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Equitable Access to Financial Services: Is Microfinancing Sufficient?

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Access to the financial sector has numerous benefits. Savers and investors are matched, transactions costs are lowered and liquidity is created. But less than half of the households in developing countries have access to financial services, compared to over 70 per cent in the developed world.

By 2006, even in relatively successful countries such as Ghana and Tanzania, only about 6 per cent of the population had access to banking services. In Benin, there were only 35 bank branches serving a population of 7 million. Will microlending increase access to financial services?

Microfinance institutions (MFIs) serve the rural and urban poor, especially disadvantaged women. Often, commercial bank branches are far from towns and villages, and the transport costs needed to access them are unaffordable. The poor may even lack the minimum cash amounts required to open bank accounts. Unfamiliarity with the complex procedures and paperwork involved in withdrawing and depositing money can also constrain access.

Hence it is unsurprising that MFIs are attractive to the poor. They pool resources to spread risks for both borrower and lender. Traditional networks and peer reviews ensure creditworthiness. Loans are secured through joint liability. And savings cushion seasonal fluctuation in earnings or can be used to pay for social events and production inputs.

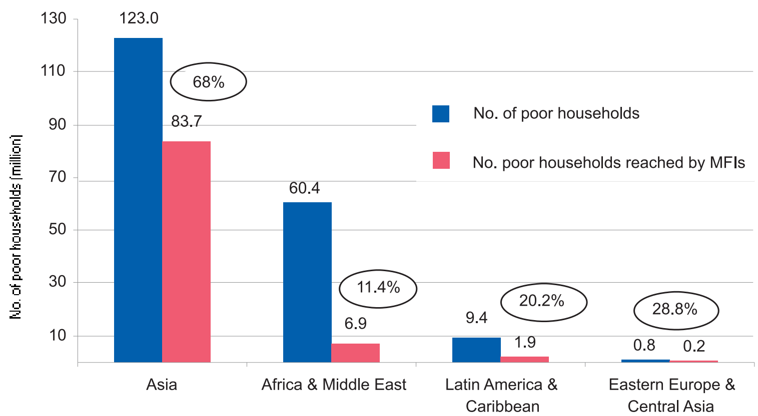
The 2006 Global Microcredit Summit pledged to provide microfinance to 175 million poor households by 2015. Governments and development agencies support the expansion of MFIs. For instance, the International Finance Corporation bought over US$ 1 million in shares in the Accion Micro Finance Company of Nigeria.

By 2006, there were 3,316 MFIs with more than 133 million members worldwide. Of these, 69.8 per cent were among the poor (defined as earning less than US$ 1 a day). Women accounted for 85 per cent of poor clients. In Sub-Saharan Africa, a total of 970 MFIs reported having 8.4 million clients.

As regards *households*, however, the figures tell a slightly different story. Of the 193.6 million poor families worldwide, only 47.8 per cent were within reach of MFIs. Of the 60.4 million poor households in Sub-Saharan Africa and the Middle East, only 11.4 per cent had access to microcredit. Asia fared better: 68 per cent of the region's 123 million poor households had access to microcredit (see Figure). Within Sub-Saharan Africa, a small number of countries are beneficiaries. About 1.4 million households in Ethiopia, 1 million in Nigeria and 688,199 in Burkina Faso participated in microfinancing schemes.

Even in Asia, the successes of MFIs have not been unqualified. Research shows that most poor clients are just below the poverty line—they are what is termed the "richest of the poor". MFIs were biased towards urban dwellers and were excessively dependent on external funding (Chandrasekhar, 2004).

Access to Microfinance, 2006



Source: Daley-Harris (2007). Circled figures indicate the share of poor households reached by MFIs.

What would enable MFIs to improve service delivery? One popular recommendation is to link them to commercial banks. Branch network-sharing, for example, benefits both the MFIs and the banks. It provides the latter with a wider client base and facilitates the extension of credit to MFI clients, especially among the owners of small enterprises (a development known as "the formalisation of the informal economy"). Linking MFIs to commercial banks, however, does not guarantee that enough of the poor will be reached. The effects of such endeavours are limited by the shortage of commercial banks, particularly in rural areas.

Ultimately, public policy will have to include direct lending to reach enough of the poor. In this regard, China's rural credit cooperatives and Vietnam's Bank for Social Policies are two examples worth considering. These countries provided selective interest rates, investment guarantees and export-promotion credit. Public policy focused on rural development through credit programs in labour-intensive sectors. Available information shows that half of the loans were provided to poor households, a third went to beneficiaries in remote areas, and more than a fifth was devoted to job creation. China and Vietnam experienced a dramatic fall in poverty levels. Their experience provides a lesson to be learned.

References:

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