Finance

Microenterprise in Paraguay: Potentially a Heavyweight Sector

A large portion of the employed population in Paraguay works in the microenterprise sector, which has produced many successful and dynamic businesses. More than 150,000 microentrepreneurs have accessed financing through specialized microcredit institutions. However, many microenterprises do not provide their proprietors and workers with a significant and steady source of income due to low productivity, limited management capacity, and lack of access to financing. This underdeveloped group of microenterprises, which accounts for 85% of the total, is an important and interesting potential market for microcredit and non-financial enterprise development services.

The microenterprise sector employs about 74% of the population in businesses with 10 employees or less. A significant number of microenterprises are rural with 57% of self-employed workers living in the countryside.

Most microenterprises are run by a single person working alone (63.1%), followed by those in which two to five people work (35.8%). Only 1% of microenterprises employ six to 10 workers.

Microentrepreneurial activities are diverse. In urban areas, commercial businesses are common (43%), including small grocery stores, food vendors, street vendors, stalls in streets or in markets (clothing, electronics, telephones and accessories, vegetables, fruit, medicinal herbs, and refreshments), and hardware stores, among others. Service microenterprises include mechanic shops, electronics repair shops, garden

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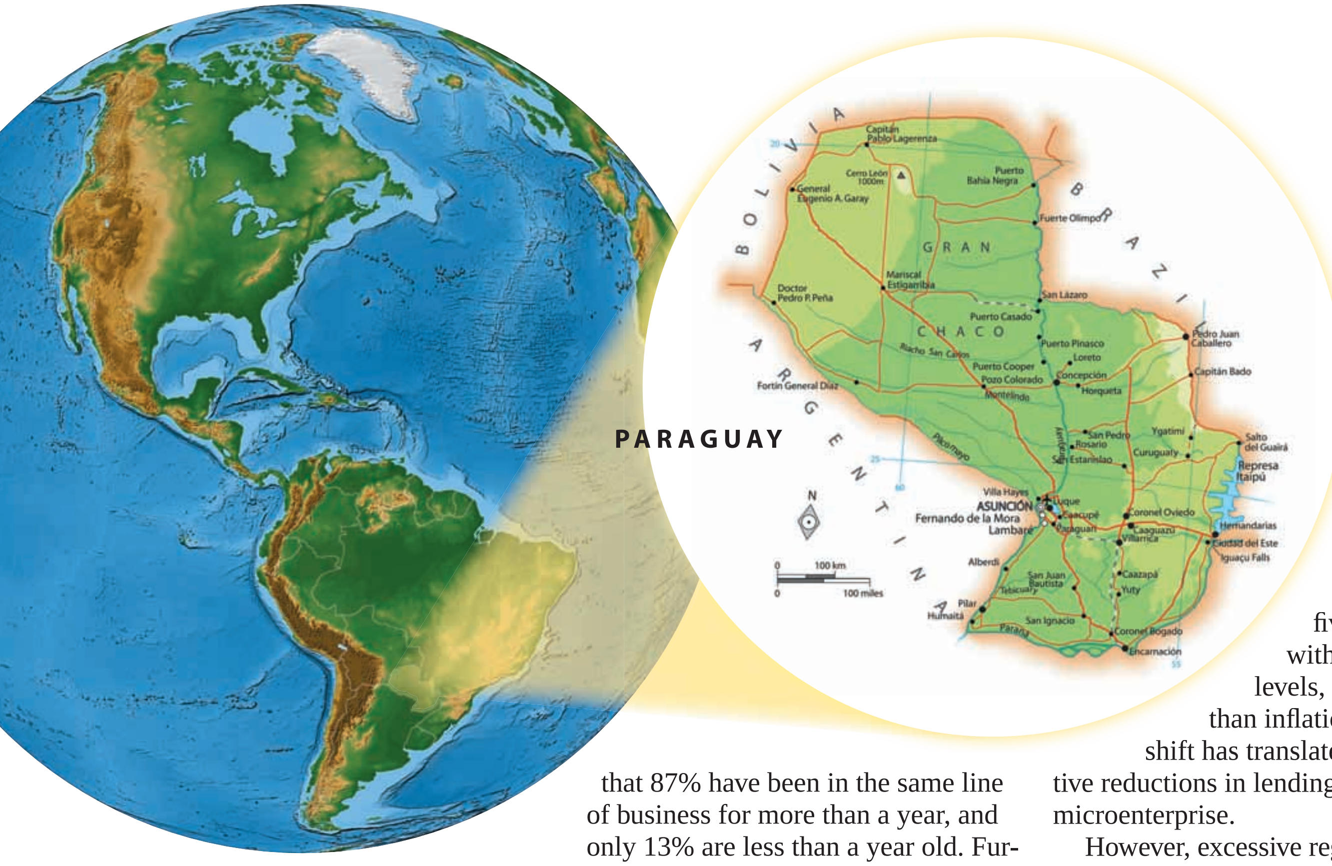
Paraguay's microfinance industry is distinctive because of its valuable experience with technology developed to expand microcredit into rural areas.

DANNY ADORNO



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shops, laundries, beauty parlors, pawn shops and construction contractors, among others. The goods produced in productive microenterprises include construction material, crafts, ironwork, and carpentry. In rural areas, agricultural activities predominate (76%).

In terms of potential growth, a large number of microenterprises survive at the subsistence level (85% in the rural area); the rest earn above the minimum salary. Approximately 87% of urban microenterprises do not save, the majority due to lack of capacity—after the monthly bills are paid, nothing is left over. Only 28.7% of microentrepreneurs are in the position to save, investing their money in the business or in their home.

Higher profits are more common in service microenterprises, compared with those dedicated to commercial activities, the majority of which register income levels of less than 50%. Productive enterprises, however, show an equitable distribution among the different income levels in the sector.

The stability of Paraguayan microenterprises is reflected in the fact that 87% have been in the same line of business for more than a year, and only 13% are less than a year old. Furthermore, the majority of microenterprises operate 10–12 months per year. However, the high proportion of low-skilled workers is a concern. Many take in low earnings and work long days, and most workers lack access to services that could help protect them in times of illness, incapacity, or old age. An estimated two-thirds of the country's microenterprises operate informally, although in legal activities.

Microenterprise has traditionally been an employment-generating resource. Despite recent economic growth rates of nearly 7%, employment has risen at a slower rate. As a result, one in three Paraguayans has employment problems, either being unemployed or underemployed.

In recent years the macroeconomic environment has undergone some critical changes. The reevaluation of the national currency (or 35% depreciation of the dollar) in the last three years has had a negative impact on exports. However, commercial microenterprises have been more dynamic, especially those that work with imported products. Another key macroeconomic variable, the financial interest rate, has dropped from 35% to 20% over the last five years, with constant levels, even higher than inflation. This shift has translated into relative reductions in lending rates for microenterprise.

However, excessive regulations are unfavorable to competition, and the problem is growing worse with inconsistencies in how the regulatory framework is implemented. The consequences for entrepreneurs are high costs in money and time. The situation is also fomenting a source of corruption, since the regulatory agency has significant discretionary power. The regulations do not suit the vast heterogeneity of businesses in the sector and lack the flexibility needed to adapt to the shifting conditions that

A publication on Paraguay's microenterprise sector will be available at the XI FORUM. For more information on how to get a copy, contact the IDB Country Office in Paraguay.

are indicative of an open market economy. The result has been that Paraguay has received low marks in various rankings on "business climate," even though the last issue of FORBES Magazine advanced Paraguay from 98th place to 70th among the 121 countries analyzed.

While non-financial enterprise development services may be limited, credit for microentrepreneurs has generated a portfolio of nearly US$200 million and more than 150,000 borrowers over the last 10 years. However, microenterprises continue to lack access to these services, especially those located at the bottom of the pyramid, where only 15% have any kind of loan.

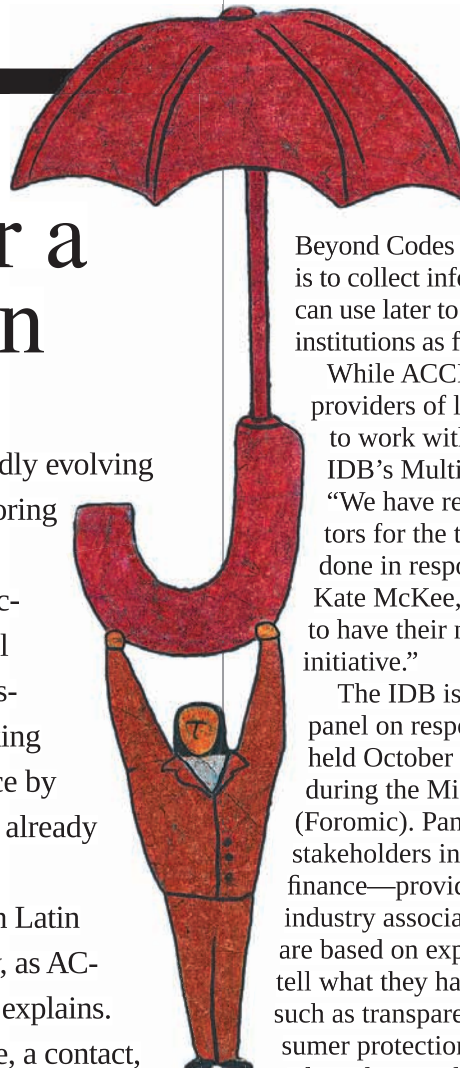
The institutions regulated by branch management (banks and financial institutions) reach just over 60% of the market with loans that average US$1,200. Cooperatives cover one-quarter of the market with a similar average balance but wider variation in amounts (from US$200 to US$3,000). Non-regulated institutions cover the remaining 10% with credit levels slightly below US$400.

DANNY ADORNO

Paraguay's microfinance industry is distinctive because of its valuable experience with technology developed to expand microcredit into rural areas, along with a strong and growing presence of savings and loan cooperatives with microcredit programs. And though low coverage persists, at the same time it offers broad market potential and poses new challenges to serve this segment with technologies and instruments that respond to the tremendous needs existing in the country.

Link:
www.forbes.com/

Responsible Finance:
The Need for a Shared Vision



In microfinance, a field that is still rapidly evolving in Latin America, key players are exploring responsible finance and trying to find frameworks in which products and practices work for both clients and financial institutions. Providers, regulators, investors and industry associations are working to achieve more sustainability in finance by making it more responsible. And some already have stories to tell.

The notion of consumer protection in Latin American microfinance is in its infancy, as ACCION's Vice President Robin Ratcliffe explains. "It's one thing for people to have a code, a contact, a customer protection reference," she says, "but how to implement them is a whole different ballgame."

ACCION launched its pioneering Pro-Consumer Pledge in 2004, based on nine specific principles of fairness. It is currently leading the Beyond Codes project, a worldwide initiative that seems to be right on target. "Their idea is to work with microfinance institutions that already have a code of conduct," says CGAP's Kate McKee, "so we can move from code to procedures, compliance, and staff training." Beyond Codes is scheduled to launch simultaneously in four countries around the world by October 2008. Mexico is the only Latin American country participating in the initial phase with several MFIs partaking in the project. "We will go to the MFIs and work with them on self-assessment of their consumer protection practices, see what does or does not work, and help them with an action plan," says Elisabeth Rhyne, who heads the Beyond Codes project. The initial goal is to collect information that ACCION can use later to help certify microfinance institutions as followers of good practices.

While ACCION takes steps with the providers of loans, CGAP has decided to work with investors, including the IDB's Multilateral Investment Fund. "We have reached out to some investors for the things they have already done in responsible finance," says Kate McKee, "and we are asking them to have their name associated with our initiative."

The IDB is organizing a plenary panel on responsible finance to be held October 9 in Asunción, Paraguay, during the Microenterprise Forum (Foromic). Panelists will include leading stakeholders in the new field of microfinance—providers, investors, regulators, industry associations, whose perspectives are based on experience. Their stories will tell what they have learned on key issues such as transparency with clients, consumer protection, business ethics, codes of conduct, and corporate governance.

Which issues are most important and why? As markets get more competitive and lower-income consumers gain access to formal financing, what types of questionable practices tend to surface? What are the best tools to ensure the right balance between access and protection? What types of regulatory measures have already been tried and with what results? What are voluntary codes of conduct? What about demand-side interventions such as consumer education? Can regulation support voluntary market-friendly initiatives? Can policy stimulate self-regulation?

The synergy between these initiatives should be obvious. "You throw a pebble in the water and watch the ripples grow," explains Kate McKee.

BY SAMUEL SILVA

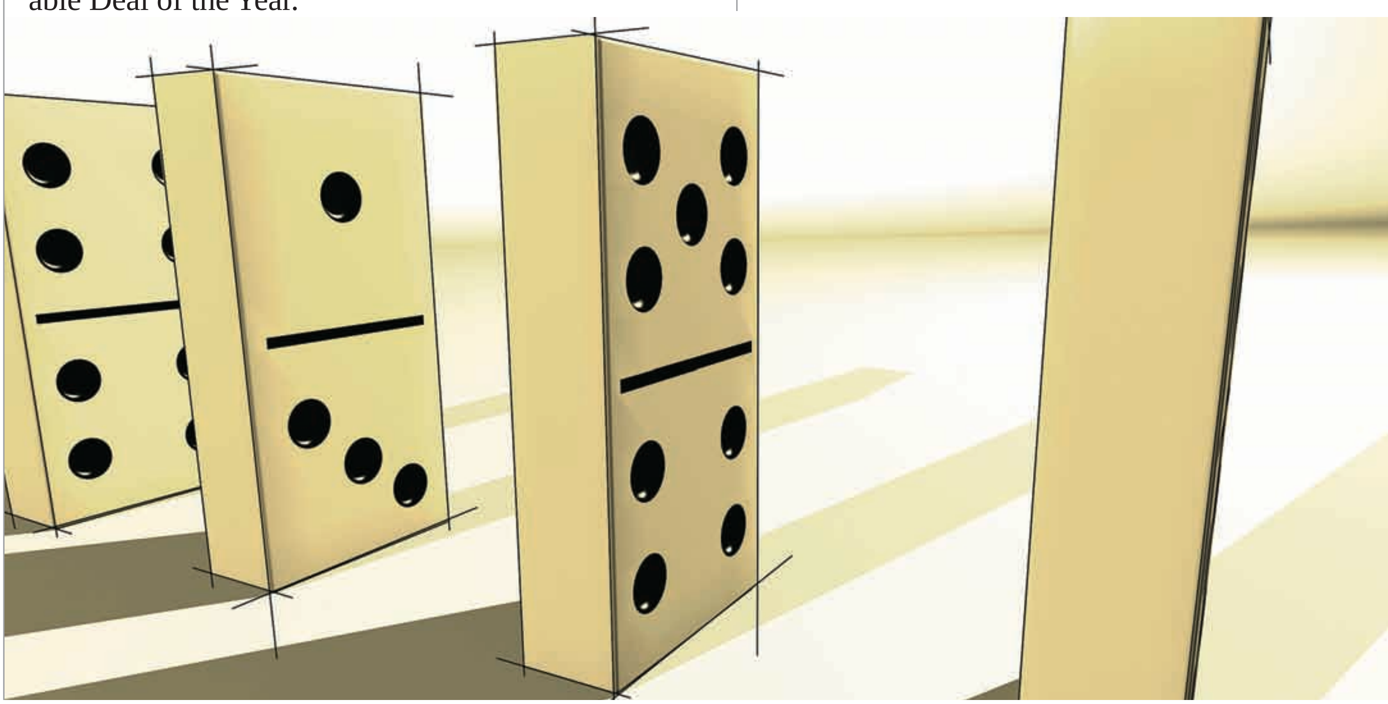
Link:
www.accion.org/center
www.cgap.org

Finance

Credit Crunch: The Domino Effect

Microfinance is expanding in Latin America. Economies are growing and stabilizing and commodity exports are selling at good prices. International capital markets have opened up, and everything seems possible. Ladies and gentlemen, welcome to Wall Street, where we have discovered the most ingenious financial instruments engineered by Citigroup, Morgan Stanley, Deutsche Bank and Standard & Poor's. Why do we have to worry about the mortgage crisis with our great partner to the North? The honest answer—–"CLO."

The mood was one of pure celebration on June 3, 2008, at the administrative headquarters of BlueOrchard Finance in Geneva, Switzerland. The *Financial Times* and the International Finance Corporation were hosting the Sustainable Banking Awards ceremony, and a venture by BlueOrchard and investment bank Morgan Stanley to loan money to the microfinance industry had just won the award for "Sustainable Deal of the Year."

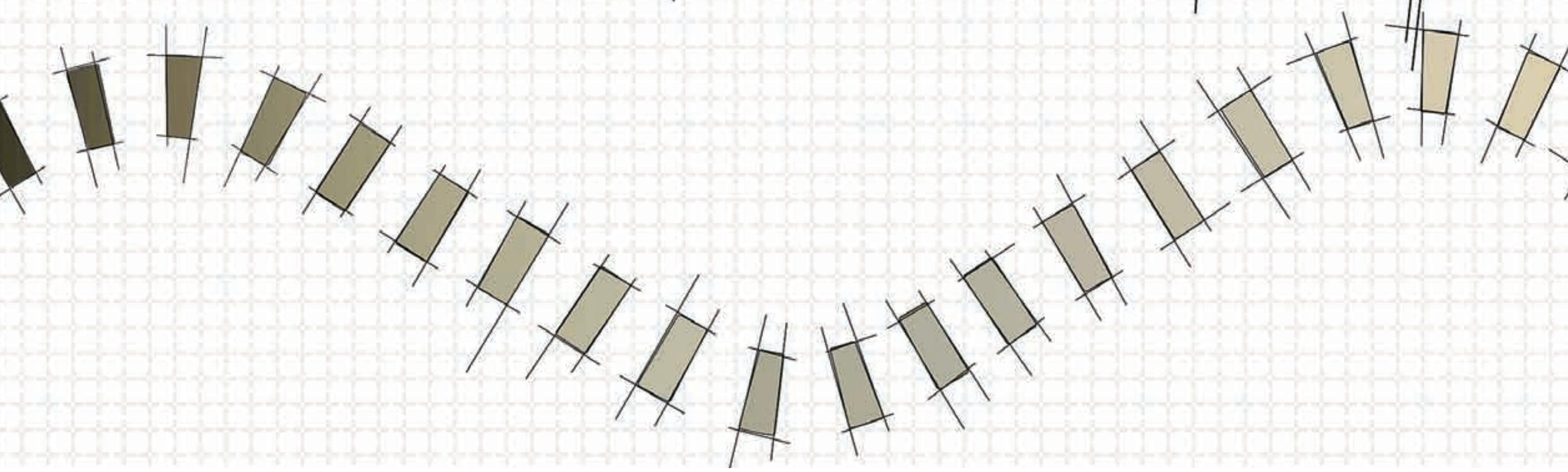


The transaction known as BOLD2 (for BlueOrchard Loan for Development), made a big splash when it was launched in April 2007. The Collateralized Loan Obligation (CLO) was structured by Morgan Stanley to loan almost US$110 million to 20 microfinance institutions selected by BlueOrchard in 12 countries around the world, including Colombia, Nicaragua and Peru.

This was not the first time that a group of microfinance institutions had come together under the umbrella of a CLO to obtain financing in international capital markets. Nor was it the first CLO for microfinance, or even the first BOLD transaction for Morgan Stanley and BlueOrchard. Both firms had previously joined forces to structure a similar securities-backed loan to microfinance institutions in 2006.

But this time Morgan Stanley had crafted a "currency swap" mechanism that would allow more than 60% of the obligations to be placed in local currencies, including Peruvian *soles* and Colombian *pesos*. It was also the first time that a major international rating agency—Standard & Poor's—ranked a debt issued for microfinance. This fact alone was enough to attract top institutional investors.

And so it happened again. The BOLD2 securities were issued in less than a month, backed by 21 investors, among them banks,



insurers and mutual funds—the cream of the crop of corporate finance. But in truth, that night in Geneva, just as BOLD2 was receiving the award for Sustainable Deal of the Year, its business was no longer sustainable—and had not been for several months.

The Innocent Pay for the Guilty

Ironically, the market began to dry up almost immediately after the BOLD2 notes were issued. “We are no longer investing in debt papers,” said Paul DiLeo, managing partner of Grassroots Capital Partners and CEO of the microfinance investment fund, Gray Ghost Fund, adding that this policy had been in place at his firm for 18 months. A source close to Morgan Stanley said that BOLD2 could not be established today, nor would it have been set up in the second half of 2007.

“The market froze abruptly,” said DiLeo. Several CLOs scheduled for early 2007 never materialized, and at least one, which was launched and placed in the market, was open for several months without success.

The truth is that BOLD2, the greatest success of financial engineering in microfinance, was also among the last, along with the initial public offering (IPO) of the Mexican microbank Comportamos. Both enterprises were launched in April 2007, and 16 months later, there were still no takers.

Morgan Stanley created a microfinance unit when it realized the opportunity presented by its BOLD transactions. More recently, however, the unit began to explore new products,

If the giants collapsed, who would invest their trust and money in unknown microfinanciers in the emerging markets?

recognizing that the CLO opportunity had drawn to a close.

What happened? By and large the over-indebted mortgage crisis in the United States became evident in the second half of 2007 and within a few months led to the resignation of the presidents of Citigroup and Merrill Lynch and the collapse of Bear Stearns, the fifth-largest investment bank in the United States.

Mortgage loans saved the U.S. financial system after the high-tech investment bubble burst in late 2000. “The houses that saved the world,” read a headline of *The Economist* magazine. But the excess of money in the hands of banks and the sustained increases in the cost of housing provoked a new bubble that replaced the previous one. Banks began offering high-risk mortgages—known as *subprime* loans because they are offered to low-income clients—with high interest rates and hefty bank commissions. Clients became indebted thinking they could pay their mortgages by selling their homes at profits similar to what they had seen in previous years. And since mortgage debt can be sold in the form of bonds or securitization of credit, a high volume of subprime obligations was transferred into investment funds and other institutional investments.

The 2007 mortgage crisis was unleashed when investors noticed the increase in delinquency and default rates. But they were slow to realize it, due to the growing automation of the securities market and an unprecedented abundance of liquid assets. It did not help that when the banks began to feel funds tighten, they turned to mechanisms such as CLOs—similar to the microfinance transaction launched by Morgan Stanley and BlueOrchard, but backed by housing.

The repercussions were evident. Banks and investment funds had compromised their assets in high-risk mortgages and caused a contraction of credit (the now famous credit crunch) and a downward spiral in investors’ confidence. By the end of 2007, Citigroup announced losses of US$6 billion and Merrill Lynch recognized that it had unrecoverable loans of almost US$8 billion. If the giants collapsed, who would invest their trust and money in unknown microfinanciers in the emerging markets?

The Other Side of the Coin

Experts and investors agree that the contraction of microfinance lending markets has no relation to the quality of the industry’s assets. “The truth is that microentrepreneurs and microfinanciers are not subprime clients—they’re *prime* clients,” stresses Tomas Miller, microfinance specialist at the Multilateral Investment Fund (MIF) of the IDB.

The underlying assets of the indus-

try remain as strong as ever, agrees Paul DiLeo of Grassroots Capital Partners. The primary hesitation for investing in microfinance is the same across all investments because *all* markets are contracting, irrespective of the quality of assets in a particular industry. The relative increase in interest rates occurring today, DiLeo adds, is a product of diminished global liquidity after a number of very liquid years.

"Simply put, a perception of greater risk exists on the part of investors," a source close to Morgan Stanley concurs. "Those who could have been content with a 12% profit margin yesterday now want a 25% margin, and microfinance institutions are not willing to pay such high interest rates."

CLOs and other financial instruments structured by the magicians of Wall Street helped build up the brand image of the industry, explains DiLeo. They gave visibility and legitimacy to microfinance as a sector capable of playing on equal footing in international capital markets. They may have been useful public relations tools, yet their sudden end has not had a visible impact on the industry. Microfinance institutions continue to have access to the capital needed to carry on their business. "Most funding comes from local sources," explains DiLeo. A participant in BlueOrchard and Morgan Stanley's award-winning operation shares his opinion: "MFIs had received local funds and many were already well-funded when they contracted the credit," he says. "The CLOs can help diversify financing sources and stimulate cross-border investments, but microfinance institutions in the region have not lacked capital."

Not all was rosy during microfinance's fleeting surge in international capital markets. While some microfinance institutions offered shares on the stock market or complex financial transactions on Wall Street structured by wealthy investment bankers, donor agencies and social investment funds urgently began examining how they were handling their own funds. Had they become irrelevant? Would they have to reinvent themselves? Had they donated resources to institutions that were seeking profit rather than development, while charging higher interest rates than commercial banks?

The rise and fall of microfinance's structured debt during 2006 and 2007 "makes us refocus on the basis of the industry," says Kate McKee, of CGAP. "Perhaps now it will be good to refocus on the underlying assets and directly buy corporate debt from microfinance institutions."

But another CLO? "If the markets return," sighs one participating investment banker nostalgically, "that's my dream."

BY SAMUEL SILVA

Technology and Networks: A Perfect Fit

The cell phone and the Internet are doing wonders for many micro-businesses. But watch out: Projects can only succeed with a support network and critical mass.

Upload your own music onto the Internet, bypassing the record companies. Make a call from a mobile phone using Telefonica's network but without joining the giant. Sell handicrafts at a decent price without getting ripped off by a middleman. And why not seek funding from European or U.S. investors for your microenterprise from the comfort of your living-room sofa? No, Aldous Huxley has not returned to usher in a "brave new world," but technology is creating one that is profoundly streamlined—and, who knows, perhaps more fun.

Microentrepreneurs have been viewed for the most part as retailers and providers of traditional services, yet today a wide range of innovators are pursuing small but well-founded projects. The above examples are, in fact, the products of inventive microentrepreneurs intersecting with new technology platforms that are becoming more accessible and less expensive, a phenomenon that is undeniably becoming global.

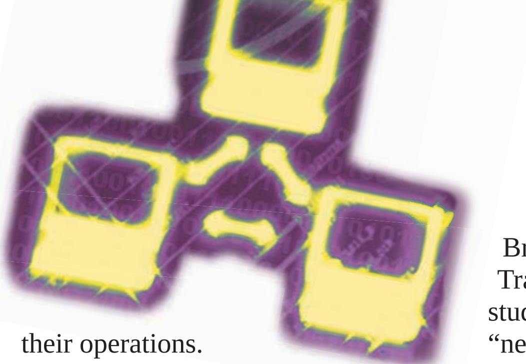
Independent experts and the Multilateral Investment Fund (MIF) have begun to study business models that support these activities to determine the pros and cons. Is this a paradigm shift for microentrepreneurs? "The idea is to look at how and why these phenomena arise, and not to judge them," says Jaime Garcia Alba, a MIF expert in innovation and knowledge management. "It is interesting to observe how new technologies lead to the development of new business models, and analyze whether these bring risks and innovation with them, and see how microentrepreneurs can benefit."

The key to these enterprises lies in one small but significant word: *networks*. Obviously projects cannot prosper without a critical mass of user-client-consumer groups and networks. Financial resources will not ensure sustainability without a market or niche in which capital can resonate. On the other hand, there needs to be respect for intellectual property—which is facilitated by users becoming involved in generating products or services—and, more specifically, with participant involvement and adaptation.

The following practices have been developing in the region and throughout the world for some time. In all cases, the models are considered replicable to scale.

Musicians, tourists, and artisans

In the study "Cultural Industries on the Web 2.0," expert David Casacuberta presents four typical and compelling examples of how the Internet can be used to support microenterprise. The decreasing costs of technology have led to shifts in the industry from mass production to mass personalization, allowing the Internet to be used as a channel for pro-



moting, distributing, and marketing traditional products and services.

Examples are cropping up throughout the region. In Jamaica, for instance, some artists are trying to sell their music through social network sites like MySpace and producing songs for mobile phones and download sites like Apple's iTunes.

In Casacuberta's study, published by Trànsit Projectes and the IDB, he and his team identified 45 entrepreneurial practices that use technology to disseminate their services, and selected four examples described below. Three are from Latin America and one is from Europe, although it would be replicable in Latin America.

Techno Brega: This Brazilian network brings together Brega-style DJs and musicians who perform at parties and weekly concerts to finance their operations. They distribute their music to make their network known and give street vendors the rights to sell their personalized CDs. For independents, they enjoy widespread popularity. Techno Brega reflects the philosophy of Brazil's Minister of Culture, Gilberto Gil, who supports new policies that have made copyright more flexible, such as the Creative Commons, a free tool for licensing intellectual property. Since Techno Brega does not have a Website, the network has not been able to expand further.

Trama Virtual (TV): This is another Brazilian project that is somewhat complementary to Techno Brega. Founded in 2004 as part of Trama, one of the largest recording studios in Brazil, Trama Virtual is a "net-label," a Web-based distributor for independent musicians. TV allows free music downloads and pays artists directly through advertising revenue from Banco Real and Cerveza Sol. Trama Virtual has uploaded more than 35,000 songs by 14,000 Brazilian artists. "Everyone wins: users, artists, and sponsors," explains Casacuberta.

Gran Canaria Trip (Europe): This social and business tourism network on Spain's Grand Canary Island allows businesses, tourists, and residents to make contact for direct sales and purchases. The network provides users with a platform on their website for doing business. Information is reviewed by participants. The project is an example of community

Interview with **Wenceslao Casares**, Co-CEO of Bling Nation

"Technology is the easy part of mobile banking"

The story of Argentine Wenceslao Casares, and his technology-based financial businesses, has been retold as many times as a literary classic. In 1997, the 33-year-old created Patagon, an online brokerage firm that he sold three years later to the Spanish bank Santander for US$528 million. Next he created Wanako Games, which he also sold, this time to the French conglomerate Vivendi. He then stopped selling. In 2002, together with a former colleague from Patagon, Venezuelan Meyer Malka, he founded Lemon Bank in Brazil to offer inexpensive distance banking. They installed ATMs in more than 6,100 bakeries, gas stations, and pharmacies, and turned Lemon into the biggest non-traditional microfinance institution in Brazil.

Casares now divides his time between California, Buenos Aires, São Paulo and Santiago because his latest creation is in the United States, not Latin America. Bling Nation (BN) is an open payment platform he will soon launch with Meck, his investment company, and once again, the Venezuelan Malka.

BN is the progeny of an unusual leap from a developing market to a developed one, drawing on experiences at Lemon. The Brazilian bank, which already has 20 million clients and will invoice more than US$100 million in commissions this year, taught Casares how to operate within automated markets. As a result, Bling is focused on the more than 17,000 small banks in the USA. "Those small banks have an enormous resource disparity with the big ones," says Casares. "They don't have information technology departments. They have a perceived disadvantage for innovation and technological services, and so they lose the youngest customers, who are very technology dependent."

How would you define Bling Nation's services?

Since we focus on the U.S. market, the product assumes that customers meet certain requirements that you cannot always count on in Latin America. The platform allows any financial institution, especially small ones, to reach a customer segment that has not previously used banks.

Those banks need to innovate and provide technological services in areas where they are losing out with young customers, especially Generation Y. Those people have an adverse relationship with banking, unlike decades ago, when they would celebrate opening a bank account. Now young people prefer not to have one. And since the small banks are having trouble reaching that customer segment, [when they do reach them,] those young people already have an account with Capital One or another big bank, and they've

commerce, which facilitates the delivery of services and is rapidly growing on Web 2.0. Countries such as Costa Rica, Peru, and Ecuador are starting to adopt similar models for tourism and handicrafts. Entrepreneurs benefit from being interconnected and are able to reach a broad community of clients, who are served by information, social networks, and direct transactions. As a multi-level sales tool, the site offers its users discounts for online purchases, which help attract new participants to the network.

Novica: Founded in Los Angeles by Peruvian-American Roberto Milk and Brazilian social entrepreneur and former United Nations official Armenia Nercessian, this network is already a well-established enterprise. The platform allows artisans in isolated rural areas to offer their products more widely, and has won support from National Geographic, which promotes the project. Novica works with 132 artisan entrepreneurs in seven regions of the world, including the Peruvian Andes, Brazil, and Mexico. The artists use Novica's regional offices for free Internet access, while the network sends professional photographers to document their products and lifestyles. "What we are doing with Novica is revolutionary," says Nercessian. The founder is quick to point out that beyond the economics, Novica gives artisans a sense of dignity and pride from international exposure that is invaluable. "When artisans become successful and recognized, their children and other youth in the community begin to respect the traditions," she says.

Family Financing

Kiva (www.kiva.org) and Microplace (www.microplace.org) are two sites that channel investments directly to microentrepreneurs. Both use the Web as a vehicle to connect lenders with borrowers. The concept is new and still in its early stage.

Kiva is focused on philanthropy. Through the site, people can loan money to finance commercial and productive projects that support microentrepreneurs around the world. In Latin

Wenceslao Casares

WENCESLAO CASARES

been tainted [by another corporate culture].

Now, this same customer segment is part of a generation that is highly dependent on technology, especially the cell phone and iPod. The mobile phone is an interesting channel for developing businesses, but the banks don't know how to engage young people, nor what role the telcos [telecommunications companies], which are indirectly linked to the business, will come to play.

The Bling Nation platform allows them to reach any customer who has a cell phone and to connect, regardless of which carrier or phone they use. It manages services ranging from account information to payments to practically all bank services. It's up to the bank to decide what it wants to offer.

In the past, mobile banking didn't catch on because, among other things, the technology was expensive and the bandwidth was slow. These issues have been resolved. So, if tomorrow you go into the region, would consumers be ready to use all the mobile banking services?

Yes. Even though there are many customers who appear to prefer not to use banks, they *would* use them if the opportunity were properly packaged. We saw it with Lemon. People were asking the same thing then: Is the potential consumer prepared for this service? The answer was also yes, maybe people do want banking services, but in a different way than the traditional banks have offered them. This is why, in addition to Generation Y, the other important customer segment for Bling Nation is the immigrant population, at least in the first stage.

But can these models be replicated in the region? Has any other project proposed the same thing that you have in the United States?

There are a lot of things going on in mobile banking and, like everything, there are some that are irrelevant but get lots of fanfare, and there are a few interesting cases. In mobile payment the situations for the consumer are extremely different. At one extreme you have the richest users in the world in Asia and Europe, on the other, Africa and Latin America. In the middle, nothing. In Africa in particular there's a little of everything. You'll find offers of little substance that come up a lot in conversation, but also the experience of Vodafone in Kenya, which is very interesting and is working well. [Through its affiliate Safaricom, Vodafone offers M-Pesa, a money-transfer service performed using mobile phones.] In Latin America there are regulatory barriers to offering that kind of service, despite its convenience. You charge your cell phone with money, as you do with minutes, and send it to another cell phone where it becomes cash. It's like electrifying and de-electrifying cash, and adding value.

(CONTINUED)

America and the Caribbean, Kiva has financed microloans of US$500–$1,200 for more than 110 taxi drivers, bakers, dressmakers, tailors, artisans, shopkeepers, bricklayers, hairdressers and truck drivers in Peru, Nicaragua, Bolivia, Paraguay and Guatemala.

Kiva works with institutions such as FINCA, CrediMujer, and IMPRO, among others, and could be scaled up and have more international reach, since there are fewer constraints on charitable operations than on return-based investments, as is the case for Microplace. Launched by the online auction site eBay in early 2008, Microplace administers funds from organizations such as the Calvert Foundation and Oiko-credit, which guarantee individual investors a minimum annual return.

In total, Microplace sustains 17 investment projects in Latin America. Organizations such as ProMujer in Mexico and Bolivia, Banco Solidario in Ecuador, the CHISPA Foundation in Nicaragua, Banco de Familia in Brazil, and the Paraguayan Cooperation and Development Foundation are financing entrepreneurs with restaurants, stores, repair shops, and cottage industries that produce piñatas, bricks, and baby clothes, among other products.

In each case, it is interesting to see how Web 2.0 provides visibility for microentrepreneurs in emerging economies and puts them in contact with such improbable associates as European and U.S. investors.

Connecting Calls

Telecom entrepreneurs are helping connect extremely remote areas with big cities in Latin America, although efforts are still in the embryonic phase. Thanks to their diligence in reaching thousands of people in small villages scattered across the mountains, deserts, and jungles of Latin America and the Caribbean—markets considered unprofitable by the big telecommunications companies—the region's least fortunate are beginning to have access to these services.

What may not be good business for big companies can be great business

You'll have prepaid card providers as customers. Could that also be reproduced in Latin America where prepaid telephones are essential?

The important thing about the prepaying public in the United States is that they are banking without bank accounts. The prepaid bank cards are very popular among groups with greater financial needs than the rest. But it's in outer space, no institution is involved. And in the end, you don't have the capacity to access all the information and services [of a bank account]. This access could be encouraged, but not while regulation continues to be so important in Latin America.

Usually technologies are designed in developed markets and then move down. It is rare that they move up, as is happening with Bling Nation, which is building on the experience of Lemon Bank.

That's true. Lemon definitely enabled us to create Bling Nation. Its platform made us think of ways to process payments more efficiently in general and how to use cell phones to cover gaps in those payments. What also excited us is that the United States is behind the curve in the mobile phone-payment relationship, which presents a great opportunity.

What did you adapt?

In Brazil we tried to use technology to reach a market segment that couldn't be reached affordably any other way. The back office can be used for many other things. We rebuilt and Americanized that platform. Many of the basic principles are identical and we learned them in Brazil: how to process in real time; how to do it at no cost; how to take advantage of information; and how to help the user take full advantage of the transaction.

What lessons did Lemon teach Bling and what lessons can be transferred to the region?

The cell phone is an ideal medium for connecting clients and services. You don't have to be a genius to realize this. The science, the difficult part, is how to structure the business. Now, this doesn't happen quickly, or develop more value or more business because the ecosystem is very complex. [Financial systems] are a bunch of elephants that move slowly and aren't terribly efficient at implementing technology in highly regulated environments.

The most important players are banks, which are typically very comfortable with the money they earn and don't have the same aggressiveness of other industries. On the other hand, [you have] the telcos, which are enormous monsters too. And on top of this is a huge layer, even more complex, of regulations.

I guarantee that mobile banking isn't a problem of technology. That's the easy part. What needs to be better resolved is the ecosystem, the value propositions, the business models. This is what will add value for the client and the financial institutions.

BY DIEGO FONSECA

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for local micro-operations, such as Oportunet, MicroTelco and NanTelco. Founded as part of the U.S. Agency for International Development's Last Mile Initiative, Oportunet offers telecommunications services based on WiMax and WiFi technology to small agricultural communities in Guatemala, Paraguay, and Colombia. In small corners of Chaco, Jujuy, Salta, and Catamarca provinces in north and northeast Argentina, for example, cooperatives are taking charge of interconnecting tiny settlements. The same thing is happening in Bolivia, even in large slum districts.

These companies buy wholesale "megas" of bandwidth and distribute them in local communities. To succeed, the model needs a minimum critical mass to ensure sustainability. Agreements with schools, communal farms, and municipalities, for example, allow microentrepreneurs to offer new services that cover or compensate for their intermediary costs.

The enterprise has expanded dramatically, and actors as diverse as telecommunication companies (for example, Avantel in Colombia), municipalities in Brazil and Argentina, and community social networks in Peru have embraced this model with increasing interest. Hernan Galperin and François Bar, researchers at the University of Southern California, have published an in-depth study titled, "The Microtelco Opportunity: Evidence in Latin America."

This is happening because large telecommunications companies are not interested in consumers with little purchasing power. Yet if micro-telecommunications companies can amass enough small customers from widely dispersed areas and provide them with communications services, they can offer attractive packages in volume. The IDB's Garcia Alba explains the magic formula: "The concept is based on the lower cost of technologies based on WiFi, 3G (third-generation cell phones) and WiMax (greater bandwidth) combined with innovative business models." People who had previously been isolated from the world of modern networks are gaining a substantial increase in access, which in turn provides them with greater access to the marketplace as well.

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