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INTERNATIONAL EXPERIENCE OF MICROCREDIT

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The authors analyze international experience of microcredit development and made appropriate conclusions about the advantages and disadvantages of microcredit organization. Microcredit organizations are self-sufficient and stable institutions which are regulated by bank and state legislation.

Keywords: microcredit development; Kazakhstan; finance; legislation.

The history of microcredit development started from the first half of the 19th century, when the credit funds and unions appeared in Europe. Such organization led to the fact that finance institutions based on private contributions are more flexible and resilient than state funded organizations and donors. However, in this situation when microfinance service is maintained by low income families that is why businessmen can not count on large scale donations or state investment during the start up phase of the program. A much more important issue is the self-sufficiency and financial stability of microcredit institutes which began their activity and give opportunity to future finance. Comparative analysis of common law, which governs microfinance activity in foreign countries, would be useful for providing a framework. The system of law for financial activity can be demonstrated and structured this way:

- qualification of standards which allow the activity on the financial markets;
- rules of diligence, accountability and oversight;
- operating rules;
- standards for organizational activity;
- standards for the protection of borrowers.

In legislation in most countries microfinance activity is not allowed specifically and is regulated by the common standards of bank legislation. The main function of bank legislation is to provide financial stability that is the reason for requirements for capital, political norms and reporting rules. In some countries (Bolivia, Indonesia, USA) although general regulations of banking laws are maintained,

incentive mechanisms are widely used due to spreading bank services in microfinance markets. A similar model is widely used in Kazakhstan within the confines of the microcredit program of the European Bank for Reconstruction and Development, which is implemented through commercial banks.

In this case the resources of the EBRD, submitted by banks on preferential terms motivate expansion in the microfinance sector. The measures stimulating banks to develop microfinance services are reported in recent presidential edicts in Kazakhstan. In contrast to the official banking legislation, in Bangladesh a special institute was established and authorized to monitor microcredit operations. Therefore, state monopoly was formed in the microfinance sphere. A policy of special status for non-banking organizations is practiced in Poland and Hungary. But due to the fact that the microfinance market is presented by other agents it did not lead to the monopolization of the institutions that received government patronage. An example of this is the network of state and local government funds for supporting small business in Russia, which are allowed to get a credit without a license from a central bank. Nevertheless, microfinance fund structure has not been adequately extended so in this instance it is assumed to be a formality.

In most developing countries microfinance institutions do not pay much attention to official rules of banking legislation and advance as nonprofit, charitable or private organizations such as Credit Unions (UMOA) and organizations in Morocco and Nepal. Also which are owned and managed by local communities (Ethiopia) can be added to the list. Gambia, Peru and Uganda have developed a liberal approach to the regulation of microfinance, providing tightening of the coverage expansion of operations. If we look at the long term prospects associated with the credit portfolio of savings and investments, the most viable models of integration are models of top banks, or in contrast, consistent legislation from bottom up. Moreover, all methods which have been mentioned above are quite sustainable and it depends on what types of markets and stage of development they are applied to.

For example, approaches, stimulating the spread of microcredit bank services, which have big capital stocks, will be worthwhile in liquid markets with a stable and well functioning financial sector and reliable income rates. This tendency in Kazakhstan arises in the sphere where the banks have surplus assets and begin to infiltrate into the microfinance sector. On the other hand, in poor countries where perhaps banks and other finance institutions don't even exist, microfinance service is characterized by a high degree of risk. It drives the operation of such institutions in the informal unstable sector without official registration and government support. It should be noted that in many countries affected by the banking crisis many official finance institutions are trying to avoid additional overextending themselves (treatment to be quite interested in extending own service). In contrast, the majority of liberal approaches that recognize informal financial institutions and determine the successive phases of growth, consolidation, validation and consistent application of the law regulation and supervision of microfinance will confirm the objectives of consistent development of microfinance service and guarantees for stable depositors and outside investors.

Simultaneously, this approach establishes flexible and natural conditions of microfinance legalization using the minimum requirements for the amount of authorized capital and simple formalities at the initial stages. Due to the potentially erratic quality index of the loan portfolio, microfinance institutions have to use cautious rules. For example, the Loan Association of Gambia has established a requirement on reserves in its accounts from 15 to 40% of deposits and limited the terms of credit provision to 6 months and the maximum loan amount as double the sum of savings offered by borrowers. The precautionary measure can be a percentage of its own funds. For instance, in Ghana 52

% of the credit portfolio is covered by its own facilities for problematic rural banks. An ideal model for it could be presented as a scale of limitations which becomes wider reaching 52% in liberal markets and narrowing to 10-15% for stable organizations.

Gradual easing of conditions for covering the capital with its own funds will stimulate microfinance institutions to develop their operations and to achieve the rate of payback. If organizations comply with the highest figure, there is a basis to afford a right to engage savings, conduct financial calculations, publicly place their own securities and to obtain loans from commercial banks to fill the portfolio of microloans. A similar system exists in Gambia. Due to an undiversified portfolio of microloans and the risk of rapid deterioration of its indexes, microfinance institutes have to comply sufficiently a regime imposed by the supervisory authorities. For example, in Peru microfinance institutions are required to submit daily cash reports as well as weekly and monthly financial statements. The maintenance of regular reporting is a necessary condition to obtain objective and full information, which is used for current management. The main object of regulation in the sphere of microcredit is (to stabilize) interest rates.

The legislation in Ethiopia strictly regulates limitations in interest rates, while the Moroccan legislation instructs the central banks to set limits on them. In Bangladesh there is a range of forms of rate regulations for different sectors. In comparison, the approach adopted in Gambia, which recommends linking interest rates with official priorities of fiscal policy is loyal. In many countries the rate of interest is limited to the level applied in the field of criminal law. In the United States of America such rates on loans granted by the government agencies are connected with lower rates of commercial credit. The formation of a legal system in most countries, especially in Kazakhstan, is based on a hierarchical principle. In fact, basic rules, rights and duties are defined by law. Moreover they are not variable by adding amendments and repealing laws. In the future, norms of state law may be detailed by the regulations of local authorities and supervisory agencies.

Legal acts, related to this level contravene state law and infringe rights, however they are flexible and they may be modified from time to time with changes, depending on the situation. They are also mandatory due to control by authorized supervisors. In the microfinance sphere, a combination of law and norms is inevitable. Despite its success and achievements, the Kazakhstan microfinance industry faces great challenges to develop this sector and support small business. Turning to the international experience, the size of the non-banking sphere is quite impressive. The share of non-banking loan portfolios in the total loan portfolio in Sweden is 40%, in the USA it is 25%. In Japan-7%. As for Kazakhstan, this figure is approximately 1%. According to UNDP, the demand for microfinance services, especially in rural areas, is large enough-about 800 million U.S. dollars. Today among all MCOs in Kazakhstan only 45 % of them are active. The reasons for this situation are connected with problems in the microfinance sector. Taking into account capitalization information management, human resources and legal affairs the most important issues are limited and insufficient resources.