financial and social mobility. The purpose of microfinance is reduction of the poverty. In order to achieve these effects, MFIs should be able to move clients up the social and financial ladder through their operations and services. It is demonstrated that microfinance has had a positive impact on business start-up processes and provided the primary source of finance for the economically active poor to increase their level of employment and investments. Furthermore, smaller firms grow at faster rates than the larger ones and create much more job opportunities. However, there are a lot of controversial issues and constraints of inadequate access to finance.

Thus, relating to the main goals and literature review already mentioned above, the main hypotheses are as follows: **Increase in paid employment** – microcredit expands into some small businesses that are increasing the paid employment for the poor. **Household living betterment** – microfinance creates an improvement of the social and financial situation of the clients. The income of some clients has risen up so their expenditure on education, food, shelter, health services has risen up, too. The **awareness of existing microloans** causes consideration of their using. **Microfinancional positive impacts and long-term sustainability** - the priority of this sector with the assistance of FINCA and NGOs.

5.1.1 Actual situation of rural finance

Before the financial reformation that was finished in 1989, agricultural credits were used as a tool of technological changes investigation. The goal was an increase in productivity in agriculture. Generally, these agricultural loans were provided with the lower interest rates rather than the market value was. They represented significant source of financing for the villagers its households particularly in the period before harvest. New neoliberal model of economy was introduced in Mexico in 1982. It required lower independence on financial system of the state budget. In the reformation there were, for instance, these steps:

- Cancellation of the rule when the commercial bank had to provide a loan separately according to the economic sector;
- Definition of the circle of the clients that had to be served by *Banco Nacional de Desarrollo Rural* (BANRURAL);
- Independence of the agricultural sector and agricultural insurance;
- Diversification of the credit service with the goal to eliminate the risks that were caused by the concentration of all operations only on one sector and one activity (agricultural).

The result was cancellation of subsidized interest rates for the farmers and an increase of the credit volumes provided to the farmers. New clients were also chosen more strictly. There was created a „pyramid“ of four levels, the lowest part is consisted of more than 1 million farmers who are not evaluated as creditworthy and who are encouraged by the program *Programa Nacional de Solidaridad* (PRONASOL) through the verbal form. Then there are villagers (400 000 – 600 000) named as *ejidatarios* that are evaluated as less productive and the loans are given to them through the BANRURAL with small subsidized interest rates. Other step are small profit-making farmers that are evaluated as perspective (500 000 – 600 000) and who are lead by the commercial bank with *Fideicomiso Instituido en Relacion con la Agricultura en el Banco de Mexico* (FIRA) securing at these days.

5.1.2 Formal (bank) sector in Mexico

In the part of **commercial banks** there is a small percentage of the loans that are determined to the farmers. During the last two decades there was a decline of all amounts of the credits in the sector of agricultural, forestry and fishing for about 84% (real worth). For the commercial banks it is a high risk sector, loans given to the rural population is about 6.4% that are served through commercial banks. In Mexico there is only one bank that is interested in (Banco Azteca, 2015).

BANRURAL was functioning during the years 1985 – 2002. Reorganization of rural financial sector brought that the BANRURAL decreased its branches from 528 to 224, number of employees decreased by 62%, the volume of credits for about 50% and the volume of provided farmers from 800 000 to 224 000 (BANSEFI, 2015). In 2002 this bank was changed as **Financiera Rural** that is functioning as the bank of the two highest levels (Hidalgo, 2005). **FIRA** was found as the bank of the second highest level that is providing the credits through the commercial banks and BANRURAL. The objective is an encouragement of provided agricultural loans from the side of commercial banks. It had to achieve useless of the part of private funds

from the commercial banks for the agricultural purposes and better coverage of bank services in the rural areas. This had to be reached through the co-finance (commercial bank provides 4-40% from the amount and FIRA the rest of it). FIRA also paid for the part or total costs for the technical and operative training of the bank workers as the technical assistants as a service for the customers (farmers). In 1985 there was co-finance 26% from the part of commercial banks, in 1999 only 0.09% from the provided agricultural credits. Commercial banks were not willing provide agricultural loans due to high risks of agricultural activities and for the highest costs of these customers. During the years 1988-1994 FIRA doubled its real values of credits provided to farmers and expanded in regions. It was famous for its effectiveness and successful choice of clients. Nevertheless, since 1994 FIRA has provided credits that decreased because of the crisis of peso. It caused drastic growth of interest rates and outstanding loans. Since 1995 FIRA has been functioning with the differentiated interest rates according to the client's profile and activity what he or she does. Then the interest rates were partly liberalized in order to devote the interest rate of commercial banks according to the own criterions – limitations that the credit is provided only on the activity that generates the income. This activity was enlarged – non agricultural rural activities can be supported, too (Hidalgo, 2005). Moreover, year 1995 was negatively influenced by the economic crisis that caused privatization of the Banking System and it also had impact on the financing flow to the primary sector. Between the years 1998 and 2007 FIRA was rebuilt as sustainable institution mainly in agricultural sector. Presently, FIRA is focused on developing agricultural sector in Mexico, using more efficient financial tools. FIRA's strategy is about the focus on small entrepreneurs who have none or limited access to the credits, funding in the rural parts, support of the agricultural projects and existence of credits etc.

Credit based on verbal communication was a system based in 1989 and later on named as **PRONASOL**. This program provides loans to the farmers who are excluded from the program BANRURAL. These loans are without interest rates, suitable for the farmers who produces food (stuff) in the soil of low productivity. Farmers do not need any guarantee for providing loans, one specific criterion is only given – maximum soil area of 3 hectares per one farmer. If there is any accumulated capital over, it is a source for the development of „Cajas Solidarias“ (self-help group), (BANSEFI, 2015). In 2000 in Mexico existed more than 200 *Cajas Solidarias* with nearly 200 000 clients (farmers). We should otherwise observe that the coverage of the program PRONASOL was in 35% of all clients who were refused by BANRURAL. Now it is controled and lead by the Social Ministry.

There are lots of **other Mexican governmental and national programs** that directly or indirectly touch the issues of microfinance. These are: *Fondo de Microfinanciamiento* and *Mujeres Rurales* (FOMMUR) that was established in 1998 by the Ministry of Finance. The main goal is a support of the women activities with the low incomes and indian women living in the rural areas. Job opportunities and position of women might be improved there. Credits are provided from 1 500 pesos to 4 000 pesos in four cycles (FOMMUR, 2015). It is known that 98% of women pay on time and 97% save. This fund works through the other institutions. The first cycle has 1 500 pesos in 4 months period, second cycle 2 000 pesos within 4-9 months, third cycle 3 000 pesos within 4-12 months, the last fourth cycle 4 000 pesos within 6-12 months. Then *Fondo Nacional de Apoyos para Empresas en Solidaridad* (FONAES). This fund was based on the Ministry of Finance. Its goal is assist to rural indian population in its businesses. One of the tools are financial services (loans, savings) and microfinance (Mansell, 1995). *Programa Nacional de Financiamiento al Microempresario* (PRONAFIM). This program was established through the Ministry of Finance in 2001. It gives the loans to the microfinancial institutions, provides technical assistance and training. The term for providing loan from this fund is that microfinancial institution has to provide microloans to the low income people. Its other goal is an expansion of current MFIs and to set up the new ones. The loan of one MFI is at least 50 000 pesos. It is repaid in 3-5 periods. The interest rate is preferential based on the value CETES (the lowest interest rate in Mexican economy), (PRONAFIM, 2015).

5.1.3 Informal (bank) sector in Mexico

In the whole world it is common that low income people borrow money from their relatives, family members or employers. We will focus only on selected specifics in Mexican non-formal financial market. In agricultural areas there are **agricultural customers** – particularly in the parts where the coffee is produced (Puebla, Veracruz, Cuetzalan) or Bajío where vegetable and grains are produced, the credits are often provided to the farmers by loan sharks or land owners. These customers are divided into three categories (Manrubio, Horacio, Reyes, 2002):

A) “Coyotes”: these loan sharks are specialized at the loan offered to the farmers. These are basically small businessmen those who have the loans offered in the natural form (harvest) not in cash. Loans are determined for the purchase of seeds and fertilizers. Interest rates can be 30% per month depending on the region, e. g. state Chiapas 10-20% per month, Veracruz and Puebla 10-25%. “Coyotes” mostly required the soil as a guarantee – proprietary list of the farmer is kept until the loan is fully repaid. If the loan is not repaid, the loan sharks can use the soil until the situation is solved. When the region is more isolated, these loan sharks have got higher power.

B) Middlemen are often businessmen or distributors who have power in the local markets. These can be wholesalers, land owners, exclusive sellers of fertilizers or seeds, owners of transports ... They offer loans in cash with higher interest rates than banks but the lower ones than “Coyotes”. Money is gained in return during the harvest time when the goods, vegetables or whatever else is bought for the lower price rather than the market price. The guarantee is a soil.

C) Agricultural businessmen are the owners of local segments. These are international firms such as Green Giant that are specialized at the export of vegetables, fruits, flowers or tobaccos. They offer the loans in natural form (seeds, fertilizers...) and the loans are repaid through the harvest. The guarantee is a future harvest or agricultural machines. Agricultural businessmen provide improved conditions rather than the first two categories and often offer technical assistance to have the harvest of desired quality. They strictly choose with who will be cooperate. Larger producers with the irrigated soil are preferred.

In Mexico there are a few big chains and **stores of durable goods** that sell the electronics, furniture or other durable goods such as the company named Singer Mexicana, Elektra, Salinas, Rocha ... Generally half of the goods is realized in cash, the other part is hire purchase (Banco Azteca, 2015). Most companies have got own payment plans that cooperate with banks directly. Requirements for the provided loans are small as fulfilment of the form, fotocopy or any other ID. It is mainly about the loan of the duration from 6 to 26 weekly repayments. Usually 10-20% has to be purchased of the product price (Grupo Elektra, 2015). It is complicated to find out the interest rate that is given to every article. Basically there are from 35% to 40% for 6 months. The decision about the purchase of the product is not influenced by the interest rate mainly but as the number, higher or frequency of the repayments (Mansell, 1995). In this case there is a small percentage of unpaid debts – the reason is clear, it is about the equipment of domestic devices as furniture, fridge etc. **Door-to-door salespersons** are persons who sell the goods of all sorts. They are not independent, work in pairs and the time for repayments is maximum 6 months (weekly, biweekly or monthly repayments required). The guarantee is not required in this version. This kind of purchase has high risks – change of the address of the debtor etc. Nearly 60% of the clients do not fulfil the agreement (Manrubio, Horacio, Reyes, 2002). **Informal credit services** as loans that are provided almost by everyone it does not matter what profession the persons have. Majority of the loans are short-term limited maximum 2 months, interest rate 15% per week (approx. 60% per month). Clients borrow money because of the financial stringency. In most cases there is no guarantee, sometimes bill of exchange is signed. Majority of creditors lend

money to those who know very well and the persons are confiding. In the research done by Mr Alex Karam in the regions of Cuernavaca, Mexico D. F., Michoacan or Sonora money was lent to the people within the community, ethnic group or religious group. In spite of the fact that the percentage of outstanding loans is not high (personal knowledge of the borrower), high interests are justifiable: high transaction costs, danger of physical attack ... Majority of people who make some extra money know that it is illegal (Karam, 1994).

5.1.4 Saving services

Non-bank savings are very much popular. In rural parts in Mexico there is a purchase of small animals welcome (chickens, goats, pigs ...). These small animals are liquid in compare with cattle. That is the advantage – possible sale anytime. Disadvantage is that animals need care, feeding, place where to stay. This can be time-consuming and financial demanding. Bank accounts have a small part of Mexican rural inhabitants. Minimal deposits are demanded predominantly and fees for keeping accounts are needed, too. Real interest rate is often negative. On the other side, transactional costs – transport to the branches/departments, time spend on the waiting in queues, fulfilment of documents etc. are highly requested. Common savings's form of low income people is storing at home in approx. 65% (Research of Secretaría de Hacienda y Crédito Público in Mexico – SHCP, 2015). It is not a safe way of saving money. Many employees ask for a favour of their employers to keep a part of their salaries until the time where it is necessary for the higher expenditures. Loans are offered sometimes to those who need them, e. g. family members or other persons (Hidalgo, 2005).

Mexican ROSCAs (tandas) are very much used by the people who have regular income. Basic element is a confidence of all participants. Every participant has to pay regularly until the end of the period. This is done between the friends, co-workers, family members, neighbours ... This is used in case of any specific purchase as car or house. Car sellers oneselves find out the advantage of using ROSCAs in the rural environment where it is difficult to obtain concrete loan. This is supported, for example, by the company Volkswagen – the biggest producer of cars in Mexico. It is about the group of 125 people, everyone has the deposit that is repaid in 40 monthly repayments to the account. Each month is casted one or more participants who can take the car away. Payment of social insurance into *IMSS Fund* is other form of saving money for the later time. The advantage is guaranteed interest rate of 2% higher than the inflation and the security of placement money. The disadvantage is that money can be withdrawn at the age of 65 years when the person is retired. An exception is the situation when the person lost the job (Mansell, 1995).

In Mexico there is spread of *Cajas de Ahorro populares* that has already started functioning since 1951 under the patronage of Church. This mechanism started to be implemented through the priestes that visited Canada and the US to study the meanings of savings there. At present day these „Cajas“ do not have any religious or political tendencies. The basis of functioning has six principles: opened doors to everyone who wants to be a member; one member has got one vote; interest rates and savings are zero; loan is provided with respect to the sum of provided money and its frequency; if there is any profit it must be used for collective purposes; main effort is to assist low income people and increase their living standard. Members of „Cajas“ are low income people particularly. Every „Caja“ has about 2 500 members and has got problems with outstanding loans. It is done due to the first principle when it is all opened to everyone so the property is very variable. Capital has two functions: a reserve and a guarantee. Political system when there is one member = one vote is common in some societies. The conditions of Cajas Populares were changed according to the law named *Ley de ahorro y crédito popular* and the latest reform was on 10 January 2014, done by president Vicente Fox Quesada. Ministry of Finance has research in which is written more than 630 000 of saving and credit companies that serve around 2.5 million people with assests of around 15 million pesos. It is hard calculate informal and non-registrated companies that work in the sector (non-governmental, saving groups, financial cooperatives ...). This law is able to secure the control and regulation of these companies that can be known as microfinancial institutions. The reason for the origin of this law is the protection of clients, sector regulations and monitoring. Then it is about the transformation into formal institutions, balanced development and a help in achievement of „healthy“ management. This law unifies antecedent form legislations of microfinancial institutions that might exist: joint-stock copany or co-operative (Instituto de Investigaciones Jurídicas de la UNAM, 2014).

Existence of this law is positively regulating microfinancial sector – it is a demonstrated interest of the state issues and it supports creation of secure financial services. There is also some criticism – a huge amount of small microfinancial institutions is not able to adapt into the conditions given by the state. Some of them have not already achieved financial self-sufficiency, do not have sufficient technical and accounting staff or just serve a small amount of clients. These types of organizations prefer to stay in the informal sector and do not legalize their position according to this law (it would take them more than 2 years to change radical transformations and it is not allowed). Mexican government is intensively engaged in the program's development for the support of rural areas and farmers. Microfinance are crucial point in this case. Mexican government is awared of the success of this sector and its formalization,

legalization of MFIs as a spectrum of legal persons and finally the supervision above microfinancial sector. The experts of microfinance argue that the Mexican state has to secure the development of microfinancial sector. The main principles should be: sustaining the monetary stability of the sector, liberalization of microfinancial sector, security of the regulation and supervision above the sector, an assistance in competitive microfinancial environments, investment into microfinancial sector (technologies, infrastructure, human capital).

5.2 Mexican microfinancial sector

In Mexico this sector is consisted of distinct participants as microfinancial institutions, governmental programs, scientific institutions, funds, foundations, international charitable and non-profit institutions. These organizations have different orientation, legal status, formalities etc. These can be oriented on various parts of population. There exist local, regional, state or national MFIs. They can provide financial and non-financial services (education, technical assistance, health services ...). National association of microfinancial institutions and funds estimate the size sector of over 600 organizations that are concerned with microfinance. In Mexico there are two the most important microfinancial systems: *Asociación Nacional de Microfinancieras y Fondos* (ANMYF) and *ProDesarrollo, Finanzas y Microempresa*. ANMYF has at least 41 member organizations, 200 000 or more clients whereas ProDesarrollo has 30 organizations with more than 800 000 clients.

Division of MFIs on the basis of distinct characteristics in a huge scale (Hidalgo, 2005):

A) Number of clients: 41% less than 1 000, 46% between 1 000 – 4 000, 13% more than 4 000.

B) Gender: 76% women, 24% men.

C) Methodology: 66% mixed group and individual methodology, 8% individual loans, 26% self-help groups.

D) Legal form: 58% cooperatives, 15% joint-stock companies, 8% limited liability companies, 8% public institutions, 5% citizens' associations, 3% funds, 3% cooperatives and citizens' associations.

E) Sources of financing: 27% provided by governments, 19% international organizations, 16% own funds of MFIs, 15% bank sector, 13% private donors, 10% FOMMUR.

F) Size of the fund: 26% less than 1 000 000 pesos, 34% 1-5 000 000 pesos, 24% 5 – 10 000 000 pesos, 11% more than 20 000 000 pesos, 5% 10 – 20 000 000 pesos.

Microfinance institutions in Mexico as FINCOMÚN, Consejo de Asistencia al Microempendedor

(CAME), CrediComun or VisionFund México (VF México) are one of the most perspectives there. Let's focus on them separately.

5.2.1 FINCOMÚN

The mission of FINCOMÚN is to be one of the best financial institutions in the communities that is able to operate. It offers services to the Poor, including creation of development, convenient and protected conditions for its customers. The institutional philosophy is: honour, integration, personal respect, professional competition, asertivity and innovation. This MFI was created in México D. F. on 15 September in 1994. The main initiative is Fundación Juan Diego. Nowadays FINCOMÚN has at least 140 000 clients and has already reached 70 branches. Since the beginning, Fincomún arranged and created more than 1 000 jobs. Main funding sources are: savings, loans and shareholder capital (e. g. AECID, AMSOFIPO, Microfinanza rating, Microrate, The Rating Fund, Prodesarrollo, WWB etc.). Products and offered services are: loans, insurance, voluntary savings and fund transfer services. Fincomún is basically focused on the low and middle-income social classes. Their clients are women in 62%. It encourages all the necessities that are suitable for women as other voluntary savings or insurance policies. Interest rates are diverse from 4% to 6%.

The statistics done in 2014 is following:

Number of active borrowers: 93 469

Gross Loan Portfolio, USD: 71 million

Deposits, USD: 56.5 million

Ø Loan Balance per borrower, USD: 760

Number of depositors: 111 748

Assets, USD: 89.4 million

Source: Mix Market - Fincomún, 2015.

5.2.2 CrediComun

CrediComun was established under the Mexican law on 11 March in 2005. It is a developing MFI with its focus and impact on the social and entrepreneurial part. The goal is a promotion of productivity, job creation and revenue to the generations. It offers microloans through the variety of communal banks and uses methodologies to members of disadvantaged population especially in rural or semi-urban areas. The mission is a contribution of the clients development with limited sources through the microfinance system, to support even financial training. The philosophy is an offering of personal-skill-building and capacity-building opportunities. Then, to practice microfinancial activities with its principal economic and social tools to support underprivileged people. Moreover, to developed industries and legal economic and productive activities for a long term period. It has got a network of 45 branches in the geographic locations in 2012 (table 10).

Table 10: CrediComun spread out in Mexico

Years of Founding	Branches in Mexico
2006	Cuatla, Morelos, Toluca (state of Mexico)
2007	Lerma, Tehuacan (state of Puebla)
2008	Pachuca, Tula (state Hidalgo), San Martín (state in Puebla), Orizaba (state of Veracruz), Tenancingo + Jilotepec (state of Mexico), Jojutla (state of Morelos)
2009	Yucatán peninsula – Ticul, Carrillo Puerto, Cancún, Playa del Carmen (state of Quintana Roo), Puebla Centro (state of Puebla)
2010	Mérida, campech, Valladolid, Zihuatanejo, Acapulco, Texcoco, Ecatepec, Chalvo, Pátzcuaro, Morelia, Ixtlahuaca, Villa Cuauhtémoc, Cuernavaca
2011	Tetelcingo, Nezahualcoyotl, Tianguistengo, Chlapa de Corzo, Chilpancingo, Comitán, Iguala, Pijijiapan, Tapachula, Tepeaca, Temixco, Tuxtla Gutiérrez.

Source: by the author. 2015.

CrediComun does the loans through a communal banking methodology. It is served to the groups 12-30 people, principally women, who are self-employed. When the group is formed, all members rely on their „familiarity“ and their faith in each other. All of them have got its small loans to go on in their economic activities (as a part in one business or as a group for the specific one), responsible for their activities as the final output and regards to the debt. Groups' administration must be fulfilled and ensured – executive committee has to be made up and the president plus treasurer known. In the case of one member's default (whatever reason), other members are obligated to cover it. Moral solvency and social pressure are true integral elements (loan's payments + interests). To achieve a loan, group has to complete three training meetings where internal governance system must be created, executive committee plus president plus treasurer must be elected, and everyone's pre-credit saving must be implemented in (10% of the loan as a

guarantee owing to late payment). Each group member may add voluntary savings per week, plus the sum that is related to the loan – portion that the group borrowed with the proportional portion - with the interest, of course. These two sums constitute the main parts of the client's wealth. The volume of the first loan is small but it grows, depends on each of the member's business. The full loan has to be repaid in a cycle (average 16 weeks, high loan volumes 24 weeks). Loans are offered to the clients who are irreproachable, reliable, responsible, hardworking and keen on their businesses.

CrediComun has been a field reliable partner of the non-governmental organization KIVA that has made its payments on time for 2 years. In June 2012 these two organizations agreed to end their partnership. During 2 years of cooperation there were \$1.9 million in repaid loans. To stop posting new loans to Kiva was the decision of CrediComun eventhough there were not radical problems. In some cases there was a lack of „fresh loans“^{iv} that resulted to the high delinquency rate. All outstanding loans have been defaulted or repaid to lenders. It is important to point out the delinquency rate increased to 89.59% in half year before in January 2012. It was not measurable for the Kiva non-governmental organization that wanted to know why is it so high? The answer was that it is a portion of loan repayments that are overdue or in arrears; only some loans were still being repaid, referred to as outstanding loans. Basically the most field partners are continuously funding new loans as old loans that are repaid. The delinquency rate is a helpful indicator of the loan portfolio when this is happening. Most of the loans should be repaid on time. It is common that a small percentage of loans are repaid late. Lately, CrediComun stopped funding new loans on Kiva, however, this unique partnership has not been stopped ultimately. Short-term loans were outstanding loans = quickly and fully repaid, leaving only 48 delinquent loans that had to be fully repaid (42 were repaid late \$30,415, 6 not yet). This resulted into the high delinquency rate as 89.59%, it could be even higher. If CrediComun go on with funding its new loans through Kiva, the delinquency rate will decrease, definitely as it was in the updated status on July 2010. At that time the majority of the delinquency rate was 18.77% caused due to some inconsistencies in the timing of CrediComun's repayment reporting to Kiva, discussed with CrediComun's staff. At that time there were arranged strict repayments every fifth of each month. This fact resolved the inconsistencies and was reflected next month when the delinquency rate was only 1.37% (Kiva, 2013).

^{iv} Not available for all the clients at the same time even people were applying for them.

The statistics done in 2014 is following:

Number of active borrowers: 6104

Deposits, USD: 10.2 million

Number of depositors: 11 504

Gross Loan Portfolio, USD: 1 908 425

Ø Loan Balance per borrower, USD: 313

Assets, USD: 23 million

Source: Mix Market - CrediComun, 2015.

5.2.3 CAME

Consejo de Asistencia al Microempendedor, S. A. de C. V. (CAME) is MFI, serving nearly 400 000 borrowers around the Mexico city agglomeration. CAME(SA) is a part of it and it was established in 2005 as a transition from Desarrolladora de Emprendedores A. C. (DEAC) a non-profit organization/institution. „CAMESA“ and DEAC are a part of CAME Program which activities started in 1995. Banking and Securities Commission (CNBV) approved CAMESA to operate as Sociedades Financieras Populares (SOFIPO). In 2009 CAMESA was allowed to continue taking deposits from the people not just credit clients as it was before (at that time nearly 190 000 clients, 89% women). CAMESA uses also village banking model focused on lending and savings business. It assists to the groups and individuals whose need loans. The portfolio of microloans is mostly a group of seventeen members with an average \$200/individual loan. CAME offers a credit, savings and other productive activities to the Poor. It is an institution of more than 3 000 workers that finance more than millions of Mexican inhabitants. Every year it gives more than 1 million of the credits in 32 states in Mexico. It protects its clients and gives them finance contributions to start up their lives. It has at least 22 year experience in this field (Mix Market - CAME, 2015). The mission is to be initiative in the finance courses in the communities with its implemented services (credits, savings, insurance) to increase the living standards. The vision is to be the principal microfinance institution for the clients, to have the richness and qualitative innovations across the community. The values are quite the same as for the other MFIs. This is the institution where the people work and work for the people. It is based on dignity and respect to the human rights, and an acceptance of the differences. It tries to increase the potential of applicants, to develop and realize relationships with other persons. It is important to work in an interaction and within the organizational capacity and solidarity to work in a team. In total the values are: productivity (to maximalize the results), quality (clients satisfaction according to the principle evaluation parameter), obligation (responsible and punctual manners), integrity (norms of CAME), leadership (possibility to be an officer and to have an impact on the collaborations), productivity (maximalize the results of the clients).

The statistics done in 2014 is following:

Number of active borrowers: 327 792

Gross Loan Portfolio, USD: 102,1 million

Deposits, USD: 38.9 million

Ø Loan Balance per borrower, USD: 311.5

Number of depositors: 324 854

Assets, USD: 138.4 million

Source: Mix Market – CAME, 2015.

5.2.4 VisionFund Mexico

The vision of VisionFund Mexico (VFMexico) is following: *„We want to see our clients and their businesses succeed. That's why we provide more than just small loans. We offer a wide portfolio of products and services such as business management training, trading events and micro-business programmes aimed at communities that lack economic opportunities. Our goal is to create sustainable communities through a range of integrated microfinance services“* (VisionFund Mexico, 2015). VFMexico is the leading microfinance institution that was established as a subsidiary of VisionFund International^v. It is a wholly owned by the subsidiary of World Vision International^{vi}. It works together as a foundation for the communities to flourish and prosper healthfully. Financial services are offered to those who have little or none access to have a credit (loans of about hundred dollars). It has been supporting clients for 23 years in more than 30 countries with its outstanding portfolio \$496 552 000 (1 113 146 active borrowers, average loan \$495, 78% female borrowers, 1 242 357 jobs impacted). The first program started in 1993. VisionFund International was founded in 2003 to manage network of affiliated microfinance organizations. Money was served to the people in need to start or grow sustainable businesses. This had an impact on the families – better nutritious food, clean water systems, children education and healthcare. As was mentioned many times, lots of families in Mexico survive on very little money amounts, there is a lack of basic education system, nutritious food or medical care. Uneducated women are usually responsible for the whole support of the families, do not have none land or productive assets. It is strategical that this organization works in areas where poverty and illiteracy rate is higher than national average. VisionFund Mexico offers a huge scale of financial instruments as loans, savings programs and other services. In Latin America and Caribbean area there are 169 226 active borrowers, an average loan is \$808, 71% covers female borrowers, 186 287 jobs are impacted. Specifically in Mexico there are 32

^v Global microfinance institution operating in Asia, Africa, Latin America and the Middle East and Eastern Europe.

^{vi} Christian relief development and advocacy organization.

328 active borrowers, average loan size is 85% of female clients, 48 736 children are impacted, outstanding portofolio is \$10 714 000, an average loan is \$553, and 36 700 jobs are impacted there.VFMexico works alongside World Vision Mexico to implement strong principles of Christian ministry within emergency, development and advocacy.

VisionFund International is a different financial institution. Their microfinance services are integrated into the development of World Vision. World Vision carries out the programs related to the development in water sanitation, education, health and economy. It works together and improves lives worldwide – empower poor families. The partnership with the non-governmental organization named World Vision demonstrates approach not just live and survive but to rich a fulfilling life. World Vision works with the poorest and most desperate communities of the LDCs. It was inspired by the Korean war orphans during the World Wars. It is one of the largest Christian organizations in the world that is working in around 100 countries (VisionFund International, 2015).

The mission is a provision of children education, birth control, access to food and clean water and shelter, training „*how to survive economically and be sustainable*“. These values are give to the people regardless of their race, gender, ethnic background, religion ... The progress is obvious when these both two organizations cooperate: VisionFund International and World Vision. Small average loans around \$300 are provided under the specialized team. People has to be turned in their ideas and know what they will do, which business might be supported. Staff of the organizations should be able to know and trust the communities that might be served. They have to understand their needs and to have an awareness about the clients’ culture. An assistance might be given even in advice to succeed in building sustainable enterprises. An average loan of just \$300 can generate a great profit for the families, they can be self-sufficient. Programs are compiled even for those who has none regular income or when sickness strikes. Microinsurance is provided on the grounds of illness, death, natural disasters and other unexpected reasons. From relialance^{vii} to the resilience^{viii} is a slogan for VisionFund and World Vision. Worldwide it is known that the farmers are key elements for ensuring the families, communities, villages, cities etc. Rural practices and knowledge about natural environment and its protection is on the first place. The key features of the program are: spiritual, economic, environmental. The following table 11 shows the impacts in Latin American and the Caribbean in 2015.

^{vii} Relialance is a state of being dependent on someone or something

^{viii} Resilience is the ability to recover quickly from difficulties

Table 11: Impacts of VisionFund International and World Vision in LA & Caribbean, 2015

Country (MFI)	Outstanding Portfolio	% of Regional Portfolio
Bolivia	32,123,000	30.1%
Dominican Republic	3,288,000	3.1%
Ecuador	40,293,000	37.8%
Guatemala	3,817,000	3.6%
Honduras	9,419,000	8.8%
Mexico	10,714,000	10.0%
Peru	6,970,000	6.5%
Country (MFI)	Active Borrowers	% of Borrowers – Region
Bolivia	39,826	23.5%
Dominican Republic	9,586	5.7%
Ecuador	61,860	36.6%
Guatemala	6,089	3.6%
Honduras	11,763	7.0%
Mexico	32,328	19.1%
Peru	7,774	4.6%
Country (MFI)	Children Impacted	% of Children Impacted – Region
Bolivia	54,662	21.3%
Dominican Republic	25,601	10.0%
Ecuador	85,536	33.3%
Guatemala	11,686	4.5%
Honduras	19,410	7.5%
Mexico	48,736	19.0%
Peru	11,518	4.5%
Country (MFI)	Jobs Impacted	% of Jobs Impacted – Region
Bolivia	38,975	20.9%
Dominican Republic	16,207	8.7%
Ecuador	65,737	35.3%
Guatemala	6,952	3.7%
Honduras	12,131	6.5%
Country (MFI)	\$ Average Loan Size	% Female Clients
Bolivia	892	72%
Dominican Republic	447	64%
Ecuador	00	69%
Guatemala	866	66%
Honduras	980	56%
Mexico	553	85%
Peru	00	60%

Source: VisionFund International. 2015.

The statistics done in 2014 is following:

Number of active borrowers: 32 328

Gross Loan Portfolio, USD: 10 714 000

Deposits, USD: no data

Ø Loan Balance per borrower, USD: 553

Number of depositors: no data

Assets, USD: no data

Source: VisionFund Mexico, 2015.

5.2.5 Microcredit program – Alternativa Solidaria Chiapas

Microcredit programs are the greatest opportunities how to fix the market and the poverty in Mexico. The experiment of Alternativa Solidaria Chiapas (AlSol) - organization founded in 1998 and serving over 12 thousands borrowers - shows a successful resolution of offering microcredits and new opportunities how to get out of the poverty. It has experienced rapid growth and took place as the most popular microfinance organization in the country's southern region, especially in one of the poorest states Chiapas in Yucatan Peninsula (Kiva, 2009). Borrowers prove its capabilities of borrowing money responsibly to set up its own businesses. Moreover, it engages them in new businesses and finally includes into the common marketplace and then into the society. This must be the objective of poverty reduction. In urban areas micro-credit programs work better and have easier access to local markets that means that many investments must be given into public infrastructure to boost people from removed areas.

The Conditional cash transfer (CCT) programs are becoming more and more well-known in the world. The missions are concrete poverty-reduction policies in Latin America. Mexico's CCT programs are *Progresa & Oportunidades*. CCT consists in cash rewards in exchange of people's investment in health, education or food. The mexican Progresa program has proved a great way to avoid "dependency effect" and significantly reduced poverty. Its goal is to help in rural areas and invest into children's future, health (to fight againts diseases, malnutrition). The success of Progresa (Progress) turned into the wider program called the Oportunidades (Opportunities) CCT long-term successful program focusing on the poverty, school attendance, disease protection, work for the young people, manufacturing and service sector.

5.3 NGOs in Mexico

In Mexico there do exist and operate other mexican non-governmental organizations (NGOs) such as, for instance, World Vision, Habitat for Humanity International or Compassion International.

5.3.1 World Vision

The World Vision is very often called as Christian organization, development and advocacy that is dedicated to work with the world's most vulnerable people and communities to overcome poverty and injustice. It is inspired by Christian values. It serves all people regardless of religion, race, ethnicity or gender. It has started operating since 1963. Long-term project is Frontera Norte that is initiative in betterment of services along the American boarders (a help approx. 4 500 families/yearly). Another project is Niños de la Calle that has been implemented in the capital since 1991 to sustain safe environment of children living and working in the streets (approx. 500 children/yearly), presents World Visions' database (World Vision, 2015). It has been working with the vulnerable communities for nearly 60 years in 100 countries – without none restrictions in the religion, gender or the ethnicity. In Mexico it has been working for 30 years with the local projects that benefit more than 370 communities in eight Mexican states. This organization especially works with the children and their families that live in the poverty, tries to protect them and to sustain their family roots. A positive is that there is basically the local technical staff who assist them. There are five priority topics: nutrition, education, health (prevention, acute emergency, medication), economic development and protection of human rights. The organizational vision is „eventful life for every child“. The organizational mission is to work with the most vulnerable people to promote and transform them, to find a clear justice and a way to God. This organization is inspired by the Christian values and the universal love that is the most important and necessary for all our lives. In Mexico it has been working since 1982 with its implemented programs of development that includes (World Vision, 2015):

- Community development: develop the capacity in an education, health, nutrition, economic development;
- Human rights and the participation of infants: look for the communities that are out of violence and where children are secured and respected;
- Prevention and attention to the human emergency: take care about the human disasters and to belive in the capabilities to present them effectively.

Their view is not a presence. It is nothing about the gifts, clothes or money. They do develop of human capabilities to be the communities sustainable for its children and the future with full potential. Projects are focused on children needs, sustainability and vitality of the place for the long-term period, creation of capabilities in education, gender equality and women participation, prevention and education in VIH and SIDA, accesible technologies which respect the environment. World Vision Mexico is interested in the next parts of Mexico.

North Borders



It is the region that consists of another three programs: *Pedregal de Santa Julia*, *Cañón del Sainz* and *Libertad*. They are located in the semi-urban areas in Tijuana in the north California and in Sonora with the majority of migrant families that are looking for the better conditions in the north part of Mexico. In this localities they live miles out of their original families in the inhospitable conditions, in places where is none hygiene and limited access to education. As a result of this context the projects are focused on strengthening the principals such as education, economic development, health and living conditions.

Chiapas and Oaxaca



In the SouthEast of Mexico the organization works in five programs: *Vicente Camalote* and *Gande* in the north of Oaxaca, *Manos Unidas*, *Bochil* and *Unidos Caminando* in Chiapas. The majority of the communities that are working with are the etnics named Mazateca or Tzental. The main problems are children malnutrition, lack of health services, access to the water and a lack of bilingual education. The priority in this area is evident – health, nutrition, alimental consultancy, education.

Huasteca Potosina



There are four programs that are implemented in this region – *Tlatocani*, *El Cristiano*, *Yanquik Necaliztli*, *Zentik Tekipaniliztli*. These communities are related to the indigenous group called Nahuas. The principle problem is limited access to the potable water and its security, children malnutrition. Projects are about the respected development and the needs of the people with the aim at the improvement in the field of health, nutrition, human rights and education.

State of Mexico D. F. and Michoacan



In the capital and the state Michoacan there are indigenous people Mazahua: Najhe, Cresencio Morales. Tulpetlac people are in area Ecatepec. It is semi-urban area. The main activities are the economic development, education, human rights, violent prevention at home and at school.

Veracruz



Zongolica mountains near the city Veracruz are places of three programs in that region: *Tisepan Tekipa-noske*, *Masehual Tlapolewistli*, *Mixtla*. There are one of the poorest localities in the whole Mexico in which people live even under the national line of the poverty. The priority is an increase of infant nutrition, access to the potable water, development of the fruit fields.

Querrero



Three programs are situated in this area: *Montaña Amuzga, Río Santa Catarina, Cuajinicuilapa*. There are ethnic people Amuzga and the afro-mestizo communities. VIH and SIDA remain in the existence and prevent actively to these diseases, nutrition, health and human rights as well. Children's participation is primary in the communities where are violent problems in families. In 2011 started a cooperation with the group of volunteers who tried to keep and sustain well-established activities there.

World Vision Mexico has got its punctual policy in which it wants to support generously all parts. Priorities in the rural areas are: 25% health, 25% water, 25% nutrition, 25% education. 3/4 of the donations come from benefactors who support children (one by one). 1/4 are grants of governments or companies. The financial sources are distributed in administration 5% and in 95% into communities.

5.3.2 Habitat for Humanity International

Habitat for Humanity International was founded by Milard Fuller and Linda Fuller in 1976 in the world. Today it is a world leader in addressing issues of poverty housing in almost 80 countries worldwide. The concept was born in a small Koinoian farm, in the Christian community in Georgia. This farm was flunder in 1942 by the scholar and farmer named C. Jordan. Firstly the Fullers visited this farm in 1965 and afterwards started its successful business not just based on Christian values. There was developed the concept of „partnership housing“. It was offered to those who were in need of adequate shelter. Volunteers started building up simple and decent houses. The Fund for humanity was established and the houses were built at no profit and no interest. The fund's money would come from the new homeowners' house payments. Money were earned thanks to fund-raising activities and provided by supporters. The Fullers decided to apply the Fund for the concept in LDCs in 1973. Their goal was to offer affordable shelter to thousands of people. Three years after (1976), the Fullers established their dream „Habitat for Humanity International“ – the international organization. Year 1984 was a milestone when the US president Mr Carter took the first Habitat work trip in the city New York. It was a time when this organization could see and enjoy the national visibility in the US.

A lot of low-income families saw a new hope in this form of housing to obviate other piece of the poverty (social problem), to have own and decent house. It has been assisting nearly 7 million clients since 1976. The main purpose was a stability and independence in housing (Habitat for Humanity, 2015).

This is all done through the volunteer labor and donations of materials and money. Habitat houses are sold to the partner families at no profit, financed with affordable loans and sometimes homeowners have to do their own labour in the houses. Monthly mortgage payments go into a Revolving Fund. This Fund is often used for renovation the rest of Habitat houses. In Africa, Middle East and Europe, this program works in 32 countries around 24 000 families, building and repairing homes, improving water systems and sanitation processes, offering microcredits. Headquarters are based in the capital of Slovakia – Bratislava.

Having a shelter against the natural forces are common and basic human needs. Habitat for Humanity International is a non profit organization that propagates Christianity. In spite of this fact has got open-door policy. All people who want to help are welcome (volunteers, supporters) without none worries about the religious background or race. The methods and the mission is predominantly based on key theological concepts such as putting faith into action, „economics of Jesus“ (giving and taking) ... Habitat houses are decent (qualitative building materials related to the distinctive climate and culture needs), simple (suitable for common families, small enough to keep maintenance and construction for the minimum costs) and affordable (labour of partner families, volunteers), build up according to the same guiding principles. Habitat houses in the US and Canada are typical, use wood frame construction, vinyl siding, asphalt roofs, interior walls, having the house size as a three-room. Tropical and subtropical parts and islands are designed for the local settings with available materials that reduce costs. It is important to build a house that is easy to maintain. Houses in Latin America are in blocks, having metal roofs in comparison to African houses that are constructed with fired clay bricks, having tile cement roofs or fired clay; a component is a plan for kitchen area outside the house. It is known that houses in LDCs are smaller than in the US and Canada but still they keep low costs, the houses meet the homeowner families' needs and are affordable for low-income inhabitants.

Construction technologies have strict rules. The condition that might be kept is a sustainable building – “green”, safe and healthy housing, energy-efficient and the lowest possible cost house. Habitat for Humanity International adds and argues that „Neighbourhood Revitalization is the way of the future that is slightly connected with this mission. It is an essential element of

Habitat's work. By focusing on entire neighbourhoods, we can greatly increase our impact“. If some families would like to be successful and succeed, the dynamics of their neighbourhood has to be changed. The revitalization process is a holistic expanding approach, having with local organizations, homeowners, volunteers for a far greater impact and traditional partnerships. Housing need in Mexico is a glowing topic. More than 60 million Mexicans do not have economic means to buy or build own housing. 1/3 of employed Mexicans earn less than is the minimal wage (7 million), and 10 million make less than two minimum daily wages. This results in a fact that more than half employed inhabitants have around \$30 per month or less. During the years 2010-2015 was the demand for adequate housing more than 3 million. The research shown the total housing backlog of 9 million households that represented 31% of occupied private dwellings. The following facts are alarming: over 561 000 households are in overcrowding conditions (more families live in one place), over 1 140 000 houses are built from recycled material, over 7 255 000 houses use materials as adobe or metal to build roofs or walls.

Habitat for Humanity Mexico helps. It provides building materials, technical support, training services, administrative assistance and many others necessary basics. Selected families invest their time into reconstruction or building own houses with the assistance of volunteers. The revitalization and interest of the whole community is welcome. The families' monthly housing repayments are financed through the Fund for Humanity supported through the distinct activities as donations etc. All supported families are trained thanks to the workshops that explain how the whole program works, what are key principles and expectations. Family has to be able to work in a team within the community or create it. Habitat works at least in 19 states, has 25 local offices and have the impact in at least 650 communities. To be a volunteer in this organization is highly needed. It is a crucial point in the organization. Volunteers can join and help families in need. A brigade can be great experience. Due to the disaster response, Habitat is very sensitive and tries to assist on the base of these consequences anywhere. Disaster problems are mainly in the states such as Chiapas or Tabasco (floods). Sometimes other states are affected by the hurricanes, there is otherwise the need of rebuilding homes and infrastructure.

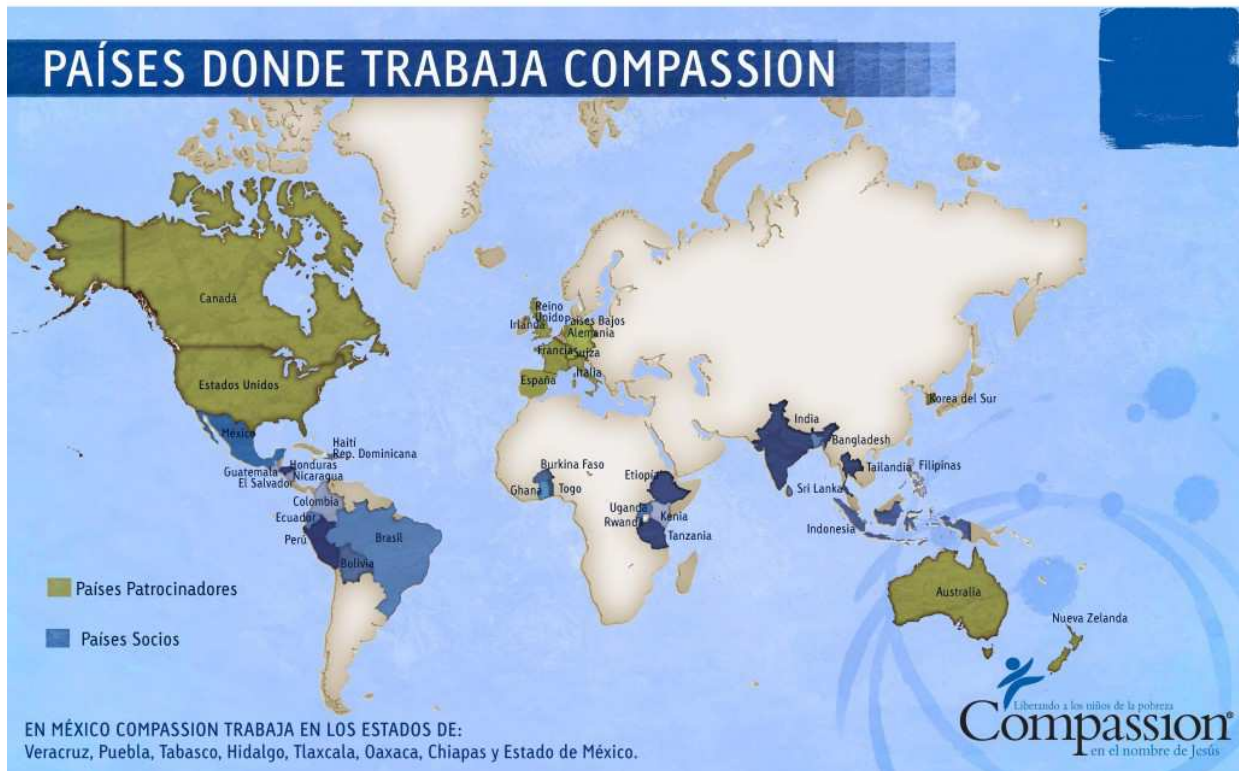
Habitat for Humanity in Mexico is an international non-governmental organization focusing on a construction of low-cost ecological houses, based on three principles worldwide: 1) simple house (medium size), 2) reputable (qualitative and available building material from the concrete country), 3) financial available (partly financed by grants, sponsors, MFIs). An average size of these houses is from 42m² to 49m². This NGO helps in cases of natural

disasters or civil wars. In Mexico it has started functioning since 1987 as a part of Habitat for Humanity International. Up to these days, 26 thousands houses were built and helped more than 13 thousands inhabitants. In 1987 Habitat for Humanity International started working in Mexico – state of Hidalgo and state of Chihuahua. Two years after in 1989 it was even established in Mexico and named Habitat for Humanity in Mexico. Nowadays it affects 22 states in more than 1 000 communities, it has 23 regional offices. There are five programs: healthy living, convenient living, secure living, living and education, technical assistance and constructions (Habitat for Humanity, 2015).

5.3.3 Compassion Mexico

Compassion Mexico is other international charitable catholic organization founded in 1979. Its help is realized through the mexican churches in cooperation with 130 developmental centers that helped more than 20 thousands children. It has got some main long-term programs as *Distance adoption program*, *Program children mortality* and *Program of leadership*. This organization was evaluated as the most effective and the most transparent one in Mexico. More than 80% gained financial sources that were given to the recipients. The idea came from the Mr Swanso who visited South Korea after the hurrican and the civil war in 1952. In a year he collected money and established the Fund de Asociación Evangélica Internacional to cover the basic children needs and necessities. Then the association was created and changed its name into Compassion International. It expanded to America, Asia and Africa. In Mexico it started functioning since 1979 due to the facts of the Poor. Official base it had in 1990. Actually it helps more than 38 000 children and adolescents. The mission is to assist young people to avoid the poverty in all the fiels as economic, social, physical, spiritual. The goal is to grow up and to be a Christian responsible adult. This organization has specific values that must be implemented in. It is the integrity, leadership (God is above all) and dignity (Compassion Mexico, 2015).

Picture 4: Countries where Compassion works



Source: Compassion, 2015.

In the picture 4 there are detailed countries where Compassion International works. The green one are the patrons, the blue one are the affected and sponsored. The vision 2020 is clear. Compassion is not just known as the leader of the childrens' development but also wants to include infants and to be a global leader. Up to these days more than 1 million of children were encouraged through the principle programs: *Programa de Supervivencia Infantil (CSP)*, *Programa de Patrocinio Infantil (CDSP)*, *Programa de Desarrollo de Liderazgo (LDP)*, *Intervenciones Complementarias (CIV)*. The vision is to assist more and more children how many it is possible. In Mexico it can be encouraged the program LDP where the young can be impletemented into the studies even at the University. What is needed to be fulfilled strategically is the base of five actions: to maximaze capacity and quantity of ministry principles of Compassion (CSP, CDSP, LDP, CIV); to transfer central processes of Compassion technology; to mobilize and equip and start up the church for children in extreme poverty; to use global opportunities of expansion to catch more donators and contributors (Compassion Mexico, 2015).

5.3.4 Czech NGOs in Mexico

There also co-operate Czech non-governmental organizations as Nadační fond Mikrofinance, Inex-Sda or United Vision.

The Nadační fond mikrofinance runs the portal called MyElen that is fulfilling the purpose of microfinance. The whole process is based on the support of bank services to the poor farmers and entrepreneurs mostly to women who are capable to be self-sufficient and want to be strongly self-realized. Thanks to the portal MyElen everyone can finance concrete intention of the microfinances' applicant. According to the statistics of the Nadační fond mikrofinance, till 2015 more than 125 village banks and 900 clients were dated using the microfinance sources (Klečková, 2013; MyElen 2012).

Inex-Sda (Sdružení dobrovolných aktivit) is other non-governmental organization that has been existing since 1991. It deals with the volunteers of its members on the international level and has no direct connections with microfinance as if it assists to the poor in their localities. The main goal is an intermediation of volunteer projects in all the world's parts and in Mexico, too. On the opposite side, to these volunteers who are interested in the volunteering abroad, ensure the same conditions in the Czech republic. Statistics shows almost 800 volunteers that go abroad yearly (Inex-Sda, 2013). Projects are short-term (duration of weeks) or long-term (duration of months). An objective of this organization is the development assistance to the society and the environment. This organization cooperates with Mexican organizations such as the Vive Mexico and the Vimex A. C. (Vive Mexico 2013, Vimex A. C. 2013). These organizations are collaborating and organizing language courses for the work-camp volunteers as the added activities of the specific projects; usually one-two weeks before the beginning of the course. A week time course, for instance, in the state Morelia, it costs 180 euros and consists of 6 nights at the student's dormitory in the centre of the town Morelia (materials included), presents Inex- Sda website.

United Vision's goal is to fight against the poverty and to propagate volunteering. Chosen candidates are sent to Mexico to provide free courses of English. The impact is focused on the rural communities with the potential of implemented tourism. The purpose is an application of local people and its implementation into the working market. This implemented idea increases a community development and decreases a migration towards cities. Public involvement into these organization activities is possible as the volunteer, benefactor, member of dispatched community (consisted of personal volunteers' sponsors who participate on the semiannual

mission financing). Minimal financial contribution amount of the community member is 200 Czech crowns monthly for the whole volunteer missions' duration. Total volunteer costs are 60 thousands of Czech crowns per one mission. Other possibility how to become involved into the United Vision is to be an active sympathizer and moral supporter. This means to be registered in the funclub United Vision, take part in the thematic discussions, presentations or other actions. United Vision in cooperation with the mexican non-governmental organization *Mujeres Productivas AC* implemented on its websites E-shop to support mexican women mainly. Thanks to this project Mexican women can become independent and self-sufficient. Women, for example, from the region of Coatepec manually produce jewellery, sew clothes and put logos of the firm on it or they are specialized at other customer's desires. In the section of E-shop there are some snapshots of these activities and offering final products. In the future United Vision plans to expand and aim the instruments at the alleviation of the poverty as much as possible. It is an enlightenment of establishment microfinancing in collaboration with the project MyElen. Next innovation area is an introduction of fairtrade and the relief of local people in the tourism branch. The target of United Vision is not just to support the individuals but to cover all communities in the specific area comprehensively (United Vision, 2013).

5.4 Case Study in Mexico

5.4.1 Methods of the Research and Economic Determinants

Critics of microfinance have objections to the microfinancial institutions that they are not self-sufficient and without the unsustainable subsidies. Critics also argue that there are not concrete economic and social effects towards the clients. Effects might be insignificant. One of the goals of the research was to confirm or disprove already mentioned hypothesis. The research also finds out if microfinance have positive effects for the participants.

Questionnaire was distributed to 952 men and women in a rural and urban areas. More details are seen in table 12 (Mexico City, Oaxaca, Chiapas, Guanajuato - Santa Fé). Another information was given through the semi-structured questionnaires and own observing processes on the spots. Many village localities were visited so that there was a change to see distribution of the credits, local meetings, observing of the clients behaviour and coordinators, too. For economic situation of MFIs and the NGOs were used oficial documents. Information gained through the questionnaires were processed in the Microfinance Impact Assessment (MIA) a

software SPSS^{ix} (statistical program of version 18.0., 2010) that is able to work with social data and compared with the data gained from the MFIs and other institutions as well as RRA method and PA methods were examined. The most significant results are shown and explained in the following tables and graphs. Some of them were averaged from year 2013 and 2015.

Table 12: Profile of samples

State	Type of residence	Gender		
		Women	Men	Total
Mexico City	Rural	0	0	0
	Urban	60	33	93
Mexico City total		60	33	93
Oaxaca	Rural	155	76	231
	Urban	20	25	45
Oaxaca total		175	101	276
Chiapas	Rural	188	93	281
	Urban	27	41	68
Chiapas total		215	134	349
Guanajuato – Santa Fé	Rural	80	70	150
	Urban	42	42	84
Guanajuato total		122	112	234
Total		572	380	952

Source: own processing

During data processing, it was necessary to consider economic determinants characteristics in selected regions (states) such as an income tax or inflation. According to the World Bank 2015 during the last few years, inflation as measured by the consumer price index was: 3.4% in 2011, 4.1% in 2012, 3.8% in 2013, 4% in 2014. These percentages of inflation have resulted in financial burden for low-income inhabitants during these last years. It is important to mention that the personal income tax rate in Mexico stands at 30%. It is averaged 29.64% from 2004 until 2014, reaching an all time high of 33% in 2004 with a record low of 28% in 2007. Income tax rate is reported in Mexico by the Servicio de Administración Tributaria - Secretaría de Hacienda y Crédito Público (SHCP). Personal income taxes are divided into two sections when the person is resident individual or non-resident individual. On the basis of these facts, there

^{ix} SPSS is a widely used program for statistical analysis in social science. It is also used by market researchers, health researchers, survey companies, government, education researchers, marketing organizations... It is a software package used for statistical analysis.

are determinants that separate taxable income and percentages of basic tax columns. Table 13 refers to the studied income categories in Mexico. The main division is seen in the table 13 and it is named „before using MFIs“ and „after using MFIs“ with the most significant differences seen between the categories <1300 up to 3 500. In addition, table 14 refers to income categories – average income versus client of MFI and its comparison.

Table 13: Income categories

Income category (income/month) (MXN)	Before using MFIs		After using MFIs	
	Count	% within clients of MFI	Count	% within clients of MFI
<1300	489	71.5	73	10.7
1301-2500	158	23.1	180	26.3
2501-3500	32	4.7	323	47.2
3501-4500	2	0.3	66	9.6
4501-6000	3	0.4	38	5.6
>6000	0	0	4	0.6
Total	684	100	684	100

MXN = Mexican peso, MFI = microfinance institution
Source: own processing

Results in household livelihood improvement

According to the Johnson, Rogaly (2002), we used income as a poverty line where poverty reduction is measured by counting numbers or proportions of people who cross the line – who are or who are not promoted out of poverty. During the year, there are, however, fluctuations of income. Poor people have to deal with these fluctuations in their incomes. Some of these fluctuations are predictable, for instance, seasonal decline in agriculture connected with harvests and trading opportunities in markets. Microfinance Impact Assessment (MIA) that was provided in Mexico was calculated with monthly incomes. People were divided into two parts – before using MFIs services (6 months before) and after when they are already clients of MFIs. The financial improvement among the clients of MFIs in Mexico has been achieved. The most represented income category (71.5%) of clients before using microfinance services is the lowest category at “less than 1300 MXN per month”, while the most represented income category (47.2%) of clients after using microfinance services is between 2501-3500 MXN per month (according to the Central Bank of Mexico the exchange rate is \$1 = 17.7679 MXN and 1 MXN = 0.0562811, accessed 5 March, 2016). Only 37% of current MFI clients have a lower income than 2500 MXN per month compared to 94.6% of clients before using microfinance services within the same category. It shows a major betterment in the financial situation of

microfinance clients. Pearson's chi-squared test (χ^2) was calculated according to the cross-tabulation, comparing the average income before and after using microfinance services. Pearson's chi-squared test was finally calculated $\chi^2 = 642.012$ with P -value = 0.000. It was confirmed statistical significance that there is a positive relationship between the income before and after using microfinance services.

Table 14: Income categories: Average income vs Client of MFI

What is your average monthly income? (MXN)		Are you client of MFI?		Total
		Yes	No	
< 1300	Count	73	80	153
	% within Are you client of MFI?	10.7	29.9	16.1
1301-2500	Count	180	55	235
	% within Are you client of MFI?	26.3	20.5	24.5
2501-3500	Count	323	54	377
	% within Are you client of MFI?	47.2	20.1	39.6
3501-4500	Count	66	45	111
	% within Are you client of MFI?	9.6	16.8	11.7
4501-6000	Count	38	28	66
	% within Are you client of MFI?	5.6	10.5	7
> 6000	Count	4	6	10
	% within Are you client of MFI?	0.6	2.2	1.1
Total	Count	684	268	952
	% within Are you client of MFI?	100	100	100

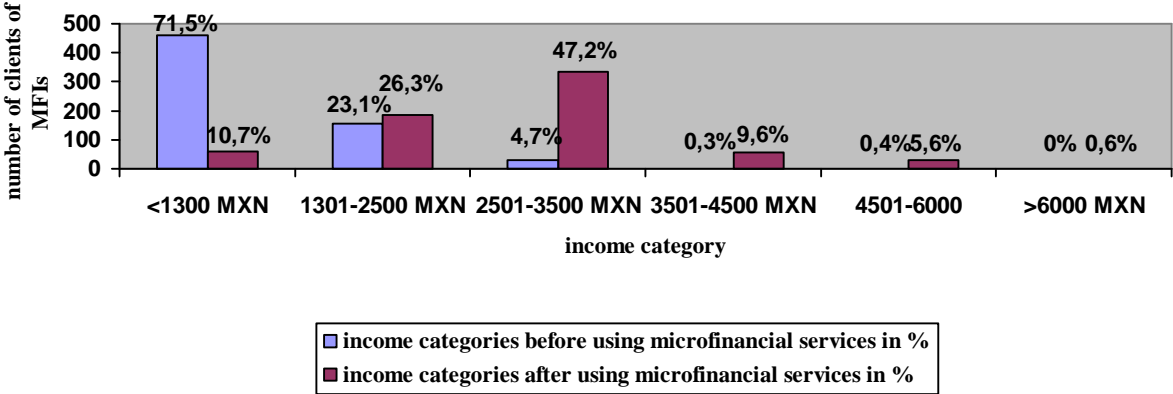
MXN = Mexican peso, MFI = microfinance institution; Source: own processing

Graph 7 shows differences between each income category before and after using microfinance services. The minimum legal wage set by the Labour law had been 1283 MXN monthly in Mexico until 2014. Microfinance is mostly used as a tool for poor and lower-income people. It is significant to verify if microfinance services are used only by these segments of inhabitants so cross tabulation was done to identify if any significant association exists between the average income per month and a client of MFI.

It can be mentioned that non-financial services of MFIs play considerable role in these results. MFIs basically provide non-financial services that are able to help clients start up or develop their small businesses. This is done through training programs and accessible products. Clients are able to learn how to produce their products or goods relating to their projects. Other non-financial service is marketing – how to sell and promote products, goods or services in markets. An integral part are micro-insurance services naturally. Most of financial services are free of charge for the clients. Sometimes MFIs have got a special policy when clients do not have to

pay for in case they have already taken out a loan. According to the numbers of the research at least a half of the clients are able to save money of their incomes. However, a huge difference is between men and women. The significant association between genders has been identified (the ability of saving money). Table 15 shows the greater ability to be money saved by women compared to men.

Graph 7: Income categories before and after using microfinancial services (income/month)



Source: own processing

As it is shown in Table 15, 71.4% of females were able to save money versus 23.5% of males. It resulted into the fact that males tend to invest more in their own businesses than into their households. Female clients are much more responsible so it is evident a really strong association between savings and gender ($\chi^2 = 149.558$, P -value = 0.000). The majority of microfinance client's who are able to save money, use this additional money to save for the future (57.3%) – it was the most preferred answer. Then, it was followed by the category education (29%), health care (27.1%), securing of the family (13.7%), other as hobbies or food (1.5%). In result, general hypothesis was accepted with specific information: microfinance causes betterment of financial security. This result aims for improved social situation. The income of microfinance applicants has risen up, expenditures were mostly given to the education, household assets or to unexpected livelihood sufferings. The additional money was primary invested into the safety of the future, education and health care.

Table 15: Are you able to save money when you receive a loan from MFI?

			Gender	
			Man	Woman
Are you able to save money when you receive a loan from MFI?	YES	count % within gender	62 23.5	300 71.4
	NO	count % within gender	202 76.5	120 28.6
Total	Count	684	264	420
	% within gender	100	100	100

MFI = microfinancial institution

Source: own processing

Increase in paid employment

From the global point of view, the most important role of reducing poverty is the reduction of unemployment. The development of small and micro-enterprisers should be considered as one of the basic determinants everywhere. This is basically seen in developing countries where these small and micro-enterprisers are the most widespread and have the highest percentage among the other enterprisers which contribute to economic productivity. Most governments in developing countries are focused on small enterprisers to fulfill the role of increasing production and employment. This actively contributes to the increased rates of national income and economic growth (Saymeh and Sabha, 2014). Positive trend of used microfinance is seen not merely in small enterprisers, it is a positive for self-employment. People are now able to obtain microloans to start their businesses and become self-employed. The percentage of clients who were out of work before using microloans was high (approximately 56%). Regarding self-employment according to gender, there was no confirmation of any statistically association between gender and unemployment before using microloans.

The *t*-test was done to identify if there are any statistically significant dissimilarities between gross turnover before and after taking a loan from MFIs. To answer this question, *t*-test was calculated. The objective was to find out if there are any significant differences between the 2 means as is in Table 16. It is relevant that in the test are only MFI clients doing business included. Table 16 shows statistically significant differences at the 10% level of significance between the means before and after in favour of after. We suppose that according to the basic economic relationships, the raised turnover causes rise in business profitability. This is a positive trend for the future. This supposition is based on the fact that the turnovers of MFI clients and their small businesses have been rising permanently. It is evident that microcredits have facilitated in rising the employment for the low-income people. This was basically done

through self-employment and the expansion of small businesses and micro-enterprisers that are able to cause a rise in paid employment. A rised demand for manpower causes the expansion of business. Can it be applied to the MFI clients in its fullness? MFI clients who own micro-enterprisers have not been hiring new persons since receiving a microloan. It is a new model for the future. As a result was partly accepted general hypothesis: microcredits have facilitated in rising the employment for low-income people; future expansion of micro-enterprisers and self-employment may cause a rise in paid employment.

Table 16: Results of the Paired-samples *t*-test – difference between the gross turnover before and after taking a loan from MFI

	Mean	N	SD	<i>T-value</i>	<i>P</i> (2-tailed)	Df
Turnover before loan	944.04	484	390.52	39.918	483	0.000
Turnover after loan	482.32	484	293.24			

Source: own processing

In the questionnaire - part 1 were the target people asked to the questions related to the credit information. Clients were asked if they need any kind of credit for their business or living activities. In 82% was answered YES, in 18% was answered NO in 2013, then in 42% was said YES and in 58% was said NO in 2015. On the basis of these percentages it is seen that the economic standard of studied localities has dramatically risen up - 40% difference of clients did not need any kind of credit. Their living standard was better and they were much more satisfied, they did not want to have any limitations related to microloans. In 3-year period 41.3% clients borrowed money, 58.7% did not borrowed them in 2013, in comparison to the year 2015 when 71.8% borrowed them and 28.2% did not borrow them. An average of borrowed money was three times during 3-year period in 2013 and two times during 2-year period. The access to the credits was limited but improved its position in the market. Higher percentage of potential clients had opportunity to apply for it. In 2013 about 58% had access to the credits and 42% did not, and about 67% had access to the credits and 33% did not in year 2015. The distinctions were seen in the question: who is borrowing money (table 17). A decrease of 12% was seen in the head of the households, who borrowed money, then 10% increase was in the families where wife or husband was applying for, in case of adult children there was only 2% increase during the time period 2013-2015. The information about the possibilities of obtaining credit was basically demonstrated through the MFIs, local NGOs, prospering small-entrepreneurs etc.

Table 17 Who is borrowing money

Representatives	2013	2015
Head of the farm	53%	41%
Wife / Husband	25%	35%
Adult children	22%	24%

Source: own processing

The main problems for obtaining credits were following: minimal property to guaranty, minimal knowledge about the process of it and finally fear of future and possibilities to repay the loan. Credit scheme (table 18) shows the differences between the financial institutions where clients applied for money. The most frequent were MFIs in 77%, followed friends in 12%, then groups in 5%, and remained banks plus family members in the same percentage level that were 3%. The highest amount of credit in Mexican pesos was expected in case of banks – it was confirmed – an average 1 150 MXN pesos, followed MFIs with an average of 830 MXN pesos, friends' average 300 MXN pesos, and finally an average of 500 MXN pesos was in case of family members and in case of groups it was quite similar 550 MXN pesos. Monthly interest rate in this thesis could be divided into two categories while relatives or family members proved almost 0%, in case of banks or MFIs there was an average from 3% to 5%. The same purpose utilizations were found out in banks and MFIs compared to family members and groups. Interesting findings were that the purposes of banks or MFIs were mostly about the investments into business. On the other side, common expenditures were in case of family members and groups. The credit of “investments” (given through banks, MFIs) was productive in 82% and non-productive in 18%. On the other hand, the credit of “expenditures” (given through friends and groups) was productive in 59% and non-productive in 41% (table 18).

Table 18 Credit Scheme

Financial institution	Who lend you money?	Amount of credit in pesos	Monthly interest rate	Purpose
Bank	3%	Ø 1 150	Ø 3-4%	repayment of other loans, production capital, materials for the business
MFI	77%	Ø 830	Ø 5%	repayment of other loans, production capital, materials for the business
Governmental program	none	none	none	none
Money lender	none	none	none	none
Family member	3%	Ø 500	Ø 0%	food before harvest time, general consumption
Friend	12%	Ø 300	Ø 0.5%	food before harvest time, general consumption
Group	5%	Ø 550	Ø 1%	food before harvest time, general consumption, special occasions

Source: own processing

Majority of the clients (76%) answered that there are quite a lot of conditions to obtain a credit or to participate in any MFI. All of them agree with at least secondary education that is highly requested if someone would like to be participated in MFI. All of them also agree with the limitations that are given if someone would like to apply for the loan – a part of money is needed or the guarantee of the property must be fulfilled. That is also a question of the collateral. This opportunity had only 9% and did not 91% in 2013. Better situation was obvious in 2015 when 16% had this opportunity and 84% did not. An average length of credit cycle was 6 months in case of women and in case of men it was 9 months in 2013. Two years after in 2015 an average length of credit was 3 months in case of women and in case of men it was 7 months. Based on these facts the cycle of women was on average 3 months shorter, the cycle of men was 2 months shorter. The percentage of interest rates was not changed and it is still stable between 3-12% in common (non)commercial institutions, depending on the concrete bank or

MFI. Late repayments were tolerated in 3% and non-tolerated in 97% in 2013, then tolerated in 2% and non-tolerated in 98% in 2015. If anyone was able to pay on time regularly, there was a positive fact of getting higher credit amount next time approx. 20% of the previous amount. Late or delayed repayments were not tolerated so that there was given added value of the loan – an average 1-3% of the amount. 84% of clients were satisfied with the services of the MFIs and 16% no in 2013, the main reasons were in administrative procedures and bank restrictions including disagreement with institutional sanctions. Year 2015 was more successful in this case because 88% of clients were satisfied compare to 12% who were not. MFIs offer additional services basically, for instance, insurance, training or written materials as brochures etc. The living standard after using a credit was improved in 79% and was not improved in 21% in 2013. Two years later the situation was better and the average of target households was improved in 83% and was not improved in 17%. Interesting fact was that the majority (62.2%) applied for the credit through the group lending in 2013. Two years later there were about 13.4% of clients who used this kind of cooperation. On average the type of the group came into existence within villages of about 25 clients, with money collected at least two times per month, and with the monthly distribution within the group, on average 1/4 was the capital of members and 3/4 the capital of MFIs. The average of main constraints and problems in collecting and repaying money in time within the group were in 40% and were not in 60%; the problem of the stolen money within the community were in 8% and were not in 92%. There were not evident any manipulation tactics of the group leaders in case of community activities. Some misunderstandings within the group of members were recorded but there are difficulties with the proportional measurements. In 2013 the experience of the financial institutions was positive in 66%, negative in 14%, neutral in 20%; in 2015 the situation was enhanced – positive in 70%, negative in 10%, neutral in 20%. The recommendation of microfinance services was in 88% and in 12% not. Then, it was changed and higher percentage of people recommends this financial tool in 95%.

In the questionnaire - part 2 were the target people asked to the questions related to the savings information. Firstly, people were asked if they have any savings. In 2013 there were 27% who have them and 46% who have them in 2015. The saving conditions have increased in 19%. The averaged of saved money were individually in 18% and in 9% collectively in 2013 (27% in total). The averaged of saved money were individually in 30% and in 16% collectively in 2015 (46% in total). This leads to the result that individually savings are more preferred than the collectively ones. The main problem is the personal confidence within the communities. The frequency of savings is particularly weekly in 65% and monthly in 35% in 2013. After two

years the situation is changed – 51% is about weekly amounts of savings and in 49% is about monthly amounts of savings. Quaterly, yearly or any other frequencies of saving systems were not registered. The main reason of saving money was for the school fees and uniforms, improvement of living (fittings) or special occasions. People were not taught how to save money on an average 67% that is really alarming. People are able to save 5-10% of their salaries. If there is any deposit in the bank it is basically about 1 000 MXN pesos. The interest rate in banks is within 3-4%. The most preferable type of savings is at home.

As was already mentioned study area was done in four selected Mexican states where the awareness of the existing microloans and FINCA's services was researched. It is important to mention that in this case there were clients who knew about microfinance services and used them, on the other side, some clients knew about these services but were not interested in. In Mexico City there were 93 people interviewed, in Oaxaca there were 276 people interviewed, in Chiapas there were 349 people interviewed and in Guanajuato there were 234 people interviewed in total. The sample was 952 people altogether. All people were asked if they know microloans and if they need them or already use them for any kind of purpose. Universally, the most frequently answered question was in 71.8% that they know microfinance services and use them, on the other hand, 10.2% of people know these services and are going to apply for a microcredit, 18% of people are not interested in due to many constraints and fears. The highest living standard was taken down in Mexico City in 2015 (HDI 0.83), then is evaluated state Guanajuato – Santa Fé (HDI 0.71, 2013), state Oaxaca had better results in comparison to state Chiapas. Oaxaca wit its HDI 0.681 when Chiapas HDI 0.667 was in 2013. Chiapas still remains as the poorest state of all in the whole Mexico.

It is estimated that around 70% of inhabitants in Latin America is excluded from financial services through common commercial banks. Families which live in rural areas have only in 4% access to get a credit through a bank. In Latin America microfinance has been playing a crucial role since 1970. MFIs and NGOs offer not merely financial services but also the additional. Some of these institutions were transformed into financial banks or organizations that were specialized in microfinance sector. Microfinance and its awareness have been spread quite well in more developed sector, particularly in Nicaragua, Colombia, Peru or Bolivia. Microfinance sector, for instance, in Bolivia originated at the beginning of 1980s when the process of microcredit programs was established by NGOs because of economic crisis. It had similar way in history as it was in Mexico. In case of Bolivia it was build as a case study how to build an industry that is able to survive crises in economic sector (internal and external).

The position and its awareness of microfinance sector have better level – it is a part of the mainstream financial system that is accepted by formal sector, and NGOs are the key institutional players in the delivery of microfinance services there. In the financial market it has a great position, it offers a different range of product types, it has high market penetration, and finally it has already achieved high levels of sustainability and efficiency. Picture 5 looks into microcredit portfolio by country when Peru is by far the biggest market, Caribbean countries as Argentina and Uruguay continue to be small markets and Mexico is somewhere in the middle. Total microcredit volume was achieved by \$18.9 million in 2011. Latin America was also measured and it is considered as the most competitive and regulated microfinance market worldwide. The best microfinance institutions when looking at reach, efficiency and transparency are situated in Bolivia. The biggest penetration of microcredit per working household is more than 40% in Bolivia, between 30-40% it is in Mexico, Guatemala, Nicaragua or in Peru.

Picture 5 Microfinance in Latin America and the Caribbean



Source: Fondo Multilateral de Inversiones Miembro del Grupo BID. 2013.

5.4.2 Researched population and geographic position

Documents and the clients data were gained thanks to the microfinance institutions in Mexico such as Fincomun, CrediComun, CAME, VisionFund Mexico and others. The target group were rural and urban women and men influenced and living in the poverty. The research was done in autumn periods in 2013 and 2015. Selected regions were the capital – Mexico City, Oaxaca, Chiapas and Guanajuato - Santa Fé where it was implemented. The cooperation was established with the microfinance institution Santa Fé de Guanajuato A. C. (MFI SFG). This MFI was established in the state of Guanajuato as a non-profit institution in 1996. Its objective was a serving of the low-income people. It offers to the clients not only the financial services but also the educational and technical assistance. It is based on the women mainly that form 93% of clients, 234 persons in total. In 2006 it had more than 13 000 clients. MFI SFG provides microloans from 1 000 pesos (approx. 1 500 CZK). The loans are provided to the group of minimal 10 persons, men create 1/3 maximally. The period of repayment is 11-16 weeks. The requirement of every group that is applying for the loan has to have at least 10% of required amount.

5.4.3 Economic evaluation - MFI Santa Fé, Guanajuato

This chapter is more focused on the economic evaluation of MFI Santa Fé. The practice shows that the portfolio of MFI can be slightly increasing only in case when the interest rate is so high that it is able to cover costs and high-risks. It is necessary to evaluate the risks of unpaid loans according to the international account standards. A few MFIs are guided by them. Besides, there are lots of MFIs that have not solved unequivocally the question of the structure ownership, unsatisfactory management and inconsistent accounting. The quickly increasing portfolio can signify a danger for todays MFIs. These MFIs can help in a short-term period only to hundreds or thousands clients and do not have impact on the population even social or economic situation in a broad range (Plan de Negocios, MFI Santa Fé de Guanajuato, 2005). MFI SFG is on a very good position in cases of long-term sustainability. In case of MFI Santa Fé, there would be just better to increase an interest rate from the annual average 42.86% more than 0.12% to 42.98%. In case of MFI SFG there were not repaid 6.25% loans. MFI SFG is in debts very much, the advantage is that the majority of long-term loans is from the state institutions that provide the loans with subsidized interest rate on the scale CETES^x or just a few percentage points higher.

^x CETES is the lowest interest rate in Mexican economy declared by the Central bank.

5.4.4 Discovered results in the field research - MFI Santa Fé, Guanajuato

Positive impacts:

- Clients repay the loan by its own business in some cases especially after the first repayment;
- Clients decide in their business and are employed by it;
- Clients business improve in a time of participation;
- Clients want to continue in a business even if there was not another possibility to gain a loan;
- Savings are growing;
- Business generates an important income for the family;
- Improvement in an equipment of households and the living standard quality is obvious.

In a part where services were of MFI SFG evaluated, there is a great satisfaction of the provided loan system and its repayment:

- Clients want to continue in the participation and initiate other persons;
- The interest of the credit the majority of the clients consider as reasonable;
- The loan is quickly and easily accessible;
- To the clients it is lent an amount of money that is basically demanded.

Regarding to some deficiencies in MFIs, there was find out the following:

- With the duration of participation, women does not dedicate the business more time;
- With the duration of participation, there is none income from the women business;
- Business non-generate other working places;
- Women do not have an access to the commercial financial services even after 3 year period and participation in MFI SFG;
- When the client participated training in MFI SFG the knowledge of financing is not rising.

5.4.5 Characteristics of the clients and their business - MFI Santa Fé, Guanajuato

An average age of a samples was 42 years, having more than 3 children, when at least two are dependent on their parents. Majority of women were engaged and studied elementary schools. In case of men, majority were married men that studied particularly secondary schools. Clients have got business mainly in the sector of services (81%) and do the activities as selling the food in their private stores, selling the goods through the catalogues (shoes, textile, cosmetics), having own cosmetics salon, restaurants, or selling its agricultural products on the markets. Some of them work in an agriculture (15%), in this case it is almost about livestock farming: breeding of poultry, pigs, goats, cows. Sometimes they do work in a crop farming. In industry there is employed only 4% women. Women are in a job on average 6 hours daily in comparison to men who work approx. 9 hours per day. Some women work only a few days in a week. Majority of women are in a house, do domestic service, take care of children and work in a domestic farm.

Characteristic of the job of services is a regular money income than in industry or agriculture sector. Clients have to repay their loans in a week periods so that it is easier to pay for appropriate amount from the sale in a store rather in harvest (income basically 2x per year). It is a question if the manner of repayment system is not limited for the field-sector of business. In view of the fact that the income of the services is not so high. Moreover, local markets can be easily saturated. It would be much more favourable if women could process agricultural products where are the incomes higher. An average monthly income from the business is 3 825 pesos. A disappointment was fact that the income of women is not increasing considerably. Encouraging fact is that women continue in business for years. Concrete incomes can be influenced by many influences that might be out of the clients control. Every client has got its own limit in knowledge, market demand, time limited spectre and energy that is able to involve in. A few clients can exceed local level of economy in a region, where is low level of income and where is none infrastructure.

From the point of view of women emancipation, it is positive that its mainly about the clients who own business and decide about it. It was investigated if business generate other job opportunities in a business (apart from self-employment of women). In business work apart from women 23% husbands and 28% children. These „employees“ are not paid it is just about occasional assistance. The question sounded: What were the positive impacts in changes of their lifes? The answers were: sold new products, better selling place, increased quality of products. One of the most positive effects was a rise in savings (in a group, in private).

5.4.6 Real useless of the loan - MFI Santa Fé, Guanajuato

It was observed that the majority of women used microcredit for another purpose that was written in the request, for instance, business development – materials for the business or production capital. A huge percentage of women 73% used money for the straight consumption. This does not like the employees of MFI because this kind of investment is unprofitable so that the repayment of the loans is problematic. Clients might be on that socio-economic level that could have had ensured basic living elements as housing, food and clothing. This is basically explored before the first loan is gained and supported when the majority are women. Women are often faced with problems of their children.

To interpret why the client uses money other ways rather than in a way of investment, it is possible diversely. Funds help the client to get over the specific period, when there is a lack of money. Client cans a part of money to use as pressing expenditure and then money repays (client deals with the future income) that increase client's lifestyle certainty. However, it is

moral hazard of the client. The clients cheat MFIs - reason unsuitable spend money on than in the questionnaire. To deal with a group of people is not a victory. Almost 3/4 of clients use money for other purposes. It is small probability that the other members would report this fact to somebody when they do the same. Clients are in this hazard because there is none opportunity - consumable - loan or it is disadvantageous. A percentage of unpaid loans is low that indicates that eventhough the clients use money for its own consumption, it is still paid back.

The question is if microfinance is controlled and limited when using borrowed money. There exist many reasons why it should not be distinguished between the consumer credit and investment loan. In households, particularly agricultural ones, there is very often a link of consumption and producing activity. An example is a production of corn. It is cultivated for the market and used for family purpose as a food. A loan used for strengthening the floor can contribute for the higher productivity because there are eliminated other problems when the roof is clay - dust, water penetration etc. Consumer credit that is provided in a right time, can cover urgent needs of family without selling own productive factors (soil or animals) and to endangered future family income. When MFI controls final loan usage, it means enormous costs and it is rarely effective.

5.4.7 Evaluation of services of MFIs - MFI Santa Fé, Guanajuato

Every rural mexican women (rarely men) have got problems for gaining loans for its own businesses. Basically woman does not have required guaranty, she works in a house and her business activity is small. Approximately 17% of women have got a bank account in a commercial bank, and MFI SFG is the only financial institution that is using its services. More than 80% participants set up the businesses thanks to the microloans. Commercial banks in Mexico ignores the demands of small enterprisers and do not offer services for them, although it is very profitable. It is also about unsatisfactory awareness and communication between MFI and commercial banks. From the long-term point of view, the client of MFI could gain the level that is interesting for him and commercial banks. Inconvenient interest rate considers 55% of clients. It should be noted that MFI SFG enforce a right a new and different interest rate^{xi} in every cycle. In each cycle it is decreasing. In the first cycle there is the interest rate 6%

^{xi} Interest rate used by SFG is in a reality very high. For the beginners it is 72% per year, for the others it is about 30% per year. MFI has got higher running costs rather than commercial bank in most reasons (borrows small amounts, has none securing system, offers private assistance to every client weekly etc.). It is important to mention that the dispositions of the credit are much more important for them rather than the percentage of interest rate.

per month, in the second one 5.75% per month, and in the last one (usually eleventh) it is only 2.50% per month. Sometimes clients were personally asked what kind of changes would be implemented in the system of microfinance. On the first place, clients would like to invite higher amounts of credits, then longer periods of repayment and optional savings. In this case, there is evident conflict of interests of the clients (maximize its profits) and interest of MFIs (minimize its risks). Eventhough the MFI makes efforts to have its own credits the most accessible and to be much more convenient to all the clients needs, it is apparent that dissimilar business types have different requirements for repayments. The system is set in weekly repayments and the high credit is depended on the period in which the woman/man is in MFI participated (Mansell, 1995).

5.4.8 Social effects - MFI Santa Fé, Guanajuato

The objectives of Santa Fé de Guanajuato are predominantly social. It states that the clients are educated in the centre of communities through the regular programs taught by responsables of NGOs or the volunteers, eventhough the knowledge of clients is not noticeable. Nearly 1/2 of women are able to use calculator, 27% have other knowledge (accounting, computer abilities, internet abilities). During the participation there were none findings in knowledge and ability changes. The opposite site: clients who were in the system more than 3 years show lower knowledge and they are not able to use even calculator. Clients are interested in the forms of education related mainly to the topics: cooking, administration, health, encouragement of self-confidence, women's legal system. It reflects the problems in rural mexican households where women have problems with discrimination in families, where the physical and psychological violence occures, where health problems and insufficient self-confidence is striking.

Positive effects were demonstrated when there was changed job content of the participants (they are not just persons in household but also make a business) and their significance for the family (generate important income). At the beginning majority of families does not have own car and it is dependend on the transportation. This percentage is falling down during the period of participation. The families of participants ordinarily live in own house, their household is equiped by television, gas cooker, fridge and washing machine. In case of owning the washing machine there was the highest change. In the first year, there is only 65% who owns it, after three-year period there is 89% women. A percentage of families that owns a fridge is rising up from 76% to 87%. In its own house live firstly 74% families, after three-year period more than 90%. In the quality of living there were changes more evident. Houses of advanced participants

disposed of much more dormitories, have got concrete ceiling (not metal), sewerage system - toilet, lay concrete floor (not just clay) and own water system. In case of housing and fittings of household there is shown that the quality is important for them. Especially women invest profit and a part of borrowed money into improved quality building. It is one of the effects that is growing rapidly as if the business of participants is not improving so markedly.

5.4.9 Conclusion - MFI Santa Fé, Guanajuato

In the world there were a lot of studies related to the impact of microfinance to the clients. This research is still insufficient. The research alone is dealing with the questions, obstacles and limitations. The goal want to see the system of finance realistically and to evaluate real, measurable effects that has specific MFI. In some cases there is none positive impact into microfinance - economic or social one. Some groups stagnate, women business is not expanding even after many years of participation. Women are still demanding low credit amounts, business incomes are not increasing and there are none big changes in a mean of their business scale. The business of clients does not achieve dramatic growth, a great success is just own continuation of the system. For majority of women is the group of microcredits the only place where they could have contact except own family members. For women it is especially a change where they could gain financial sources and in a place not to be below the mens' dominance. In conclusion, microloans of MFI SFG are significant for the clients, assisting them very much. Majority of women does not have access to financial services rather than through MFI. A need of a credit is visible in high demand where it is existing. Nowadays economic trends of globalization and capital concentration is not possible to stop. Nevertheless the Poor have got the same laws as the Rich. A law of financial sources denied them for a long time. If today the proved system exists - how could be these services provided? It is crucial to be aplicated in the less developing countries.

6 Discussion

According to the Ledgerwood (2000) in comparison with the other countries, there are only limited studies or publications that provide the relevant information and knowledge about the microfinance in Mexico. Some of them has offered relevant information based on the studies in Mexico especially since 1990. Last decades the microfinance are termed as very much auspicious tool againts the poverty. The question might be if it is this optimism on the righ sight or if microfinance are a genuine model that might influence the world economy. Is it possible that in today's economy, liberalization and globalization microfinance will be a key tool towards improvements of households, regions and the whole states? According to the world statistics, today is the majority of the world capital under the control of the large companies. There is a big concentration on the capital. Retail businesses are only small branches of the gigants such as Carrefour, Tesco, Metro or the others. The position of the small entrepreneurs and small firms is marginal in the world economy, theirs market share is still decreasing. Certainly these small firms create job opportunities but there are basically low-income. This is the result of using primitive and costly technologies. Their contribution to the gross domestic product is minimal. Small stores and businesses can be spread in the limited space. Their success is depended on the goods redistribution from the big chains to the clients. One of the opportunities to have a small business - thanks to the microfinancial system - is that it saves time of the customer eventhough the prices are higher than in the supermarkets.

It is a question if providing of small microloans is a good strategy. It should be supported by the governments and the world organizations. Clients of microfinance would be still in clashes with the supranational organizations. They can not compete successfully. Generally, they claim that there is a place for everyone in the market. It is a good idea to give the opportunity to the Poor in the form as a microcredit. Present economic trend is not able to stop it. If there is a demand for the small credits and this successfully form exists, there is none reason not believe in the development of the microfinancial market. It is evident that providing microloans is not universal cure for the world poverty. All people have the same rights and financial sources could be one of the services that might be aplicated and spread out in the developing countries. In the world there was a summit in Washington D. C. in 1997. The outcome of it was the final statement: *“Microcredits are much more than the business. To have the access to the food and a possibility to have a loan is a human law.”* Another summit was held in New York in 1998. This summit endeavoured to do the critic microfinance reflection. The experts write a list of the points up: Food is the basic need, the loan is not. Not all poor people want and need the loan.

Some of them can not use it or they are not able to pay for it. The loan is important but there are some more tools useful and more effective. If there would be a human law to have the possibility of the loan, then there is no possibility to have it for everyone. There would be at least 22 miliard dollars to satisfy potential demand of the whole world. It would be only a part of the funds needed and sustained. If there would be the funds accumulated for the world microfinance in the developing countries, they might be used by better manners. Money would be used for the programs ensuring to the Poor the food, water or medicine. A lot of poor people look for the programs of small savings rather the microloans. Saving on the local level is very much significant for the poor savers because the possibilites in informal financial institutions offer safety of the investments or the investment profits but not both. There are often problems with the liquidity. Poor suffer from the lack of secure money placement so they basically pay for these services to the informal local institutions where is none profit from their investments, on the contrary, they pay for the costs.

Contemporary microfinance programs are small, non-regulated and non-controlled. The experience from microfinance shows that the institutional portfolio can rise gradually. It is done in case of the interest rate when it is so high and covers the costs and high-risks. It is needed to evaluate the realistic risk of unpaid loans according to the international accounting standards. A small percentage of microfinancial institutions follow these standards. Many of them have not solved the question of the ownership, unsatisfactory management, inconsistent managed accounting etc. Fast growing portfolio can be a risk for the majority of today's microfinancial institutions. The main problem is the high of interests. It might be on the level of long-term sustainability. The priority is set of progressively targets – to build up microfinancial institution, after quickly and safely expand its portfolio of microloans.

In Mexico, the perspective of microfinance is high. There are not exact numbers of clients and official evidence of collected empirical data. Nevertheless, informal sector has a strong position on the financial market. National Institute of Statistics and Geography (INEGI, 2013) in Mexico found out that informal economy contributed on average 26% of the GDP during the years 2002-2012. Retail trades that lack basic records, domestic services, forms of labour etc. are still connected with the formal economy. This Institute also found out that nearly 60% of inhabitants are participating in informal economy (formal economy generated 75% of GDP with about 40% employment). International Labour Organization estimated that about 47% of Latin America's non-agricultural employment is in the informal sector in Mexico. Economist David Lozano argues that informal employment in Mexico with its connection in migration processess,

decreased the problem of the unemployment there. Informal work is often done in streets, sometimes it is about small businesses and it is the only way how people are able to survive. It is about approx. 30 million Mexican who struggle for better livelihood in the informal economy. The problem is that these Mexicans do not take taxes to the government to support the whole social system and Mexican economy (TeleSur, 2014). Reforms of the Mexican president Pena Nieto does not make any sense to the workers. The idea was about taking taxes to the government (for at least 10 years) opposite to the offered social security, including public health care coverage, for the families. None effectiveness could be seen.

International financial assistance to the developing countries in the alleviation of the poverty requires structural reforms accepted by the governmental authorities. This leads to the liberalization of the domestic and foreign trade, to support inflow of foreign investments from the private entities (Izák, 2011). Pyle and Ward (2013) argue that any kind of restrictions are seen in social services where many donations and the assistance of the poor households are located and drawn from the women. The demands of women for microcredits do not have to mean loss in the households' budget – it is particularly about a microcredit to set up own business or for support any member from the family in education process. Universally, credits are provided to the women who have higher social effect because women have higher need to invest into living standard in the households rather than men (Pitt, Khandker, 1998). Sanyal (2009) refills that microfinance can have positive influence in the women position in the society, this credit can productively increase financial independence of women and also the income of the other family members. The commercialization of microfinance sector has in many regions declining tendency. The share of women debtors and suppress of social effectivity of MFIs is also evident. The interest of microfinance service providers does not only prefer women as the owners of the credits, it has declining tendency. In Latin America and the Caribbean it is decreasing (-1.6%), in Africa (-2.5%) ... in comparison to the states of the East & South Asia where the share of women is increasing in the microfinancial programs.

The quantity of women increases usually during the periods of economic development when the firms get rid of cheap labour force. If there is higher percentage of unemployed women or other poor, there is expected higher demand for microcredits that might be financing the loss in households or for establishing own small businesses. In this case it is also important the role and the stability of the market, sufficiency of work places for the women and for the poor altogether. Employment policy has close link to the agricultural sector that symbolizes for the poor in the developing countries the most important source of income (Srncic, 2012).

Agricultural production is very much dependent on the seasonal fluctuations and on the demand/offer of specified commodities on the local markets. Poor people do not have many opportunities to sell specified commodities on the regional level. If there is excess supply, the prices are pushed down. The effort of improved living standards of households has relation to the average life (Rahman *et. al.*, 2009). People are able to live more and it is much more possible to finance any kind of credit. Purchasing power parity is higher and the demand for the credits as well. This leads to the demand for the higher education levels to get better and qualified job – the volume of credits can be higher afterwards. Year-on-year change of GDP shows the velocity of economic development of the states. Present microfinance sector in Latin America and in the Caribbean has not the same level. It is given by the different economic environment therefore the economic level of development can be positively influenced by the total numbers of the poor implemented in (Vanroose, 2008). Many states have troubles with the relatively high numbers of low-income inhabitants. These families have many children and the risk of non-payments is high. Increasing number of core poor in the regions without any subsidies from the microfinancial sector can leads to MFIs about larger carefulness and preference of creditworthiness of the debtors.

In the last two decades of 20 century, the awareness about microfinance has gone up sharply. This was done in a cooperation of the subjects such are international organizations, microfinancial institutions, central banks, non-governmental organizations, charities etc. The main principles and practices were set up and are used all over the world. The awareness about microfinance rised on all levels, new institutions established, new training programs were realized, new internet websites started functioning. In some points the experts do not coincident. It is necessary to discuss about these controversial issues and try to find a solution. It is acceptable that in some cases there is not only one concrete solution, there are much more and every microfinancial institution has to find one's own.

6.1 Possible utilization of results of the thesis

This thesis provided valuable information about the microfinance situation and its activities across Mexico, particularly in selected Mexican states. It also included the MFIs and NGOs that have been contributing in increasing the living standard in Mexican environment. The main result was based on the identified determinants of income indicator of the Poor. The another were the additional. Local governments in chosen states could do a detailed survey of formal and informal credits because its impact in Mexico is quite huge and it has a great potential there. Then, the governments could be much more interested in the awareness about the microfinance issues and to propagate the ideas and its functioning more. Local governments could use gained information and cooperate with local authorities involved into credit distribution channels and to be responsible for it correctness and truthfulness. Formal and informal credits as well as the other services of MFIs or FINCA programs have to be seen clearly on the market, and could be offered to the Poor by the appropriate tools. The description of microfinancial services could be done and useful not even for the governments but also for the clients across the whole country because of its evident failure in formal credits that have low impact on the low-income social classes. To obtain a formal credit causes a lot of constraints that might be eliminated. It is often time-consuming and it is difficult to be a part of lending procedure. This situation has not been changed up to these days, the awareness about complicated lending procedures is one of the limiting factors on the way to access the credit. This could be warming and put into consideration. Undoubtedly, formal credits have got its procedures and precise regulations for everyone. Commercial banks even other microfinancial institutions should prepare these procedures more clear and more client-oriented (with the priority to the low social classes). Mexican government could cooperate more with the local governmentst on the base of gained data that might be also implemented to the other Mexican states. The research about existing microfinance services, its distribution and the awareness could be the priority. The reason is evident eventhough high percentage of people work in informal sector an in a shadow economy. FINCA programs and other functioning microfinancial institutions should improve their assistance in lending procedures and to provide relevant information mostly during the meetings or workshops with the members or potential clients. The extend of the thesis is not able to cover all data in Mexico and could be extended by further studies in order to compare the results of already collected data in examined areas. Following studies could be also more focused on the formal sector and the constraints in lending procedures – where is the administrative problem related to the poor, why are the interest rates universally so high, why is the number of obtained credits limited for one household, if there is a possibility to obtain a combination of formal and informal credit.

6.2 Limitations of the thesis

In some areas this thesis was limited by the officially restricted access to the villages especially in the state Chiapas (in the surroundings of Chiapa de Corzo). In Chiapas it was time-consuming procedure to comply with all requirements set by local autonomy in order to have a survey. The priority was to have access to the isolated mountain tribes near by the Canyon Sumidero. The access was partly solved by the acquainted corruption practices. As an exchange there was given a promise about trading with those tribes and their support for at least a year. This could be met due to our already established and functioning small jewellery company in Jablonec nad Nisou named IM Stones. These permits needed to be solved a few days before the entrance to the selected localities. Sometimes, these permits were insufficient and have to be filled in additional ones on the spot. These time-consuming permitting procedures led to limited access of respondents than it was expected so that the other parts or localities had to be visited and implemented as added structure of the province. All visits were done in presence of the author and in some cases there was a need of local authority. None translator was needed to be a part of it. If there was any misunderstanding, basically, the local authority or head of the community was participating. Some respondents were not able to answer questions that were sensitive for them. Maybe some questions were not clear and might be misunderstood. In some cases respondents moved or died exceptionally. Meetings were held on time, once it had to be cancelled due to the disease in the village. This was extraordinary situation that was solved later – change of the program. Lots of questions were related to the question „who is doing this research exactly“ although the whole process of it was explained to them at the beginning. Lots of people thought that it is a job done through the self-governments and people were looking for part of money or any other benefit.

7 Conclusion and Recommendations

Microfinance went through significant changes in the last decades in Mexico. Things have begun changing since 2005. The biggest transformation processes have started in semi-formal MFIs that have been changed into formal and licensed institutions to follow governmental regulations for current institutions, and its modified version was mixed with MFI. Formal requirements is difficult to comply with. Normally, semi-formal organizations including international NGOs are under the governmental control. The most significant change was done in case of FINCA (FINCA Mexico) that is nowadays a leading microfinance organization which received the „Smart certification for keeping clients first“ from the Smart Campaign^{xii} in Mexico in June 2016. It was recognized that FINCA Mexico has strong ethical standards on the protection and clients' care. It has joined with exclusive group of certified financial institutions worldwide. FINCA Mexico has been providing services for at least 27 years. The main focus is on the financial services such as village banking loan, individual loan or small group loan to increase income of the poor inhabitants. Low-income women are the main clientele in approximately 85%. Mexican government is partly focused on poverty limitation in implemented social policies contrary to rise in this issue. The following data are alarming – between 2012 and 2014 more than two milion Mexicans fell into poverty. It was about the increase in 0.7% up to 46.2% in poverty rate in 2014. CONEVAL considers the poverty for people who live no more than 2 542 MXN per month in urban areas and 1 615 MXN in rural areas. It also takes into account other factors such as, for instance, level of education and health care delivery. Extreme poverty is defined by 1 243 MXN in cities and 868 MXN in the countryside. The rising trend is in moving to the cities. In spite of this fact, the poverty in urban areas rose to more than 40% and decreased to about 61% in rural areas in 2014. Mexican state Chiapas still remains as the poorest state of all the Mexican states, state Oaxaca comes after (CONEVAL, 2005).

In conclusion, there are mentioned the following expected results and recommendations of the research being closely interconnected through the development and microfinance platform in Mexico. According to the temporary results and observations, it was shown that many NGOs are predominantly locally situated and thanks to the enthusiasm of volunteer experts who are

^{xii} It is a global initiative that certifies the adoption of high ethical standards of the clients in the microfinance industry. Certification is awarded to financial institutions who institutionalize the Smart Campaign's 7 protection principles of the clients – appropriate product design and delivery, transparency, prevention of over-indebtedness, privacy of client data, responsible pricing, fair and respectful treatment of clients, and mechanisms for complaint resolution.

open-minded, inquisitive, flexible and available those communities are flourishing. The support is distinguishable in their intercultural training, sharing of knowledge, opening windows, language improvement and in working experience. Community-based system provides support and encourages personal empowerment. The community system is based on social relationships, its identical goal and finally directed to the prosperity of the whole village or community. If it is not completed, community can not flourish and other credits will not be lent there. An involvement of the collaboration between government offices and micro-financial institutions is highly requested at all levels, and an involvement into these project's varieties as many people as possible to be interacted with it together, too. It will not be easy in the area of interest, even by the addressing them through the speeches in public, filling the questionnaires or asking. A communication with local people about the mission of micro-financial institutions seems not be satisfactory and confidential in the studied areas. If the awareness of the existing microfinancial loans and FINCA's services would be spreaded well, higher number of people could have a success and an opportunity to be self-sufficient. Propagation methods as leaflets for free, meetings free of charge or the access to permanent internet could partially solve this problem and many people could be interested in. A vicious circle of the poverty could be broken off and new generation could start up their living at the advanced level afterwards. Some clients know about these microfinance services and use them, other ones know these services but do not use them owing to the constraints or unaccountable fears.

On the basis of filled questionnaires and the observations in Mexico, financing of whatever programs will be higher than ordinary loans that can not be approved successfully. To increase the chances of these projects to be successful and sustainable, it is important to look for not failure sponsors; involve technical, environmental and social experts as advisors prior to investment approval; do not finance projects which are not supposed to be profitable; ensure enforceable legal agreements (loan agreement, shareholders' agreements); monitor and make sure that periodical reports are received (if not probably something is wrong) and finally regular visits of the client. One-time small microloans (from FINCA or other MFIs) are not sufficient for people to start up their own business from start where the costs are the highest – capital needed for the building of the store or restaurant including the fitting and other accessories. These small amounts of money are convenient in cases of expanding the business when there is only a need of seeds or materials. On the other side, repeated utilization of microloans is highly requested to increase the level of living standard of

the people in general. The households can flourish from the beginning to the end when there is basically the final output in the whole spread. The major contrast was seen in income categories where the most represented income category (71.5%) of clients was before using microfinance services that was also the lowest category at “less than 1300 MXN per month”, while the most represented income category (47.2%) of clients after using microfinance services was between 2501-3500 MXN per month. Only 37% of current MFI clients have a lower income than 2500 MXN per month compared to 94.6% of clients before using microfinance services within the same category. This objective has shown a major betterment in the financial situation of microfinance clients when they were using these services.

FINCA with its programs and spreading micro-banks significantly contributes to the poverty elimination worldwide. Its program started in the city surroundings and expanded in rural, semi-urban and urban communities. The mission continues and decentralizes its operations in different regions on the basis as the village bank. Due to the expansion of the capital, FINCA became a „microbank“ in order to mobilize savings for the clients. This caused and improved financial sector stability – greater independence of the programs from donor and government fundings and private investments. FINCA programs transformation into FINCA International microbanks still retains the majority ownership of this transformed institution eventhough it is non-profit organization. This is an ensurement that FINCA's mission could be stable and serve to the Poor with the financial ambitions given through the common commercial banks. To analyse the socio-economic situation of the households in selected areas is complicated and it is hard to measure it by whichever way. Definitively, microfinance have positive and long-term sustainability for the households in case of staying and the confidence into these services especially when are these services highly requested for the development of the business. Sometimes people struggle for solving problems by themselves and are not able to contact any MFI to assist them. The main suggestions of this thesis are, firstly, local and international NGOs could be more involved into microfinance, share the experience and assist more to the Poor. Secondly, FINCA and its program could be well-developed and spread in all Mexican states to be more successfull and people could be able to gain the awareness about this organization in remote areas, too. Thirdly, legal policy for microfinance is needed to be improved and to be simplified lending procedures for the Poor as well. Finally, Mexican government and Mexican autonomies could specify precisely the activities which common financial institutions offer, and could diversify the other commercial institutions and its activities. Then, the mission of poverty alleviation can be partly resolved.

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8 Appendix

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Microfinance in Mexico – a thesis study 2013-2015

OVERALL INFORMATION

Name of village	
Ethnic group	
Name of the farmer	

PART 1: Credit information

Q1: What is your income category before/after MFIs?

- a) <1300, b) 1301-2500, c) 2501-3500, d) 3501-4500, e) 4501-6000 f) >6000

Q2: Do you know/need any kind of credit for your business or living activities? a) Yes b) No

Q3: Did you borrow anytime money during last 3-year period? a) Yes b) No

Q4: If yes, how many times did you borrow money during last 3-year period?

Q5: Do you have any access to the credit? a) Yes b) No

Q6: If yes, who is borrowing money? a) head of the farm b) wife/husband c) adult children

Q7: How were you informed about the possibility of obtaining a credit?

Q8: Can you point out the main problems for obtaining a credit? a) b) c)

Q9: Credit scheme

Financial institution	Who lend you money?	Amount of credit in pesos	Monthly interest rate	Purpose
Bank				
MFI				
Governmental program				
Money lender				
Family member				
Friend				
Group				

Q10: What are the reasons for taking out the credit?

- a) repayment of other loans
- b) build or buy a house
- c) production capital
- d) special occasion – wedding, funeral
- e) general consumption
- f) materials for the business
- g) food before harvest time
- h) other.....

Q11: Are there any conditions to be able to obtain any credit or just to participate in any MFI?
.....

Q12: Do you have any collateral in the value of a loan? a) Yes b) No

Q13: What is an average length of your credit cycle?months/weeks

Q14: What is the percentage of your interest rate?%

Q15: Are the late repayments tolerated? a) Yes b) No

Q16: If you pay on time for a long period, is it possible to get higher credit amount next time?

- a) Yes, pesos more than in previous period
- b) No

Q17: Are there any sanctions for the delayed payment?

Q18: Are you satisfied with the services of the institutions as banks, MFIs etc.?

- a) Yes
- b) No, problems:

Q19: Have you got any factors according to you apply for the loan?

Q20: Do they offer you some additional services not only a loan/For what are used additional money?

Q21: Is your living standard improved after using a credit? a) Yes b) No

Q22: Is there any difference between the gross turnover before and after taking a loan from MFI?

Q23: Have you ever applied for a credit through the group lending?

- a) Yes (continue) b) No (continue to Q24)

Q24: Grouping scheme

Type of group	How many members is in a group?	How often is money collected?	How do you use and distribute money within a group?	Financial source of the capital	
				Capital of members	Capital of MFI

Q25: Constraints in the group

Problem	Yes	No
Is there any pressure in your group collecting and repaying money in time?		
Is there any problem of the stolen money within the community?		
Is there any manipulation of your group leader in case of community activities?		
Is there any other misunderstanding within the group members?		

Q26: What is your experience of the financial institutions? a) Positive b) Negative c) Neutral

Q27: Would you recommend the microfinance services to anyone? a) Yes b) No, why

PART 2: Savings information

Q1: Have you got any savings? a) Yes b) No

Q2: How do you save money? a) Individually b) Collectively

Q3: What is the frequency of your savings system?

- a) weekly
- b) monthly
- c) quaterly
- d) yearly
- e) other

Q4: What is the reason for saving money?

Q5: Were you taught how to save money? a) Yes b) No

Q6: Are you able to save money when you receive a loan from MFI?

Q7: How much money do you save? How high percentage is it from your account?

Q8: What is the minimum deposit in your bank to save money if any?pesos

Q9: What is the monthly interest rate in your bank account?%

Q10: What is you preferable type of savings?

Thank you very much for your time and cooperation. All data will be used in the thesis not for other purpose or given to other persons.

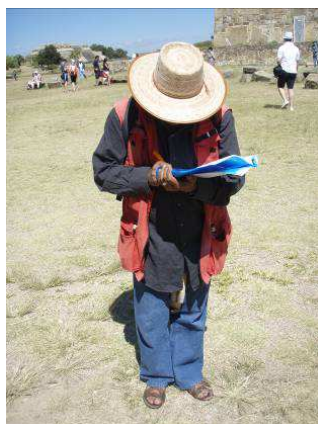
Name of the interviewer:

Date:

Questionnaire survey in Mexico 2013-2015



Oaxaca, Monte Albán





Guanajuato, Santa Fé





Chiapas, San Juan de Chamula, Chiapa de Corzo



FINCA International Consolidated Statement of Activities, 2014

	Total 2014	Total 2013
OPERATING REVENUES		
Contributions:		
Corporate, Foundation and Corporate giving	\$15 039 698	\$12 993 001
Services and gift in kind	\$4 116 700	\$2 848 012
Program:		
Interest income	\$368 723 713	\$307 025 050
Grants and contracts, incl. federal government	\$11 474 625	\$15 593 236
Fees and other program income	\$14 395 528	\$17 339 952
Total operating revenues	\$413 750 264	\$355 799 251
OPERATING EXPENSES		
Program services	\$378 920 473	\$313 051 586
Fundraising	\$3 622 825	\$3 815 725
General and administrative	\$12 163 580	\$15 008 823
Total operating expense	\$394 706 878	\$331 876 134
INCOME TAX EXPENSE	\$9 160 312	\$9 100 297
CHANGE IN NET ASSETS BEFORE NON-OPERATING ITEMS	\$9 883 074	\$14 822 820
INVESTMENT AND FOREIGN EXCHANGE GAIN (LOSS)	\$23 647	\$26 701
ISSUE OF FHM INTEREST TO NON-CONTROLLING SHAREHOLDERS	\$1 700 489	\$49 999 511
NET ASSETS (beginning of the year)	\$309 053 936	\$245 857 891
NET ASSETS – end of the year	\$297 414 510	\$309 053 936

Source: FINCA, Annual Report 2014.

FINCA International Consolidated Statement of Financial Position, 2014

	Total 2014	Total 2013
ASSETS		
Cash and cash equivalents	\$149 154 910	\$155 060 628
Restricted cash and cash equivalents	\$23 856 725	\$25 054 057
Short-term investments	\$34 451 845	\$8 261 193
Loans receivable – NET	\$949 333 168	\$828 793 935
Grants receivable – NET	\$3 009 507	\$3 817 764
Other receivables, prepaids and other assets	\$23 792 506	\$16 127 756
Property and equipment – NET	\$33 508 041	\$29 135 224
Intangible assets – NET	\$12 962 360	\$14 961 450
Long-term investments and other assets	\$10 664 015	\$14 250 454
Goodwill	\$1 108 117	\$1 108 117
Deferred tax assets	\$9 713 658	\$8 081 528
Total	\$1 251 644 852	\$1 104 652 106
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable + accrued liabilities	\$37 993 546	\$36 232 443
Client deposits	\$130 213 635	\$78 354 279
Bank deposits	\$2 642 270	-
Notes payable	\$740 825 686	\$644 350 196
Subordinated debt	\$23 646 518	\$22 558 246
Other liabilities	\$2 346 959	\$1 650 749
Deferred revenue	\$10 615 425	\$7 702 074
Deferred benefits	\$4 618 476	\$3 504 764
Deferred tax liabilities	\$1 327 827	\$1 245 419
Total liabilities	\$954 230 342	\$795 598 170
NET ASSETS:		

Unrestricted net assets – FINCA	\$176 541 365	\$183 396 344
Unrestricted net assets, non-controlling interest	\$119 559 445	\$123 796 630
Total unrestricted net assets	\$296 100 810	\$307 192 974
Temporary restricted net assets	\$1 313 700	\$1 860 962
Total net assets	\$297 414 510	\$309 053 936
TOTAL	\$1 251 644 852	\$1 104 652 106

Source: FINCA, Annual Report 2014.