

Microfinance: A Great Small Thing

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IN TODAY'S the modern world today there are many ways to make our lives better. For some of us it seems as though the variety of options are limitless. However, for some people, problems of lack of access to some vital services can still be found.

Limited access to financial services for particular groups of people, mostly the poor, is an area of growing concern and microfinance offers untapped opportunities to counter these gaps.

When we talk of financial services for the poor, we need to understand some unique characteristics. Most transactions are in small amounts and the customers usually do not have documents and collaterals that are required in traditional banking.

Physical barriers such as distance from the bank branch or the constraints caused by their way of life may result in limited access to these services. For example, vendors cannot go to the bank during business hours because they are not able to leave their stalls as they may lose customers while absent, or those who live far away, the cost of travelling could be more than the transaction amount. These factors may finally deter these groups of people from making transactions through banks.

From the traditional banking point of view, in addition to lacking expertise in this field, most banks see these small transactions by a large number of small customers as incurring high operating costs and it is hard to evaluate the ability to make repayment of such customers. They thus find this market unattractive and keep their focus on corporate banking.

Microfinance, generally defined as financial services, including savings, loans, money transfers and insurance, in limited amounts for low income people or microenterprises.

Like other developing countries, Thailand has long been providing services to assist the poor which are similar to microfinance activities. Examples would be schemes run by Specialized Financial Institutions (SFIs), such as the Government Savings Bank, Bank for Agriculture and Agricultural Co-operatives, co-operatives, other government schemes such as village funds, and self-help groups guided by foundations or local gurus. Many of which have proven successful and play a key role in providing community-based financial services and improving lives of the Thais.

Despite these channels, and a few retail products provided by traditional banking operators that suit these groups of clients, there is still room for the commercial banks to play a role in providing a broader choice of services to a broader group of people and microenterprises.

Today, we see many successful commercial bank services in many countries around the world. For those commercial banks, the microfinance business is seen as an innovation to turn the untapped market into a commercially viable market. It allows them to reach out to a new group of customers, for example, people whose livelihood or assets they hold do not fit the bank's traditional profile in terms of income and collateral, those for whom the services are not conveniently available, or those for whom banks simply lack ability to evaluate credit worthiness.

There are many success stories around the world in the microfinance markets, ranging from the services for the very poor all the way to the microenterprises. The core driver behind the success is inevitably the ability to innovate and find a new way and new technology to deliver the services at the reasonable cost that could not be done before. Technologies that help are, for example, e-payments and mobile payments which can provide cheap, fast and safe services.

Many of the financial innovation used to set up successful commercial credit schemes have emerged organically, from grass root up, such as the group-guaranty and peer pressure as a very successful credit discipline mechanism. However, the most important factor behind this success is the conviction and entrepreneurial spirit of stakeholders, namely the grass root society, banks, the regulators, and NGOs.

Stakeholders have to put effort to make this come true and workable. The authorities need to examine the regulations that can be obstacles, both for banks and clients, and find approaches to facilitate the market for microfinance where possible, while maintaining prudential standards, fair consumer treatment, and guard against over-indebtedness to ensure financial stability at the macro level.

Banks have to understand the characteristics of the clients to find suitable business and risk management models so as to earn profits from this market. It is also important for these two stakeholders to ensure sufficient financial education for the clients in order for them to make the right decisions. However, potential clients also have to prove themselves as disciplined and quality customers in order for them to be entitled for microfinance services and become clients of the traditional banking sector in the future.

The Bank of Thailand has recently released a guideline on Microfinance Loans for commercial banks. The guidelines provide more flexibility for banks to initiate the business models that suit the needs of small-sized customers who are seeking new opportunities to start or expand their businesses.

Microfinance, like other tools in the economy, may not be a perfect tool or a magical wand that will eliminate all the problems regarding financial access and poverty. Though these services are available in certain areas, the untapped potential of this market should be further realized. It cannot be denied that with innovation and proper use by both banks and customers, businesses will expand, financial access gaps will narrow, economy will be improved, and people will have a better standard of living. In the long run, it is hoped that people who have less opportunities today, will be able to proudly stand on their own feet and lend a helping hand to others in society.

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

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