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International Experience and Enlightenment of Microcredit Pattern

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Abstract

The success of microcredit within the international range depends on the use of the group credit, dynamic incentive, regular payment, Center meeting system, guarantee substitute and many other kinds of technologies to solve the problems effectively in the process of loan which are difficult to enforce, not easy to supervise. According to the different economic backgrounds, we should draw into and create new loan mechanisms and technologies.

Key words: Microcredit; Pattern; International experience

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1. INTERNATIONAL MICROCREDIT PATTERN

Microcredit is the service which provides small amount and continuous loans especially for peasants and small enterprises. The reason of microcredit's success in some counties is the innovation of microcredit technology, which not only provides the reimbursement system

arrangement of relaxed mortgage guarantee constraints and the way of relieving information asymmetry, but also offers the technology to reduce transaction costs. Therefore, it reduces the threshold which the low-income class enters into the loan market.

Successful microcredit institutions from an international perspective use the following loan technologies respectively or jointly.

1.1 Group Credit

Group credit is one of the most influential microcredit technologies in the world, even becomes synonym of microcredit. The basic model is to require the similar socio-economic status of the borrowers in the same community to form a group, and group members guarantee each other. Only the borrowers who provide such guarantee can get loans. Other group members have to replace him to fulfill the repayment obligations if one of the group members in the event of defaults, or all group members will not be able to continue to obtain loans from banks, while borrowers who default will face tremendous social pressure from other group members.

A high quality team of the borrower is the main and most basic condition to bring group loans into play and guard against microfinance risk. We must get rid of all extraneous interference factors, let the borrower voluntary combine completely when forming the borrower group, so that the borrower can find their most trusted people and form the group. In addition, group loans must have a certain system security, which should be conformed in ascertain contract form of legal basis.

1.2 Dynamic Incentive

Another mechanism in lending mechanisms of Microcredit system to ensure high repayment rate is dynamic incentive. Recent theoretical studies have shown that dynamic incentive is even more important than Group credit system. Relevant studies have divided the dynamic incentives Mechanisms into two categories:

First, a simple repeated game is that the borrower can repeatedly get the same loan services if he performs well in the loan repayment process, or the likelihood the he get the loan again will decrease if the borrower defaults or fails to repay the loan, and he even can't borrow any loan for all his life. Second, a borrower can follow-up to get a higher amount of loan if his repayment performs well based on the first category, this method is called the loan amount's progressive system. Dynamic incentive tries to use a smaller amount of loan to discover the level of the borrower's true credit which can be used to solve the problems of asymmetric information and moral hazard.

1.3 Regular Repayment System

Regular repayment system, the microfinance organizations which use this model regard the poor families as the target mostly. The risk of providing loans to this kind of families is large, but instalment repayment system is just to reduce the risk.

Due repayment is the innovation of traditional bank loans' repayment system, it usually requires the borrowers to pay back soon after one week (or biweekly, monthly), each time repayment amount is confirmed based on the sum of all loan principal and interest divided by the total number of times. There are three main aspects for installments system's role in the microcredit field: Firstly, credit risk can be controlled through the customers' requirements of cash flow. As it requires borrowers to repay the loans a few weeks later after the start of the loans, its essence is to require borrowers must have some form of assets or income. While in the theory customers can use the income generated by the projects for repayment, but in fact very few projects can generate periodical income in the short term. Therefore, customers must have other income which can be used for repayment, in essence, the system requires customers to use other assets or income to guarantee the loan. Second, the "early warning" function. Since borrowers need to pay back quickly at high frequency which is relatively beyond the borrowers' demand, microcredit institutions can judge the credit risk from borrowers' repayment conditions at a time, early detection of high risk loans can avoid credit risk exposing all at once at the end of time. Third, it helps to reduce management costs. As for microcredit institutions, microcredit operation is simple, and can concentrate on managing a large number of the borrowers' repayments which is good for improving efficiency and reducing management costs.

1.4 Center Meeting System

Center meeting system is considered as one of the core contents of Bangladesh rural bank microfinance mode. Its functions contain: (1) It is the form that the borrower can participate in the loan business. Microfinance stresses that the borrower exerts initiatively, it emphasizes the borrower to participate in the loan process, governs themselves

compared with simple lending relationship of the formal financial system. (2) Center meeting is the place of borrowing and repayment, make all loans take place in the very public occasion, in order to improve the transparency. The system can avoid microfinance deviating fixed policy and violating loan discipline. Traditional lending policies emphasize secrecy, while microfinance emphasizes the opposite-openness. In other words, Center meeting system is the system which can strengthen supervision of the borrower's loan work. (3) The center meeting is also such a place where the borrower know their respective funds service condition, supervise each other. It is one of the conditions of the joint guarantee group.

1.5 Guarantee Substitute

As the result of the characteristics of microcredit clients, microcredit institutions usually would rather set a variety of mortgage substitute arrangements than require the borrowers to provide traditional collateral. Such arrangements include "forced savings", "group co-fund" and so on. The arrangements of "Forced savings" and "group co-fund" are quite similar, and usually exist in the field of group credit. In this way, the microcredit institution require the borrower (or borrower group) store part of the loan principal in microcredit institution as the borrower's savings or funds. Once the borrower (or borrower group) appears the event of default, microfinance institutions will use these funds as a source of repayment. This arrangement essentially requires the borrower to provide a certain percentage of funds as collateral, and this part of the funds also plays a role of insurance to the risks which caused by individual borrowers' mismanagement.

In spite of the historical and social background, microcredit technology, in practice, reflects a number of unique personalities in different countries. In general, the general experience as microcredit system of many successful international practices is reflected, but focuses on different reliance.

2. THE MAIN EXPERIENCE AND ENLIGHTENMENT OF INTERNATIONAL MICROCREDIT

An important reason of the success of microcredit is that Microcredit effectively solves the problem which is difficult to implement and monitor in lending process by using group credit, dynamic incentives, regular repayments, center meeting system, guarantee loans and other alternative technologies separately or jointly. According to this general principle, however, a variety of mechanism designs display their talents in different systems. Thus, we must not only follow the general principle of microcredit, but also draw into and create new loan mechanisms and technologies on the basis of economic and social background.

2.1 Making Dynamic Incentive Mechanisms in Broader Content

The content of dynamic incentive is not limited to loan account, the customer's payment status, customer credit, interest rate and duration of benefits and convenience of all loans can also be used as incentive content. Annual assessment, dynamic management, adjusting the customer's credit rating and credit lines can be used for the implementation of creditworthiness and credit lines of customers, it is also called the progressive system of credit lines. In addition, a flexible interest rate mechanism can be designed, special preferential interest rates can be given to the farmers who have high credit grades.

2.2 Making a Scientific Mechanism for Loan Repayment

Although periodic payment plan for microfinance institutions screens out the undisciplined borrowers, and warns the potential problems that the borrowers and Group members may appear early, as well as improves the security of its assets. However, it's not suitable to highly seasonal industry like farming. Therefore, the determinant of the scientific and reasonable repayment plan is the key factor to ensure the loans withdraw timely, control credit risk and the quality of farmers' microcredit service. So microfinance institutions must be in-depth, comprehensive understanding farmers' conditions in production and credit status when they validate the farmers' microcredit amount and determine the repayment plan, the microcredit amount and time interval of repayment should be reasonable and appropriate.

2.3 The Establishment of Guarantees and Collateral Mechanism about Microcredit

Such a mechanism should find another way to break the mortgage loans mechanism which the real estate mortgage loans are the core., such as the establishment of policy guarantee system, leading company guarantee model, the joint guarantee mechanism, the foundation of arrived (pledged) guarantees for medium-sized farm machinery,

agricultural products and the bulk of personal property and other eligible, and the foundation of collateral for the land property rights, forest rights, mining rights, the right to use waters and so on.

2.4 Bring Government's Drive Effect into Play

The government can play an important role in promoting the development of microfinance. The role of government is reflected in creating stable macroeconomic environment, policy, etc. Microfinance not only needs a stable economic environment, but also needs a flexible economic policy, especially interest rate policy, one of the important prerequisites of microfinance survival and development is that microfinance institutions have a certain interest rate autonomy. The government also can give microfinance positive influence and help in country road construction, market and other infrastructure. Meanwhile, Government money plays a pivotal role as an important microfinance source of capital. Training management personnel, establish information management system are also the important fields the government plays role in.

2.5 Understanding and Using Social Capital Fully

Social capital is the basic factor for the survival of human society, and many technologies of microcredit are dependent on the constraints of social capital. The role of social capital is even decisive in microcredit system if the social capital only plays a complementary role in transaction of traditional bank loans. Therefore, only if the microcredit must be docked fully, it can reduce risk and management costs effectively.

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