



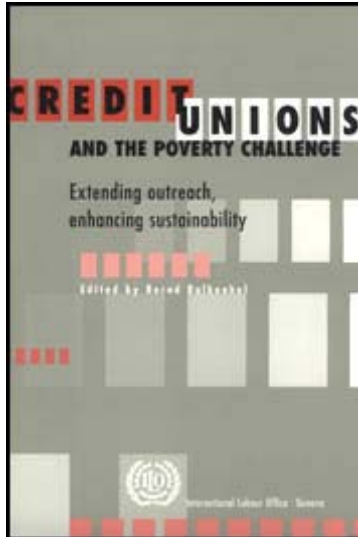
Search

Subjects

Titles A-Z

Organizations

Topics



Expand Document or Chapter

Show full Table of Contents

Duplicate page in new window

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Credit Unions and the Poverty Challenge - Extending Outreach, Enhancing Sustainability (ILO; 1999; 162 pages)



Foreword



Acknowledgements



Acronyms



Exchange rates



Glossary



1. Introduction: Background and issues



2. On the theory of credit unions



3. Using credit unions as on-lending agents for external lines of credit: The experience of the international credit union movement



4. Using credit unions as conduits for micro-enterprise lending: Latin American insights



5. Credit unions as on-lending agents in the Dominican Republic



6. Credit unions as channels for microcredit lines: The Philippine case



7. The performance of the Lesotho credit union movement: Internal financing and external capital inflow



I. Introduction



II. Methodology



III. The macroeconomic environment



IV. Financial institutions



The formal financial sector

**The informal financial sector**

V. Performance of the credit union movement, 1985-91



VI. Projects channelled through the credit union movement



VII. External capital inflow and performance



VIII. Internal financing and performance



IX. Conclusions



Notes



Bibliography



8. Conclusions



Other ILO publications



Back Cover

The informal financial sector

For rural people in Lesotho, the main vehicle for storing and accumulating savings has been livestock. Gardiner and Carvalho (1990) found that in the period from 1985-86 to 1988-89 the sale of livestock products had a positive real rate of

return, and that prices of livestock also stayed ahead of inflation. With the monetization of the economy, moneylending among family and friends became more widespread. Usually, no collateral and no interest were asked, repayment terms were flexible, and the practice was based on reciprocity.

Nowadays, many people participate in different types of rotating savings and credit associations (ROSCAs), known as Setokofeles or Christmas Savings Club. Members contribute a certain amount of money each month, and every month the money collected is lent out to one or more members against a high interest rate (10 to 20 per cent per month). Since access to formal finance is difficult, the demand for this kind of loan is high. The loans have to be paid back before the end of the year, and in this way the total fund grows. At the end of the year, just before the expensive Christmas holidays, the total fund is divided among the members.

A third source of informal finance is moneylenders. Individuals or groups of individuals with a regular income or a certain saved capital lend out small amounts to people in need, with a profit-making objective. Although no study has been done on the practices of moneylenders in Lesotho, it is widely known that lending is character-based, and interest rates charged are high.

A fourth source of informal finance are burial societies or Mpate Sheleng. Burial expenses in Lesotho are high, and it is generally assumed that each of the 8,000 villages in Lesotho has at least one burial society. Some of these burial societies are involved with lending out the funds that they accumulate from the premiums.



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