Informal Sources of Credit

Type	Features	Advantages	Disadvantages
Rotating Savings and Credit Association (ROSCA)	▪ Unregistered ▪ Time -bound ▪ Members deposit fixed amount each period ▪ Each period, one member receives all funds ▪ Rotates until everyone has received funds ▪ No external funding	▪ Works well in remote rural communities ▪ Well-known in many countries ▪ Simple, easy to manage system ▪ No written records ▪ Enable people to obtain usefully large sums	▪ Amounts saved are generally small ▪ Inflexible: can't deposit or withdraw funds as needed, so generally not available for emergencies ▪ No lending ▪ Savings tied up until member's turn to collect
Accumulating Savings and Credit Association (ASCA)	▪ Unregistered ▪ Time -bound ▪ Usually a fixed amt. deposited each period ▪ Funds lent to members with interest ▪ No external funding	▪ Same advantages as for ROSCAs ▪ More flexibility than ROSCAs ▪ for people who want loans ▪ Members receive a return on their investment	▪ Amounts saved are small ▪ Loans generally not suitable for agriculture or large investments, due to small loan size and risk ▪ Savings tied up for the cycle
Moneylender	▪ Fast, easy access ▪ High interest rates ▪ No external funding	▪ Available everywhere ▪ Simple and accessible ▪ Loans usually available when people need them (may be liquidity constraints during certain seasons)	▪ Interest rates generally too high for investment in business ▪ Those living in poverty can end up in debt trap and lose critical livelihood assets, such as land

Formal Sources of Credit

Type	Features	Advantages	Disadvantages
Private commercial bank	▪ Usually has corporate shareholding structure ▪ Regulated and supervised	▪ Able to offer clients a wide variety of financial services, including savings, credit, insurance and payments	▪ Usually not interested in serving low-income people ▪ Even if interested, difficult to re- orient staff and systems for service provision to those living in poverty
State-owned bank	▪ May be commercial bank, agricultural bank or development bank ▪ Regulated and supervised	▪ May have large branch network, including secondary towns not served by private Bank	▪ Often not profitable so must be heavily subsidized to stay in business ▪ Usually has greater outreach than commercial banks but often does not serve those living in poverty
Microfinance bank	▪ Usually has corporate shareholding structure ▪ Principal clientele: small and micro - enterprises ▪ Often has been transformed from NGO structure ▪ Regulated and supervised	▪ Has "double bottom line"; i.e. profitability and services to lower-income clients ▪ May be able to offer the full range of services to clients	▪ Not diversified, thus potentially more risky than a commercial bank serving a wide range of customers
Non-bank financial institution	▪ Includes many different types of organizations; e.g. finance companies, leasing companies and MFIs that have transformed from NGO structure but not become full-fledged banks ▪ Often regulated and supervised	▪ Finance and leasing companies: focused on a small set of specialized products that may not be available from banks ▪ MFIs: focused on provision of services to people who cannot get bank access ▪ Minimum capital requirement lower than for banks	▪ Usually not allowed to offer a full range of services, including savings ▪ Not diversified, thus potentially more risky than an entity serving a wide range of customers with a diverse set of products and services

Semi-Formal Sources of Credit

Type	Features	Advantages	Disadvantages
Multi-purpose cooperative	▪ Often set up with govt. support ▪ Main activity may be input supply or marketing ▪ Often supervised through govt. ministry or department that lacks financial supervision skills ▪ Sometimes federated	▪ Member-owned ▪ Multiple services under one roof	▪ Governments have often used cooperatives for their own purposes, leading to low sense of ownership by members ▪ Tend to have input supply and marketing expertise rather than financial expertise ▪ Systems may not be adequate for accountability/transparency ▪ Supervision often weak
Financial cooperative, including credit unions	▪ Member-owned: usually one man, one vote ▪ May be closed bond (e.g. all members have same employer or profession) or open bond (open to all) ▪ Primary focus is on financial services ▪ Often supervised through govt. ministry or department ▪ Sometimes federated	▪ Member-owned and savings based structure can lead to strong sense of ownership, which creates incentives for strong management and internal controls ▪ Federated structure could provide access to services that primary cooperative can't afford such as technical assistance and external audit	▪ External finance may lead to borrower domination ▪ Supervision often weak ▪ Board and managers often lack necessary skills, especially financial skills ▪ Systems may not be adequate for accountability/transparency ▪ Financial cooperatives in many countries have been used as channel for subsidized services to clientele favoured by govt.
Includes variety of village based entities with names such as "village bank" and "self-help	▪ Member-based ▪ Village-based ▪ May not be registered ▪ Small savings collected and Intermediated	▪ Savings sometimes leverage external funding (banks, MFIs), enabling larger loans	▪ Savings cannot be withdrawn unless member leaves SHG ▪ May be difficult to achieve bank linkage without support from government

group"			
Microfinance NGO	▪ May be established by local or foreign organization ▪ Usually registered as a not-for profit society or trust ▪ Principal product is credit	▪ Specialization makes it easier to operate a business aimed at long-term sustainability	▪ Usually not allowed to offer savings services other than "forced" savings ▪ Difficult to finance growth as it has little access to commercial refinance and no shareholder capital