

## **Microfinance may not seem like much, but it really can make a big difference**

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EVERYONE IS TALKING ABOUT "microfinance" like it is a new buzz subject, due to its widespread commercial success around the world. To understand the success of microfinance, we must understand how financial access matters to livelihood.

Imagine Jai, a recent widow with two children, living in a northern-Thai village. With her husband's death and no savings, Jai has trouble feeding her family, She is an excellent weaver and wants to open a stall in town. However, she needs a motorcycle and some capital. With these, she could make a living. Later, she could expand her business and save for her children's education. But with no credit history or collateral, Jai's local bank rejects her loan application because it lacks expertise in analyzing microfinance risks and opportunities.

In southern Thailand, Boon, a fisherman, has been unable to take his boat out for weeks because of bad weather. Suffering suddenly from no income, he cannot pay his mother's hospital bills. If only there was insurance to protect him from unexpected loss of revenue.

Financial access is like grease on the wheel of life. Unfortunately, many people lack the means to get their wheels turning. There are many reasons. One is high cost, because banks lack both the expertise and a suitable business model to deal with small clients. Others include a lack of personal identification or collateral, distance to the nearest bank, minimum deposit requirements and financial literacy. Unable to access finance from banks, they turn to relatives or friends. When this channel is also exhausted, they are forced to turn to loan sharks. The price, though is often more than just interest and the last of their assets go, bringing even more hardship to the family.

Microfinance is one solution, with products and delivery channels to suit small clients' needs. Examples include no-fee savings accounts, some with doorstep collection features and micro credit based on a group guarantee rather than collateral. The pioneers, including state-

owned banks and non-governmental organizations, had high operating costs. But microfinance is not unprofitable. Contrary to earlier perceptions, the poor do repay loans, because they long for the opportunities they provide and will not risk losing them. (Why go back to a loan shark?) Also, cheap technology like mobile phones can make distances disappear. Given these things, coupled with banks' improved risk management, reaching the poor can be an attractive business.

Something to keep in mind is microfinance is more than micro-credit. It includes other products that address the financial needs of the poor in all-important areas of life. While Jai needs a business start-up loan and a savings account. Boon needs micro insurance. Microfinance must be inclusive to deliver life-changing results.

How can we ensure the benefits of microfinance are widespread and ongoing? It needs first to be commercially sustainable and fair. There are several networks of authorities, practitioners and experts specifically designed for knowledge sharing and exchanges of microfinance that Thailand can learn from.

With the right knowledge and implementation, we, too, can tap into these new opportunities. The idea is a noble one. It is not the "rocket science" of modern investment banking that threw the world into the global crisis, but it did earn someone a Nobel Prize!

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**(The views expressed are the author's own.)**

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