

COMMUNITY BANKS AND THEIR EFFECT ON THE RURAL MICRO-ENTERPRISES FROM THE ANCASH AREA IN PERU

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Abstract

Community banks methodology is an assistance more highly used in Latin American countries. Methodologically, it's an applied and correlational research, non-experimental and non-cross-sectional type. In Peru, rural areas in Ancash have a population of 2,547 customers, through random sampling 324 micro entrepreneurs were surveyed as of the second credit, the questionnaires were submitted to a content validity test based on experts' judgments and reliability with 0.85 of Cronbach alpha coefficient. Community banks have a direct and significant relation with the growing of micro-enterprises in the rural areas in Ancash according to Spearman correlation coefficient of 0.87 and a p-value of 0.00*.

Keywords: micro credit, growing strategy, microfinances, micro-entrepreneurs, rural economy, rural businesses.

1 INTRODUCTION

In Peru, Ancash region is located at west side of the country, with 1 million 99 thousand 734 inhabitants is the tenth most populated region, it's the sixth economy in Peru due to contributing to the gross national product (GNP) in 3,5%, its borders on the north with La Libertad, on the north with Lima region, on the east with Huánuco region, and on the west with Pacific Ocean, the study area counts with approximately a population of 10,900 inhabitants, located at an average altitude of 2,688 meters over sea level, includes Caraz, Yungay, Carhuaz and Huaraz provinces.

Nurake (1953) established a paradigm that expresses that the poor ones cannot get out of their situation, because their total amount of incomes are allocated to support their basic needs, which hinders them from saving and it is hard trying to invest in a business that allows them to generate incomes, but, according to Hamad & Fernald (2015) there are experiences of community banks in women whose findings contribute to their being able to taking better financial decisions if money is managed by a women, which improves women position in society.

Community banks, became present in India thanks to Muhammad Yunnus, who had the great idea of

founding the Grameen Bank (Rural Bank) specifically aimed to humble women that organized themselves in 5 to be able to access a small credit. (FINCA, 2019) the original model of community bank has been adapted according to the particular needs and the environment of the territory they are going to serve at. Despite this, the methodology's nature of community banks remains in its core base, which consists on providing financial services to the poorest ones through establishing people's associations, formed to ease access to credit to each of their members and encourage them in saving culture. (Siccha, 2017). In fact, looking beyond population financial inclusion, community banks deal with society needs, especially for the most vulnerable sectors when they correctly handle the self-management and empowerment as a base to move ahead towards another way of relating to economic, politic and social fields (Peñañiel y Valle, 2018).

Lacalle (2008) mentions that community banks are a way to increase the little access to financing, it is created as a proposal to overcome the restrictions of a formal financing system for thousands of families that have a business, the essence is that everyone can have access to economic resources in better conditions, according to Duran (2010) in Africa through community banks programs access to financing has been promoted through community banks to women in the region, obtaining positive outcomes for the beneficiaries.

In the rural area of Ancash, Mibanco and Caja Municipal del Santa participate, both offer individual credits, so, Compartamos Financiera is the only one offering the microcredit product known as communal banking and exclusively aimed to micro entrepreneurs women whose economic activities are business and service (SBS, 2019). Compartamos Financiera seeks to create an economic, social and human value through its community banks product, being the most representative intermediary of microfinances in Peru, and with more than 20 years of permanence in the market, its objective is generating better opportunities for women and the growing of their micro-enterprises providing access to financing services in accessibility conditions (Torre, Sainz, Sanfilippo & Lopez, 2012)

The microcredits amounts are initially assigned between 200 USD up to 285 USD to each community bank member; it has duration of four months with a frequency of biweekly payment and with an interest rate divided in three models: bronze (136.85 %), silver (125.22%), gold (101.22%). Biweekly payments are not well seen by the customers because it is hard for them to get the installments on so little time since the economic activities of some of them do not provide incomes as frequently as for example the customers who work in agriculture and livestock. Likewise, community banks provide benefits such as: a) Financing education, which consists in providing informational talks about how to keep their business growing, through aspects like profitability, budgets, savings and expenses control. b) Payment protection insurance that cancels microcredit's debt in case of client's decease along to a previous evaluation of community bank's performance. c) Customized assistance providing timely information required by the clients. d) Ease access credit since this is a reliable credit and with minimum requirements like utilities receipt (water or electricity) and copy of National Identity Document (Siccha, 2017).

Community banks instill saving habits in their customers, establishing two savings types: initial saving (10% of the requested amount) by mandatory basis and biweekly savings (of 3.5 USD up to more), optional. Most of the customers express that they always save and that the aim of such savings is for increasing the amounts of their following credit and in second place for any emergency (Mideros, 2010).

Micro entrepreneurs in rural areas of Ancash, most of them own an street trading, focusing on grocery store and surroundings, and a few others own businesses such as restaurants, hair salons, internet services, convenience stores, candy stores, among others. The impact in micro-enterprises is little visible, since their incomes are allocated to cover their debts and different house expenses, according to research it was concluded that the impact in employment is regular, and mostly informal. Furthermore, achieving implementing basic technology such as cell phones, scales, calculators, computers, etc. Moreover, the relation purchase - sale with providers is more satisfactory because micro entrepreneurs count on the readiness to pay providers timely and consequently their production improves, producing in higher quantities and this way they better supply their orders and cover a higher number of customers. As a consequence, there is a need to conduct an analysis of the community banks and how they relate with the growing of the rural micro-enterprises in Ancash region.

2 METHODS AND MATERIALS

The study type was descriptive – correlational, the research's design is not experimental, and likewise a cross-sectional research was made. The used technique in this study was survey. The tool to collect data was questionnaire, for which we used general questions and questions with five alternatives Likert type. Questionnaires went through content validity through the judges of five experts and for reliability we used

Cronbach Alpha coefficient, the results of the two questionnaires reach high reliability levels (84%, and 91%) sustaining the questionnaire's coherence.

The sample was composed by 324 customers that were from the second credit (five months) from Huaraz, Carhuaz, Yungay and Caraz provinces, that accessed the microcredit through community banks of Financiera Compartamos. The marital status of the surveyed ones reported 56.6% are married or live together and 40.2% of them are single, moreover 70.4% has 1 or 2 children to take care of. Out of the surveyed ones 35.4% didn't conclude primary education and 38.4 % has completed high school. Regarding the type of business micro-enterprises have, 63.0% is dedicated to trading, 22.5% to services and only 10.4% makes production activities.

Through normality Test according to Kolmogorov Smirnov it was identified that the variables in study have a regular distribution, and to contrast the hypothesis of the present research, a Spearman Rho non-parametric test was used.

3 RESULTS

Chart 01: Community banks and micro-enterprises growing.

Community Banks	Micro-enterprises Growing						Total	
	Little Profitable		Profitable		Highly profitable			
	N	%	N	%	N	%	N	%
Bad	42	13%	21	7%	0	0%	63	20%
Regular	0	0%	177	54%	34	11%	211	65%
Good	0	0%	0	0%	50	15%	50	15%
Total	42	13%	198	61%	84	26%	324	100%

It can be seen that most of the customers rate community banks as regular and the growing of their micro-enterprises as profitable, this means that the effect community banks generate is still moderate. We should highlight that a 15% of those having a positive perception of their micro-enterprise growing exists.

Chart 02: Micro credit amount and micro-enterprises growing

Micro credit amount USD	Micro-enterprises Growing						Total	
	Little Profitable		Profitable		Highly profitable			
	N	%	N	%	N	%	N	%
[230 to 630]	42	13%	198	61%	54	17%	294	91%
[631 to 1020]	0	0%	0	0%	24	7%	24	7%
[1021 to 1430]	0	0%	0	0%	6	2%	6	2%
Total	42	13%	198	61%	84	26%	324	100%

Customers who have a low-amount credit are the ones that rate the micro-enterprises growing as profitable, on the other side, only 9% of the customers have higher credits to 631 USD.

Chart 03: Saving generated and Micro-enterprises growing

Saving Generated	Micro-enterprises Growing						Total	
	Little Profitable		Profitable		Highly Profitable			
	N	%	N	%	N	%	N	%
Low	24	7%	0	0%	0	0%	24	7%
Regular	18	6%	162	50%	0	0%	180	56%
High	0	0%	36	11%	84	26%	120	37%
Total	42	13%	198	61%	84	26%	324	100%

Most of micro entrepreneurs perceive the generated saving by community banks at a regular level and think that the micro-enterprises growing is profitable. Furthermore,

26% of the customers considers the generated saving as high and the growing of the micro-enterprises as very profitable. This means that the higher the saving the better perception of the results generated by their micro-enterprise.

The relation between the dimensions of the variable community banks (Credit's amount, payment frequency and generated saving) with the growing of the micro-enterprises is direct and significant because the obtained values of the Spearman correlation coefficient are higher than 0.83 and p-value is 0.00* in all cases.

In regards to the Hypothesis contrast, it was conducted through Spearman Rho coefficient obtaining 0,87 which indicates that a relation is positive and significant, in other words, when improving the perception of the community banks we will get a better perception about the growing of rural Micro-enterprises in the Ancash region in Peru.

4 DISCUSSION

Concerning the rating of the growing of rural Micro-enterprises in Ancash, 61% perceive that the growing of the Micro-enterprises is profitable and 13% little profitable, this result is below what is exposed by Espín (2011) where he affirms that 82% describe that their economic situation improved while a minimum and not important 4% of women rate micro credit as negative in the economic situation. Same way, 53% of the customers perceive micro credit in a regular level and at the same time 47% rates micro-enterprises' development as profitable. These statistics keep relation with what Siccha (2015) affirms where he expresses that 48% of micro entrepreneurs mention that micro-credit has been representative for the development of their micro enterprise and 43% has been very representative for the development of their family business.

In regards to the consolidations of community banks, we let all our customers know the features, benefits and conditions of micro-credit, for this reason we arrange meetings in the credit pre-approval, generally problems arise when customers do not attend the meetings preventing from the progress of community banks formation and credit approval, extending the time and causing the group's dissolution, when credit is in process, some inconvenient arise in some groups due to lack of knowledge about solidary warranty, making the group starts arrears harming customers who are well-rated in the financing system. This is how it is proved that the frequency of solidary warranty in the groups happens very few times, on the other side, all the members of community banks are responsible for the loan in an associated way, this is why it happens that the members of the group push their participants so that they pay what corresponds to micro-credit (Inglada-Galia, Sastre-Centeno & De Miguel-Bilbao, 2015). For this reason in some opportunities women express "they are partners of a community bank, which provides support to them", women feel calm because they can cover their needs, an environment of solidarity and mutual help is generated among women's groups, in daily life many things happen such as traffic accidents, at work or any unexpected misfortune, to assist them we appeal to the solidarity of the partners, that seeks to support in problem solving (Ferrer & Ginés, 2010).

In regards to the amounts of the community banks and the growing of rural Micro enterprises in Ancash, 91% of the customers receive amounts around 230 USD and 630 USD and at the same time 61% of the customers rate the growing of rural Micro enterprises as profitable. The result is similar regarding what Patzi exposed (2011) that affirms, the empowering perceived by the customers is originated through micro-credit service and most of the customers wants to remain in the program. Additionally, for Siccha (2017) micro-credit plays an important role in the economic improvement and in the family environment of the customers.

Concerning the frequency of community banks payments and growing of Micro enterprises, 53% of customers rate it as good. In this respect, Pílares (2016) mentions that credit time have impacted in economic improvement. In addition, it was verified that the time to do the refund is changing and 71% presents a "high" economic improvement. On the contrary, Khan and Sulaiman (2015) conclude that in spite of a generally positive change in the incomes, these programs of micro-credits show weak evidences of benefiting members of the community from the bottom quartile during the study period. The research suggests that micro-credit is not equally beneficial for all the segments of the poor. In rural areas in Ancash, customers express that they are almost always in agreement with the time, but propose that payment frequency may be increased to 30 days or monthly installments.

On the other side, the relation between the interest rate of community banks and the growing of rural Micro

enterprises, 56% of the customers receive a monthly interest rate between 2% to 4% of micro-credit and at the same time 55% rate the growing of micro enterprises as profitable, whose result matches with Espinoza (2015) where he affirms, satisfaction degree is high concerning the way of payment followed by the periods, and at a lower degree in the interest rates with 26% that shows they are satisfied.

Montalvo Corzo, Vázquez Parra & Amézquita Zamora (2018) conclude that micro-credit doesn't promote sound habits such as savings or investment. However, community banks product does promote saving in customers that access to credit, hence, the component of saving in community banks' products is considered important. In addition, Baez (2014) mentions, the growing of micro-credit per capita of the population, that is to say that the people who are borrowers of micro-credit benefit themselves from it by improving their saving capacity and consequently investment capacity. This result matches with what the MBA agency manager Rosario Mercedes Huerta Soto affirms, who agrees that, savings favors them to obtain higher amounts in the moment of micro-credit's renewal. In the same vein, Sayed Samer Ali Al-Shami, Muhammad M. Razali, Izaidin Majid, Ahmed Rozelan & Nurulizwa Rashid (2016) conclude that micro-credit allowed women to access a financing capital, form their micro and small enterprises and obtain an income that helps them to contribute to home's expenses. Even though the effect of micro-credit was partial, it gave them a better control of their resources, improved their trading power and it will increase their self-esteem both in their homes and in the community.

Community banks are related with the growing of rural micro enterprises from Ancash, because it presents a Spearman Rho coefficient = 0.87 and it is, at the same time, positive and significant (sig. 0.00*), which is why this finding is similar to what Gonzalo Rodriguez, Leos Rodriguez & Zavala Pineda (2017) proposed. Sandoval (2010) concluded that micro-credit influences positively in the customers, facilitating improvements in their lives. Likewise, for De Asís (coord. 2003); García, (2004); Foschiato and Stumpo (2006) micro-credit has an important effect in micro enterprises. Access to micro-credit represents an important element at the moment of achieving the development of micro entrepreneurs. Additionally, Gutierrez-Nieto (2005); Enimu, Eyo and Ajah (2017); affirm that diverse agricultural micro-credits are an important mechanism for economic and social development, and are the significant determinants for social exclusion reduction. On the other side, they facilitate the creation of new units for local businesses. Finally, for Ghosh (2013) in India, profit-seeking micro financing institutions are troublesome, they should be regulated and use other strategies for financing inclusion of poor and small producers. On the contrary, in Peru micro financing institutions are regulated by "Superintendencia de Banca y Seguros". We should work in improving the conditions of accessing micro-credit and consequently propitiate a better financing offer for rural areas in Peru.

Soler-Tormo and Melián-Navarro (2012), community banks' success is not necessarily because of micro-credit, but because of the saving promoted in the group's members and the benefits generated such as customers' empowerment. In this context and in this study field, there is an only financing institution that works with community banks' model. That is why customers are the ones that lead the business despite the fact that a family micro enterprise, especially in rural areas from Ancash where there is a quite defined men's dominance that can't be banished yet. The contribution of micro-credit to family micro enterprises is observed by the increase of the incomes in the business units and promotes their consuming products or using new services, and getting to acquire land or buying new sheep's breed that increase family's capital. On the other side, in regards to the town or neighborhood which are the Environment, it increases the probability of business improvements, which facilitates the increasing of employments, generating a positive effect in such rural areas. Finally we should advance in regards to financing inclusion and improve the conditions of access to micro-credit. This would be a great contribution to the strengthening of agricultural areas, given the generalized phenomenon of rural exodus in Peru.

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