

REMARKS MADE AT UN CONFERENCE ON BUILDING INCLUSIVE FINANCIAL SECTORS

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Microfinance seeks partners with whom to dance
c John Hall, PostGazette

It seems to me that this event has some of the characteristics of a ‘coming of age’ ball for microfinance. If the [MicroCredit Summit](#) 8 years ago was the ‘baptism’ or the ‘baby shower’, today, this year, it is the debutante’s ball, where microfinance seeks partners with which to dance. It is a time of name change too: those of you with children will know that the time comes when the nickname, so suitable for a gurgling 18 month old, is inappropriate to use on the gangling teenager. So, today, we have a name change: from micro credit 8 years ago, via microfinance to “inclusive financial sectors”.

As the relatives and friends at the ball, we face in part the question of whether the debutante in fact has any clothes. I think that the framework document has largely answered this question of substance: there is now sufficient evidence that microfinance has impact. The more relevant question is perhaps how long the clothes will stay on—or in other words, is this a fad which will pass?

To address this, I have three comments related to the framework document to offer in the short time allocated to panelists.

First, on the issue of vision. We all acknowledge how important vision is—without a shared vision, we can hardly hope to go anywhere together. The document’s vision section makes a good start; but it contains a simple ‘b’ word which needs further discussion. ‘B’ words, like the word ‘but’, have a way of sounding innocuous but changing the track of conversation 180 degrees. The ‘b’ word here is ‘bankable’. In the slightly misquoted words of philosopher Alastair McIntyre: ‘Whose banker? Which bank?’ (see [previous blog on this](#)). At the level of vision, this qualification to me seems very limiting. I am not of the school that views access to credit as a human right, but I would be close to those like Hank Jackelen of UNDP who view access to savings as a human right; except that I would rather apply this to the right of universal access to transaction accounts—from which it is possible to transact, remit, save and, if appropriate, access credit. Of course, this is not easy to achieve—but a meaningful vision is not meant to be easy.

Second, Kathryn (Imboden) mentioned earlier that the blue book was not a snapshot but a mural—a pastiche of pictures. I’m sure she would agree that it is even more than a mural—it is a movie. The field in which we deal is very dynamic; and let us be sure to consider the dynamics. Given all the energy and focus on the field, we face the question: is the move towards inclusive financial sectors now inevitable? This is an important question, especially for donors and policy makers who would consider interventions. This is the question which defines ‘additionality’, the donor holy grail.

Some say that nothing is inevitable but death and taxes—except if you work for the UN or ILO, of course. Perhaps. I think that there are very powerful forces, mentioned in the Blue Book document, which create a momentum which is hard, though not impossible, to stop. These include competition, globalization and technology. The later we tend to overestimate in the short term and underestimate in the long term, Bill Gates says. We are now in that long term where we are seeing applications of appropriate technology, such as cell phones which are now widely accessible and very appropriate, in even the poorest countries. I would, however, like to add more emphasis to the first—competition, and even globalization. I think that the framework document understates the effect of entry and competition from major banks into this market, which is driven by competitive dynamics and which is now happening in various markets. The nineties were the era of wholesale banking in the developed world; retail banking was ignored. Now, we are in an era of retail banking when in the US and other developed countries, banks are rushing to open branches, introduce new products and exact operating efficiencies in their suddenly core retail markets. They are running out of road there; consolidation has already been happening. The relatively virgin retail markets of larger emerging economies start to look a lot more attractive to them.

But this generally positive force brings risks too. If you ask me what can at least slow this progress, my answer is ‘blowouts’—incidents, popular eruptions, the popping of credit bubbles such as we saw in Bolivia in 1999 and in my own home country, South Africa in

2001. In each case, the over rapid expansion of credit, esp. consumer credit, led to rising indebtedness; and eventually large credit losses and a political reaction. In both cases, this put back the microfinance movement although it has not stopped it. We need to attend to issues like consumer protection and financial literacy now to reduce the risk of widespread exploitation in the name of microfinance leading to backlash.



Another small ball....

Third and finally, some say that it was the arrival of the first pictures of the earth from space in the 1960's which catalysed the environmental movement, so powerful today: as people saw our small, vulnerable ball of a planet in its completeness for the first time, their perspectives changed. If microfinance is to become a lasting movement of any power, it needs similar pictures of the whole: these are the demand side studies of the levels of usage and access which have been mentioned. Anjali Kumar of the [World Bank in Brazil](#) and [DFID in Africa](#) have been doing good work in this respect, but we need to go further to get sufficient standardization and trend over time. Some say this costs too much money; yes, it is expensive, but so were the space missions. Let us here in Geneva at least together say that this is a priority for the next stage of building inclusive financial sectors.

So, Chair, if this is the debutante's ball of microfinance, I look forward to the wedding—when microfinance will finally lose its name and be fully integrated into the retail financial sector; when all will be included. I am not sure when this wedding will be; but I hope to see you all there!