



Global Highlights

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Access to Micro- finance: many flowers blooming. How long will they last?

- The Center for Global Development held a workshop in Washington DC last week, sponsored by Ministerio de Asuntos Exteriores y de Cooperación and Fundación Carolina, both from Spain, to discuss “Policies and Innovations for Improving Access to Financial Services in Developing Countries”. About 50 experts from all over the world as well as fields of expertise got involved into a well informed and lively debate.
- The need to broaden the scope beyond access to micro credit was a consensual issue. In fact, the experience of India, where savings and cash deposit accounts have been a great success, with people willing to pay for these services (instead of being paid real interest rates) was stressed. This seems especially important in rural communities depending on seasonally variable farm income.
- The rising role of retail companies in issuing micro-credit linked to durable goods sales was an important issue, with many people expressing concerns about the high and obscure costs for the consumers of many of these loans, as well as the absence of regulations, especially those concerning the accessibility of consumer debt information to credit bureaus.
- The success of initial experiences with mobile phone banking in the Philippines and some countries in Africa was noted, but some people remarked about their limitations when trying to go beyond transactions management: They found extremely difficult to go beyond cash transactions management since credit assessment would require more information about the consumer. On the other hand, concerns were raised about the dangers of unregulated mobile phone banking, if the model was extended to issue loans or accept deposits over the phone. Regulators were asked about what would happen if one of these phone companies defaulted on large prepaid deposits, linked to mobile phone banking. We did not hear any answers...
- Extending micro-credit through bank subsidiaries was discussed, noting the importance of adequate infrastructure (internet connections, secure offices, etc.) that make this approach expensive. In places like Brazil, where regulators have been very “flexible” in allowing banks to expand to these markets this way, there are major concerns about the risks the banks involved have been taking, as well as the way in which they are reflected in their financial statements.
- Several African countries, like Ghana, have taken flexible approaches to enhance access to financial services (mostly transactions). They include major efforts to improve connectivity, the establishment of a National Switch System to carry out electronic transfers, the funnelling of key government transfers as well as tax payments through this system, and the involvement of both, banks and microfinance institutions (most of them not-for-profit, grant funded organizations) with full access to the network. Smart cards, including biometric information are a key component of the system. One major obstacle is the large number of people living in rural or slum areas without an official address.
- The large flow of donations going into microfinance institutions was mentioned as a potential problem, with too much money going into weak institutions, with limited managerial capacities and few worthwhile projects to fund. Instead, many experts asked for equity financing of micro credit financial organizations, linked to technical assistance, exactly the kind of approach adopted by BBVA’s Microfinance Foundation.