

Microfinance nowadays

Interview with

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Question: Why microfinance has become so popular?

Microfinance has seen enormous growth in popularity because it is a concept and model that, at its foundation, appeals to the innate entrepreneurial spirit of human beings. We are all survivors, and this especially applies to poor men and women in developing countries. More often than not, they are not looking for a hand out, but instead a hand up; microfinance enables people to work their own way up the economic ladder, and that can be an enormously rewarding experience. Instead of poor people without opportunities, we begin to see microentrepreneurs with dignity and hope—working towards a better future for themselves and for their children.

Microfinance has also grown in popularity as it becomes an increasingly sustainable industry. In the early 1970s and 80s, many microfinance programs had to be subsidized in order to gain traction. Now, we are seeing microfinance emerge as its own asset class in the capital markets, meaning that it is not just a successful social venture, but a good business investment as well. At ACCION, our longstanding goal is for each of our partner programs to reach sustainability within three years. Of course, we will always need to subsidize certain high-risk or innovative projects, but the cornerstone of microfinance's success is that every microloan pays for the next one, thereby fueling growth. There are few international development strategies that have as much promise for sustainability and scale as microfinance.

Question: The nature of the microfinance's clients and their needs change in accordance with a country's stage in the process of sustainable growth. Do you think that microfinance institutions should adapt their services to the needs of their clients that are not poor anymore in a specific country or they should seek for poor clients in other countries?

The key to making any microfinance program successful is adapting to the needs of the clients—whether they are the poorest of the poor or the owner of a thriving small business. ACCION's partners cater to the diverse needs of the low-income population by offering a wide variety of financial services. There is never a one-size-fits all solution for any given country or market, and it is important to remember that there is demand for microfinance services at every level of the economic ladder. When a poor woman graduates from a solidarity group loan of \$50 to an individual loan of \$500, she still needs every penny of that \$500 to continue to build her future. What's more, the tragedy of our world is that there is always another poor person waiting for a loan of \$50. So, until we can reach full financial inclusion, ACCION will continue to offer an array of financial products that improve as many lives—in as many countries—as we can.

Question: What are the main internal challenges microfinance is facing nowadays?

One of the consistent questions in the microfinance industry is, how do we reach scale? We know that the model works, and that the demand exists, so what do we need to do in order to make the two meet? This is a question that ACCION, and many others, are committed to resolving.

A more timely challenge in the midst of the current global economic crisis has to do with microfinance institutions' (MFIs) access to liquid capital. Before the crisis, the most successful MFIs were seeing an influx of debt and equity investments from international capital markets. Now, most of those funds have dried up, and MFIs are having to look elsewhere to finance their projected growth. So far, they have been able to reach out to International Financial Institutions, such as the Inter-American Development Bank or the IFC, but if this crisis continues, we may see increased pressure on those resources as well. This will present a serious challenge for the growth of the microfinance industry.

Question: How can new technologies contribute to the development of microfinance?

Technology is an exciting frontier for microfinance, and one that holds great potential for the first challenge that I mentioned—that of reaching scale and meeting demand. For example, it's important to remember that many of the world's poorest citizens live in areas without roads or any significant

infrastructure. Faced with these circumstances, it is very expensive, in both time and resources, for a sustainable microfinance operation to reach poor microentrepreneurs in remote areas. Introduce the use of wireless PDAs or remote banking technology, however, and many of those costs are cut down to scalable level. Loans officers do not have to spend hours in transit and institutions do not need to spend valuable resources on the bricks and mortar of satellite offices. Moreover, technology can improve transaction security: funds can be borrowed, paid, forwarded, and so on, electronically, obviating the need for clients to carry around large amounts of cash. Once we can incorporate this kind of technology into daily microfinance operations, we are sure to see a surge in the number of poor, rural people reached.

Question: Can microfinance institutions assure their donors that their investments contribute to poverty reduction?

ACCION is currently working with the Consultative Group to Assist the Poor (CGAP) and other microfinance leaders to develop a set of guidelines for microfinance investors. The guidelines will include how an investor can be assured of a microfinance institution's efficiency and the social return on their investment. This is very important, as we see an increasing number of traditional investors entering the microfinance industry.

Question: How should be the approach from the banks in developed countries towards microfinance in developing countries?

Commercial banks in developed countries, such as Citi, JP Morgan, and Deutsche Bank, are playing an increasingly prominent role in microfinance around the world. ACCION works with many commercial banks—both in the US and in developing countries—to “downscale,” or specifically tailor, their operations for low-income populations. This model of downscaling has been very successful in places as diverse as Brazil and Haiti. Last year, ACCION partnered with EcoBank, the largest Pan-African bank, to bring microfinance to West Africa. By combining the local knowledge and on-the-ground infrastructure of EcoBank with ACCION's microfinance expertise, we are learning from each other and providing poor Africans with best-in-class financial services. Partnerships such as these are efficient and effective ways to expand the reach of microfinance.