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**Funding Small Businesses In Taiwan:
From Informal Micro-Finance Institutions To Formal Banking Institutions**

By Thierry Pairault

Abstract

The evolution from informal micro-finance institutions toward formal banking institutions is a long march of one hundred years as far as small businesses and the island of Formosa are concerned. It began in 1895 when the Chinese Imperial government relinquished sovereignty over the island and ceded it to Japan (Treaty of Shimonoseki). It ended in 1995 when Small and Medium Business Banks did not have to manage any longer tontine-based funds, (hehui jin 合會金). First, the Japanese colonial government (1895-1945), later the Chinese government (1945-1995) have relied on similar strategies in dealing with tontine-based forms of finance: regulating them, rarely banning them, and allowing certain types of microfinance institutions to absorb them. This policy was designed for increasing the availability of credit to low-income entrepreneurs and eliminating their reliance on supposedly usurious but actually unpredictable financing means. This paper will examine the stages of this transformation.

FUNDING SMALL BUSINESSES: FROM INFORMAL MICRO-FINANCE INSTITUTIONS TOWARDS FORMAL BANKING INSTITUTIONS – THE CASE STUDY OF CHINESE TAIPEI

Thierry Pairault¹

The evolution from informal micro-finance institutions toward formal banking institutions is a long march of one hundred years as far as small businesses are concerned. It began in 1895 when the Chinese Imperial government relinquished sovereignty over Taiwan and ceded the island to Japan (Treaty of Shimonoseki). It ended in 1995 when Small and Medium Business Banks did not have to manage any longer tontine-based funds, (*hehui jin* 合會金)². First, the Japanese colonial government (1895-1945), later the Guomindang government (1945-1995) have relied on similar strategies in dealing with tontine-based forms of finance: regulating them, rarely banning them, and allowing certain types of microfinance institutions to absorb them. This policy was designed for increasing the availability of credit to low-income entrepreneurs and eliminating their reliance on supposedly usurious but actually unpredictable financing means. This paper will examine the stages of this transformation which are outlined in table 1 (five steps) and in table 2 (legal events in comparative perspective).

TONTINES UNDER THE JAPANESE RULE (1895-1945)

After Japan defeated Qing China and took over Taiwan in 1895, the Japanese colonial administration intended to transform a small backward island into a more modern economy. For that very reason, a major step was taken as soon as March 1897 to revamp the financial system on the island: the Taiwan Bank (*Taiwan Ginkō / Taiwan Yinhang* 台灣銀行) was created as a development bank. The constituting act states clearly that the Bank of Taiwan is to regulate the financial situation, to explore the resources of the island and to spur economic development (see Tu Zhaoyan 1982:42-43). Irony of fate, to raise its starting capital Japan had to spend the compensation the Qing government paid her after the Sino-Japanese War for quite nobody on the island dared invest in this project! Not only did people not have much confidence in the bank but also, the bank has been asked to issue bills on behalf of the government as if it were the Treasury. As a result, its ambiguous role threw people into confusion just when the economy was to take off again. As the bank carried out levies for the government, the money became scarce and expensive, economic agents had to resort to alternative sources of funding, namely tontines. In other words, what the colonial government was afraid of was to lose its grip over the economy of Taiwan. To face up this situation, the Japanese rulers made two decisions in 1902. Firstly, they allowed the Industrial Bank of Japan (*Nihon kangyō ginkō*, 日本勸業銀行) to open a branch in Taiwan in order to foster investment and organise the funding of businesses

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² In this paper, I shall use the phrase “tontine” to name what is sometimes called “rotating saving and credit association”, other times “mutual financing clubs” and so on. In the statistical parlance, deposits in tontines were called “Advances to Mutual Loans Account” (墊付合會金) and loans backed upon tontines were called “Amount of Mutual Contract” (合會金契約額) (see *Taiwan Financial Statistics Monthly* 「臺灣金融統計月報」).

Table 1. Transformation of tontines

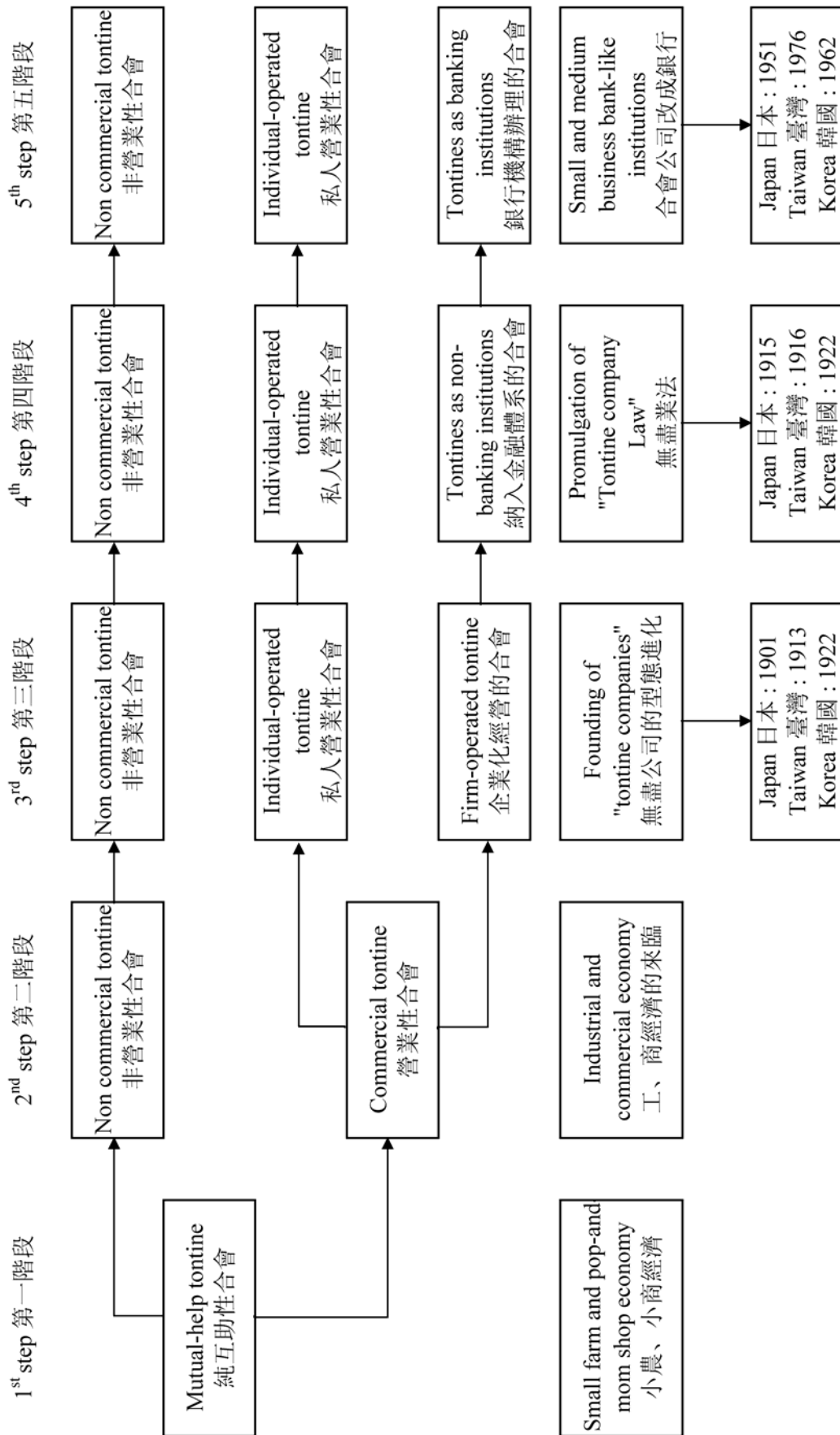


Table 2. Tontine in Taiwan, Japan and Korea: step by step from 1895 to 1976

TAIWAN	EVENTS	JAPAN	KOREA
1895	Treaty of Shimonoseki 馬關條約: China cedes to Japan the island of Formosa in perpetuity and full sovereignty and recognises definitively the full and complete independence and autonomy of Korea.	1895	1895
	First Japanese regulation governing the mandatory registration of tontines 「賴母子講、無盡講及類似者申報規定」	1896	
1897	Establishment of the Bank of Taiwan which from 1899 started issuing paper money and providing funds for private and public investments.		
	Founding of the first Japanese “tontine company” 無盡公司 / 無盡會社.	1901	
1902	Japanese colonial regulation governing the multiplication of commercial tontines in Taiwan.		
	Formal annexation of Korea by Japan.	1910	1910
1913	Founding of the first private commercial “tontine company” in Taiwan		
	Promulgation in Japan of the Tontine Company Law 無盡業法 which came after a rather thorough survey of the financing practices in small and medium Japanese businesses.	1915	
1916	Introduction in Taiwan of the Japanese Tontine Company Law which will be “indigenised” in 1922.		
	Founding of the first private commercial “tontine company” in Korea		1922
	Introduction in Korea of a Japanese Korean Tontine Company Law 韓國無盡業法.		1931
	Application of the full disclosure principle to the interest rates charged by “tontine companies” in Japan.	1936	
	“Tontine companies” in Korea are merged in one new company.		1942
1946	With the capitulation of Japan, Taiwan is handed over to the control of the Chinese nationalist government; “tontine companies” are merged into one nationalised company; new regulations are promulgated.		
1948	Founding in Taiwan of six private “tontine companies” with limited territorial authority.		
	Founding in Japan of the mutual banks (sōgo ginkō 相互銀行) which are to take over all the tontine-related business formerly operated by the “tontine companies”.	1951	
	Japanese mutual banks are allowed to discount bills of exchange.	1953	
	Promulgation in Korea of the Small-Medium Industry Adjustment Law.		
	Founding in 1962 of the Citizen's National Bank (also called Koomin Bank 國民銀行) which is to take over the tontine-related business and to lend the pop-and-mom shops.		1961
	In Japan, the mutual banks are upgraded to the status of ordinary banks.	1968	
	In Korea, “tontine companies” are allowed to convert into mutual credit institutions		1972
1973	In Taiwan, reforms of the 1948's regulations of the “tontine companies” are carried out.		
	In Japan, the mutual banks are allowed to deal with foreign exchange.	1973	1973
1976	In Taiwan, “tontine companies” are to be transformed into small and medium business banks 中小企業銀行. At that time, it was deemed they should get rid of their tontine-related business by 1987; actually they had to wait till 1995.		

(Tu Zhaoyan, 1982:476-477). Secondly, they promulgated a “Regulation to discipline the tontines” (Kōkai torishima kisoku 講會取締規則) made of five articles (Chen Ruitang, 1981:544-545).

This regulation was aiming at mutual-help tontines, it required that each tontine organiser writes down a tontine deed and registers it at any appointed bureau. It very soon appeared that only a few tontines among those in operation were actually registered, the latter ones being in most cases managed by small Japanese entrepreneurs. Therefore, most of the tontines organised by small Chinese entrepreneurs and of course all “secret tontines” (*mitsu kō* 密講) in which Japanese participants are free to fix the interest rate were not recorded (*Taiwan sheng tongzhi*, 1970:4-2-211b).

The extent to which the phenomenon spread is illustrated by the investigations the Japanese government set up in 1922. That year, Chinese businessmen were deemed to have organised (and registered?) about 4,400 tontines, each calling together twelve participants on average – *i.e.* 52,276 participants in all, half of which were staying in Taipei. On the other hand, Japanese businessmen have registered 1,070 tontines called *tanamoko kō* 賴母子講, each calling together twenty-five participants on average – *i.e.* 27,107 participants in all. Moreover, according to the Japanese authorities, there were 321 “secret tontines” gathering 8,132 participants. Despite some differences in organisation, it appears that the amount of the pot Chinese businessmen might have drawn was quite identical to the one Japanese businessmen might have drawn. This proliferation led the Japanese government to reinforce and indigenise the regulations of tontines: tontine deed minutely detailing the functioning, arrangement in case of participant bereavement or participant non-payment, binding obligation of each participant resulting from affixing one’s own signature, guarantee... Simultaneously, registration rules were relaxed and tontines need not to register if they were not calling over twenty participants, they were lasting less than two years and if the periodic contributions were not exceeding fifteen yen (Cheng Rongfu, 1953:123-124). Whether lawful or unlawful (“secret tontines”) non-registration of tontines might have been, participants were guarded against deceitful practices initiated by tontines’ organisers as the Supreme Court 最高法院 stated it in 1928: protection for contractual freedom is provided by law, therefore no one can declare null and void any tontine deed on the grounds that it has not been duly registered nor officially endorsed and thus take this opportunity to cheat participants out of their money (Chen Ruitang, 1981:546).

Concurrently firm-operated tontines began to emerge. The first tontine company in Taiwan started its business in 1913, it was designed so to be similar to the Foster Savings Company (*Chochiku shōrei sha* 貯蓄獎勵社) created in Tokyo in 1900. Nevertheless, Taiwan did not experience any tontine frenzy as Japan did before the promulgation of the Tontine Company Law (*Mujingyō hō* 無盡業法)³. When the Japanese rulers issued this law on the island in 1916, there were only three tontines companies; when they relinquished it in 1945, there were no more than four of them, the capital of which was Japanese up to 80% (see table 3). The close watch under which the Japanese government kept them certainly put a curb on their potential wild spreading; conversely, this surveillance did not impede the blooming of their business. From 1916 to 1942, the number of persons participating in tontines managed by tontine companies raised from 6,642 to 42,385 (+540%), their contributions increased twenty-fold and the pots they drew fivefold. In the 1940s, the average firm-operated tontine might have called together thirty participants, each one contributing 650 yen each month during two years and a half. Such a monthly contribution is quite significant if compared to the per capita annual income on the island: at the height of inflation in 1946, this income reached 4,702 yen, but its purchase power had dropped by two thirds if compared with 1937 (*Taiwan kin-yū nempō*, 1934:125; 1942:152-155; *Taiwan sheng wushiyi nianlai*, 1946:1114-1115).

Despite the importance of the above figures, it is rather difficult to appraise accurately the economic role played by the tontines. In 1938, a Japanese investigation led by the Bureau of Industry for the prefecture of Taipei (*Taihoku shū kangyō ka* 台北州勸業課) to survey small businessmen in Taipei and Jilong, shed some light on the part tontines were likely to play. The sample was made of

³ A Chinese translation of this law appears in Cao 1980:210-200.

Table 3. Tontine Companies in Taiwan (1913-1946)

1913 August 八月	Founding in Taipei of the "Taiwanese Saving Tontine Company", closed and sold in 1920. 「台灣蓄財無盡朱式會社」在台北開業，在 1920 年被轉讓。	1 branch 支店
1916 February 二月	Introduction on Taiwan of the Japanese <i>Tontine Company Law</i> . 日本的「無盡業法」在台灣施行。	
May 五月	Founding in Taipei of the "Taiwanese Tontine Company", closed and sold in 1920. 「台灣無盡朱式會社」在台北開業，在 1920 年被轉讓。	6 branches 支店, 7 sub-branches 出帳所
August 八月	Founding in Tainan of the "Taishō Tontine Company" (named so to honour Emperor Taishō), closed in 1925, sold in 1926. 「大正無盡朱式會社」在台南開業，在 1925 停業，在 1926 年被轉讓。	3 branches 支店
1920 July 七月	Founding in Taipei of the "Taiwanese Industrial Tontine Company", it acquires the "Taiwanese Tontine Company". 「台灣勸業無盡朱式會社」在台北開業，收購「台灣無盡朱式會社」。	7 branches 支店, 1 sub-branches 出帳所, 2 proxies 代理店
1922 November 十一月	Indigenisation of the Japanese <i>Tontine Company Law</i> . 日本的「無盡業法」的本地化。	
1926 May 五月	Founding in Hualian of the "East-Taiwan Tontine Company". 「東台灣無盡朱式會社」在花蓮開業。	3 proxies 代理店
November 十一月	Founding in Tainan of the "South-Taiwan Tontine Company", it acquires the "Taishō Tontine Company". 「台灣南部無盡朱式會社」在台南開業，收購「大正無盡朱式會社」。	3 branches 支店
1942	Founding of the "Taiwanese Housing Tontine Company". 「台灣住宅無盡朱式會社」開業。	
1946 September 九月	Former tontine companies are merged by the Chinese government into one nationalised company named the "Taiwan Savings Tontine Company". 台灣光復後，原來有的四家無盡公司合併成立「台灣合會儲蓄股份有限公司」。	

475 respondents, 406 of whom were residing in Taipei and 69 in Jilong. Among the respondents, 300 were small retailers, 80 were craftsmen and 65 were practising another trade (see table 4). What it is really worthy to notice here is the place of tontines – it does not matter whether they are firm-operated or individually-operated. Less than 12% of all loans were in the form of tontines but the overall value of these tontine loans did not exceed 3% of the total amount of all the money lent to the respondents. Furthermore, the average value of a tontine loan was about one tenth of the average value of bank loans and one sixth of those granted by wholesalers. Though tontines did not look like a major source of funding for small and medium businesses, they might have been of the greatest importance for those businessmen who were *de facto* excluded from the most modern or sophisticated sources of financial support. Participating in or initiating a tontine is a grassroots strategy to provide shopkeepers, craftsmen... with a community-based source of saving and credit; subsequent loans are short-term ones, their amounts are small but enough to cope with unexpected needs in working capital. Previous

participations in tontines demonstrate one's saving aptitude; affiliation to a social network works as a collateral which binding obligations are legally formalised when the organiser is a tontine company. That is the lesson which has been understood by the Nationalist government after the take over of the island in 1945.

TONTINE COMPANIES UNDER THE GUOMINDANG RULE (1945-1976)

After the Guomindang (GMD) officially took the leads of Taiwan's destiny on the 25th October 1945, it adopted the pre-existing centralised structure built by the Japanese and simultaneously intended to prevent the private holders of money from exercising power over the economy. Thus, on the 1st September 1946, it merged the four former tontine companies into one nationalised company. At first it was named the "Taiwan tontine limited liability company" (*Taiwan wujinye gufen youxian gongsi* 台灣無盡業股份有限公司). Soon after, this name was changed to the "Province of Taiwan's people limited liability company for mutual financial help" (*Taiwan sheng renmin chujin huji gufen youxiqn gongsi* 台灣省人民儲金互濟股份有限公司) for the former name has too much of a Japanese flavour (the word *wujin* 無盡 for "tontine" obviously emulated the Japanese use). On June 1947, the name was once more altered and became the "Taiwan tontine savings limited liability company" (*Taiwan hehui chuxu gufen youxian gongsi* 台灣合會儲蓄股份有限公司) using now the Chinese phrase *hehui* 合會 for "tontine" (Chen Rongfu 1953:132). From then on, privately funded tontine companies began to spring up.

At that time, the government main concern was the runaway inflation. The index of retail prices in Taipei (base: January-June 1937=100) stood at 38,233 (December 1947) before it came to 1,112,683 (December 1948) and then to 15,456,228 (June 1949) when the government decided to devaluate and to adopt a new currency – the New Taiwan Dollar, 40,000 dollars of the old currency was exchanged for one of the new (*Taiwan Monthly of Commodity-Price Statistics*, 1959 n°1, p. 27). In the meanwhile, for the government feared that tontines and tontine companies might be used as a tool for speculation, it promulgated on the 27th of January 1948 a Regulation for the Management of Tontines Companies in the Province of Taiwan (*Taiwan sheng hehui chuxuye guanli guize* 台灣省合會儲蓄業管理規則). According to this regulation, seven privately-owned tontines companies (limited liability companies) were entitled to operate on the island (see table 5); their territorial jurisdictions were closely drawn up and each were limited to a given area unlike the nationalised company whose territorial jurisdiction was set over the whole province. The task of the eight tontines companies was twofold. Firstly, they gave a legal framework to tontines and had to manage them on behalf of their own patrons. Secondly, they were authorised to provide their tontines' members with a minor range of financial services as handling loan and deposit accounts. In return, they were paid for their services (Chen Rongfu 1953:133-136).

According to the regulation, these tontine companies had to put forward few tontine deeds (*hehui chuxu qiyue* 合會儲蓄契約) allowing patrons to choose between several options depending on four major criterions (Cao 1980:50-59 & 195-199; He 1965:52-65; Du 1969:339-356):

Table 4. Taipei and Jilong (1938)

	occurrence rate	share of loans' worth	average loan (yen)
Types of institutions			
Wholesalers	18.8%	34.6%	10,370
Banks	11.4%	31.6%	15,633
Friends, relatives	19.1%	13.9%	4,176
Credit cooperatives	23.6%	12.1%	2,954
Tontine companies	7.2%	2.3%	1,852
Others	3.0%	1.8%	3,455
Insurance company	6.2%	1.5%	1,440
Moneylenders	3.2%	0.9%	1,615
Tontines	4.5%	0.7%	937
Pawnbrokers	2.0%	0.1%	288
Trusts	0.4%	0.0%	900
Types of funding			
Tontines	11.7%	3.0%	1,501
"Informal"	29.0%	15.7%	3,106
"Traditional"	55.1%	52.7%	5,466
"Modern"	41.9%	45.4%	6,220

Table 5. Tontine companies in Taiwan (1946-1978)

Taiwan Tontine Company 台灣合會儲蓄公司
<ul style="list-style-type: none"> • Business started on 1st September 1946; merger of former four Japanese-funded tontine companies. • Public enterprise which territorial jurisdiction extended over the whole province; its market share in 1976 was about 46% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st July 1976. • Privatised on 22nd January 1998 under the name of Taiwan Business Bank
Taipei Tontine Company 台北區合會儲蓄公司
<ul style="list-style-type: none"> • Business started on May 1948 • Private enterprise which territorial jurisdiction limited to the cities of Taipei et Jilong as well as the districts of Taipei and Yilan;; its market share in 1976 was about 18.2% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st January 1978.
Tainan Tontine Company 台南區合會儲蓄公司
<ul style="list-style-type: none"> • Business started on 1st November 1948 • Private enterprise which territorial jurisdiction limited to the city of Tainan as well as the districts of Yunlin and Jiayi;; its market share in 1976 was about 7.6% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st January 1978
Xinzhu Tontine Company 新竹區合會儲蓄公司
<ul style="list-style-type: none"> • Business started on 1st February 1949 • Private enterprise which territorial jurisdiction limited to the districts of Xinzhu, Taiyuan and Miaoli; its market share in 1976 was about 8.6% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st January 1978.
Taidong Tontine Company 台東區合會儲蓄公司
<ul style="list-style-type: none"> • Business started on 21st May 1949 • Private enterprise which territorial jurisdiction limited to the district of Taidong; its market share in 1976 was about 1.1% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st February 1979.
Gaoxiong Tontine Company 高雄區合會儲蓄公司
<ul style="list-style-type: none"> • Business started on 1st November 1950. • Private enterprise which territorial jurisdiction limited to the city of Gaoxiong as well as the districts of Gaoxiong, Pingdong and Penghu; its market share in 1976 was about 7.9% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st January 1978.
Hualian Tontine Company 花蓮區合會儲蓄公司
<ul style="list-style-type: none"> • Business started on 21st March 1952. • Private enterprise which territorial jurisdiction limited to the district of Hualian; its market share in 1976 was about 1.3% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st January 1979
Taizhong Tontine Company 台中區合會儲蓄公司
<ul style="list-style-type: none"> • Business started on 1st August 1953. • Private enterprise which territorial jurisdiction limited to the city of Taizhong as well as the districts of Taizhong, Zhanghua and Nantou; its market share in 1976 was about 10.1% of all tontine transactions operated by tontine companies. • Converted into a Small and Medium Business Bank on 1st January 1978.

- The span of the tontine: tontines could include at the least twelve tontiners and no more than sixty, *i.e.* it could last between twelve and sixty months; according to available statistics, in most cases (85%) the span of a tontine life was a cycle of 18 to 20 months.
- The appropriation of the pot: in earlier times, the order of pot recipients was determined by secret bidding, whereby the tontiner who makes the highest bid picks up the pot. In 1956, the Taipei

Tontine Company was the first to introduce a new way which reminded of the old tontine practice of dice-casting; the order of pot recipients was to be set – even before the tontine might begin – according to the sequence in which their names were drawn out. Doing so firstly aimed at reducing the costs resulting from successive outbidding. It also aimed at altering the nature of tontines from credit instruments into saving instruments. In 1964, less than a third of all tontines operated by tontine companies were run by auction; ten years later, this proportion fell to 3.7%.

- The way to draw the pot: tontiners usually had two ways to draw the pot, either in cash (*xianjin hehui* 現金合會) or in kind (*wuchan hehui* 物產合會) – more accurately the sum of money equivalent to the purchase price of a given good). The latter method aimed at promoting the purchase of capital goods as well as consumption goods such as sewing machine, bicycle, fan, radio receiving set... It was actually nothing more than a variety of purchase by instalments which have not had much success: tontines using this method to draw the pot accounted in 1964 for less than 10% of the total value invested in tontines; this figure had fallen to 1.5% when this technique was grounded to a halt in 1973.
- The amount of the pot: in the late sixties, about two thirds of the pots had an average value of NT\$ 10,000 (US\$ 250 at current value), that is to say the two thirds of the *per capita* National Income at that time.

As shown in table 6, tontine companies performed rather significantly as fund providers. The index of tontines deeds rose at 1955 constant prices from 100 in 1955 to 1253 in 1976. Furthermore, the ratio of tontines loans to the total loans allocated by the tontine companies increased from 15.5% to 79.6% during the same period of time. From the middle of the fifties to the end of the sixties, tontine companies also played an increasing part in the mobilisation of savings raising: less than 1% of all savings in 1955 but more than 5% fifteen years later. During the seventies their relative part began to go into reverse gear with the diversification of financial institutions; nevertheless, the absolute amount of deposits in tontine companies went on growing at a steady pace of 25% a year on the average.

Table 6. Part played by tontines companies

	Index of tontines deeds (at constant prices)	Ratio of tontine loans to the total of loans by tontine companies	Ratio of deposits in tontine companies to total deposits
1955	100	15.5%	0.8%
1960	228	46.1%	3.2%
1965	420	59.9%	6.5%
1970	767	81.7%	5.3%
1975	1185	83.9%	3.3%
1976	1253	79.6%	3.3%

Sources : JTY 1964-1977; Hou Jiaju 1984.

The success met by the tontine companies deserved a twofold amendment. Firstly, on an organisational level, one would remember that traditional tontines were based on mutual confidence between each tontiner and the organiser as well as between tontiners themselves. Within a tontine company, this fundamental characteristic loses most of its weight for the gathering of tontiners can be held on a rather anonymous standpoint; these “modern” tontiners just cared about putting their confidence in well-established financial institutions which might help them either to raise the funds they need or to have their savings blooming. Formerly, the role tontine companies had to play was essentially to congregate in a tontine tontiners in need of a loan and tontiners expecting to earn money through their savings; therefore these companies’ main occupation was initially to plan each tontiner’s withdrawal according to his/her own aim, “emergency” loaners ranking first, “ordinary” loaners ranking second, “opportunist” savers ranking third and “utter” savers ranking last. Afterwards, tontine companies began to urge their patrons (*i.e.* people already participating in tontines) to make deposits in interest-bearing savings accounts and also to encourage them to borrow directly from the tontine companies using their tontine deposits and savings deposits as collaterals. This policy could have led to a reversal of the chores of tontine companies from tontines’ organisers to virtual banking institutions, but their status as well as the requests of their patrons precluded this change from

happening at that time. Tontine companies instead tried to promote new procedures for granting facilities and lead to a proposal which has been called “loan tontines” (*dai fang shi he hui* 貸放式合會) whereby individual loans (in contrast to mutual loans) were dressed up in tontines clothes (Lin Jiafan 1976; Cao 1980:109-114).

In the meantime, on the 29th of January 1973, was promulgated a new Regulation for the Management of Tontines Companies in Taiwan Area (*Taiwan diqu hehui chuxuye guanli guize* 台灣地區合會儲蓄業管理規則). Among the amendments, it deserves to be noted that henceforth tontine companies were allowed to lend money to individuals (*i.e.* outside the scope of a tontine) wanting to buy consumption goods or immovable property, as well as those wishing to start a business or in need of working capital. Furthermore, this new Regulation laid great stress on the funding of small- and medium-sized enterprises (hereafter “small businesses”), so to do tontine companies were allowed firstly to discount bills and notes, secondly to deal with foreign exchange on the domestic market, thirdly to lend money without collateral but with the certainty of future inflows. These improvements clearly specify the part to be performed by tontine companies whose patrons mainly were small entrepreneurs: 64.5% of the accounts representing 75.4% of the deposits in 1974 (see table 7). It is this state of affairs which led the government of the island to go a step further and to come on the 1st July 1976 to the decision of transforming the tontine companies into banks of small and medium businesses. Their major assignment was to provide small and medium businesses with a full range of banking services including intermediate-term and long-term loans. The tontine business (*hehui yewu* 合會業務) handled by the former tontine companies did not disappear at once, financial authorities deemed appropriate to encourage its resorption the sooner the better or, at least, in the span of ten years (Huang Boyi 1983; Yang Jinlong 1981). Actually, it lasted till 1995.

Table 7. Importance of small businesses

	accounts	deposits
Agriculture	13,0%	7,7%
Handicraft	17,3%	28,0%
Commerce	29,5%	28,0%
Other industries	17,7%	19,4%
Individuals	22,5%	16,9%
Total	100,0%	100,0%

Source: Lin Jiafan 1976:35-36.

Risk perceptions of banks plays a key role; as a rule small borrowers are regarded as too risky. When dealing with small businesses, banks used to add on the pure rate of interest some sort of “premium” in proportion of the risk entailed (or supposedly entailed). Moreover, small transactions have to bear the same amount of fixed charges (those transaction costs which are to be incurred whatever happens) than bigger ones. Thus, in the case of small and scattered loans, the interest rate has to be set rather high to cover the cost of awarding, managing and recovering credit as well as the cost of the resource (saving, credit line...) and the risk of default. Taking tontines as basis to fund small businesses might yield threefold advantages. A tontiner who participates in tontines demonstrates that way his reliability as well as his saving aptitude; that is how tontine companies saved on information costs and how small business banks could do too. The management of tontine by tontine companies had proved to be rather unsophisticated and a matter of routine; that is how tontine companies saved on administration costs and how small business banks could do too. In tontines – it does not matter whether they are “traditional” or institutionalised – computation has always shown high rate of interest on loans. Actually, interest rate level is not the main constraint for small entrepreneurs; but credit availability is. They are chiefly concerned with the overall profitability of the operation to be financed by the loan they ask for. Hence, first tontine companies, then small business banks may have charged / may charge high level of interest so to assure their financial equilibrium.

The lack of sophistication is consistent with a low initial training level of clerks salaried by small business banks as shown in table 8. In the late sixties, the government decided to improve the practices and skills of community-based financial institutions (*jiceng jinrong jigou* 基層金融機構), then set up, in June 1970, a Foundation for Training and Research for Community Finance (*Jiceng jinrong yanjiu xunlian jijin* 基層金融研究訓練基金) for which NT\$ 26 000 000 (about US\$ 650 000 at that time exchange rate) were earmarked. As a result a Centre for Training and Research for Community Finance (*Jiceng jinrong yanjiu xunlian zhongxin* 基層金融研究訓練中心) and a Community Finance

Journal (*Jiceng jinrong* 基層金融) were set up. It was clearly stated that these community-based financial institutions included, not only the small business banks but also the credit cooperatives. The main objective was to train clerks in order they improve their managerial skills and consequently to drive these grassroots institutions towards modernisation (*Jiceng jinrong* n°1, 1980:84-85).

Table 8. Banks and levels of education of clerks

		tertiary	post- second- dary non tertiary	upper second- dary	lower second- dary	primary	total
State-owned small business bank	1979	12,2	14,2	59,7	9,5	4,4	100
	1986	22,3	23,5	46,1	3,8	4,3	100
	1991	23,8	28,6	41,4	3,1	3,1	100
Private small business banks	1979	9,7	10,4	63,4	8,4	8,1	100
	1986	10,4	18	63,2	4,1	4,3	100
	1991	16,7	21,3	57,5	4,3	0,2	100
All banks	1986	16,5	20,5	53,5	9,5		100
Special purpose banks	1986	58,6	19,7	21,4	0,3		100

Sources: Fu Guiqin 1992:196; Huang Boyi 1986:110-112; Huang Boyi 1987:40-42; Lin Qiufa 1988:135-137.

This drive towards modernisation was led on rather flexible grounds so to suit local conditions. What was requested from the state-owned small business bank was more demanding than what was asked from the Taipei Small and Medium Business Bank (*Taipei qu zhongxiao qiye yinhang* 台北區中小企業銀行), not to speak of the small Taitung Small and Medium Business Bank (*Taidong qu zhongxiao qiye yinhang* 台東區中小企業銀行) which prospective practice is rather limited (as a rough indicator, industrial parks in this district are occupying today only 0.28% of the whole island industrial parks area)⁴. The bigger these small business banks are and the more impersonal relations with patrons are, the more “modern” they make their management look. Conversely, the smaller they are, the more protective of their tontine business they intended to be. Changes in the number of bank branches devoted to tontine business (*biaohui banshi chu* 標會辦事處) actually disclose these trends. Formerly, it was planned that tontine business was to gradually vanish within about ten years as from the shift from tontine companies to small business banks. During a first period, in accordance with the current policy, the number of tontine counters did diminish from 45 in December 1979 to 9 in December 1985 (see table 9). During the same period, the number of purely banking branches rose from 153 to 213. It appears that the planned disappearance of the tontine business did meet strong

Table 9. Banking branches and Tontine counters

(end of year)	1979		1983		1985		1990		1991		1992	
	B	T	B	T	B	T	B	T	B	T	B	T
Small business banks for the												
- province of Taiwan	65	33	85		88		92	6	94	9	97	6
- region of Taipei	21		29		33		40	7	43	10	52	7
- region of Xinzhu	14	2	16	2	21	3	33	15	36	19	42	15
- region of Taizhong	20		23		27		40	15	41	15	44	12
- region of Tainan	13		14		19		25	9	28	12	31	12
- region of Gaoxiang	13	3	14	2	15	2	24	10	27	17	33	13
- region of Hualian	4	3	4	3	4	3	9	4	12	7	15	4
- region of Taidong	3	4	4	4	6	1	11	2	13	2	13	2
total	153	45	182	11	213	9	274	68	294	91	327	71

B = Banking branches; T = Tontines counters

Sources: *Jiceng Jinrong* various years from 1981 to 1993.

resistance from small business banks' patrons, the government subsequently had to move backwards: in six months from January 1986 to June 1986, the number of tontine counters climbed back up to 21. This increase did not stop, therefore in 1987 – *i.e.* when tontine business was supposed to come to an end – every small business bank (including the state-owned one) had revived its tontine counters.

The number of these counters carried on its increase till 1991 when 91 tontine counters were in full operation. The following year, it began its course downwards and fell to 71. Actually, the decrease occurring between 1991 and 1992 discloses a genuine vitality for not a few tontine counters had been in the meantime promoted to the status of banking branch. From 1997 to 1992, small business banks have opened thirteen new banking branches every year, figure which has to be compared with the fifteen branches opened by all other banks on the island during the whole period! As for the scattering of small business banks, 32.8% of their branches and counters were in major urban areas as against 56.2% for all other banks. During the same period their capital stock grew by 21.7% every year. In the 1990, small business banks were contributing less than 25% to the funding of small- and medium-sized enterprises. This figure should not suggest that small business banks are of small significance, on the contrary their marginal utility is rather high. These banks are serving the smallest among small businesses, *i.e.* those which are more labour-spending than capital-spending, which are more in need of daily working capital than investment in fixed capital, which are wanting more short-term funds than medium- or long-term ones and, for all these reasons, they are those which are requiring rather small loans which can precisely be granted by small business banks (as well as some other grass-roots financial institutions) and not by other but more “modern” banks (Yang 1992:66-67; ZXQB 1992:44-48; JJYGN 1990:50).

When small business banks were established in 1976-1977, the proportion of tontine-funded transactions accounted for 46.7% of the whole amount of transactions (see table 10). In the early 1990s, they had dropped to about 5%;

this fall should not conceal that the tontine business was at first trending towards different directions. At current prices, the tontine transactions topped in 1984; at constant prices, their amount remained rather unchanged oscillating around a balance point from 1977 till 1991. Afterwards, the trend moved downwards till 1995 when tontine transactions reached an almost zero level. As far as tontine deposits and tontine-funded loans are concerned,

Table 10. Banking and Tontine Transactions

(%)	Amount of transactions		Deposits		Loans	
	banking	tontine	banking	tontines	banking	tontines
1977	53.3	46.7	73.8	26.2	32.4	67.6
1983	85.6	14.4	89.4	10.6	81.2	18.8
1984	88.4	11.6	91.0	9.0	85.5	14.5
1987	94.8	5.2	95.5	4.5	94.0	6.0
1991	94.7	5.3	96.6	3.4	97.9	2.1
1992	98.2	1.8	97.7	2.3	98.6	1.4
1995	99.7	0.3	99.6	0.4	99.7	0.3

Sources: *Jiceng jinrong*, n° 14, 1987, p. 280; n° 26, 1993 p. 260; n° 32, 1996, p. 382-383.

the movements are more erratic. Tontines deposits have been steadily growing at 4.7% each year on the average (at constant prices) from 1977 till 1991; then they began their downward course. On the other hand, tontine-funded loans initiated their decay from the very beginning of the period. This situation illustrates firstly that managers were unwilling to link any longer their lending business with the tontine business – in other words they deem appropriate to operate as “modern” bankers are supposed to do –; secondly that patrons were reluctant to give up their old tontine habits in spite of new banking services seemingly as advantageous as tontine ones.

This hundred years' long march from informal micro-finance institutions to banking institutions teaches us that the modernisation of the financial sector does not necessarily have to make its way ahead of the socio-economic development of a country. Nor the financial sector have to uniquely

⁴ See http://idb.management.org.tw/chinese/Research/Annals_Journal/year/089/089-004-01.asp, accessed on 3 May 2003.

provide a “modern” and “formal” facet. Conventional economists support that financial deepening is the chief propellant of growth; it might be a mere tautology if the growth of a given country’s economy is identified with that of its formal sector and if the financial deepening means the creation and promotion of “modern” financial institutions serving this formal sector. The “Taiwan miracle” – as well as the Japanese and Korean ones – shows convincingly that economic development – not growth – does not depend on the sole deepening of their modern financial sectors. On the contrary, it might more heavily depend on the deepening of their “traditional”, “ethnic”, “informal” or whatever their financial webs are baptized. It is precisely here where the concept of “financial deepening” takes all its dimension: assume the informal financial sector as a springboard towards the formal financial sector.

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