

The Microfinance Factor

By RICARDO B. SALINAS

A Global Strategy for Rebirth and Recovery

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The hurricanes of the summer and fall of 2005 have devastated vital regions of Mexico and the U.S. as never before. As the combined property damage total continues to mount well beyond \$25 billion, the news media's attention is inevitably turning toward the macroeconomic effect of the simultaneous shock to the energy, construction, and tourism industries – and the effects on consumers throughout the Americas.

But lost in the haze of blame, lawsuits, and insurance company settlements, has the potential to adopt a fundamentally different approach to aid in the rebuilding efforts across the U.S. and in Mexico. Prompted by the reality that governments simply cannot do it all, business leaders and economists are now recognizing the need for a new solution – one that has the potential to provide immediate results from Cancun to New Orleans and all points between.



The proposal involves a powerful combination of entrepreneurship and private sector capital merged into an integrated and proven program of micro-financing. At its core, micro-financing holds a promise for millions in Mexico and the U.S. – a promise that they can create something new and better, and at the same time free themselves from government handouts and dependency.

Too often in the past, even the most well intentioned aid programs put in place by governments and the so-called non-governmental organizations (NGOs) have failed to ignite the critical spark of drive that exists inside of most people. While there is no doubt that direct aid is essential, simply giving the millions of Mexicans and Americans who have lost their businesses a settlement check is actually a disincentive to spurring their growth.

As a leader in the Mexican business community, I have seen many such well-intentioned efforts squander billions of dollars throughout Latin America, either because governments were pouring money into quixotic projects designed just to relieve short-term pain, or because private businesses were pursuing initiatives that were ill-conceived and poorly managed.

The crucial element in any recovery program is a strategy that allows instead for sustainable development.

The Trickle-Up Theory

As just such a strategy, micro-financing has captured the imagination of legislators, diplomats, and entrepreneurs around the world. Micro-financing programs speak to the fiscally conservative by offering a potent alternative to government subsidies. They speak to liberal activists because the entire purpose of such initiatives is to create a better life for the poor and less fortunate.

And, such programs speak loudly to businesspeople because of the sound business practice – a “trickle-up” economic strategy – that underlies the entire enterprise.

These enterprises generate financial stability, increase buying power for the working masses by providing them with access to credit, increase employment, and reduce migration.

Around the world, companies like mine extend micro-loans to help new entrepreneurs start micro-businesses. People who’ve never had credit in the past can and should see that they have the potential to become business owners themselves, in fact the great majority of all the companies in Mexico can be qualified as micro-businesses.

Simply put, micro-financing creates new markets and thereby generates economic growth.

To understand the broader relevance of micro-financing, understand too that it is just as relevant to massive disaster recovery as it is to global economic development. The same principles of aggressive but carefully managed lending apply directly in both instances. Now that Hurricanes Wilma, Katrina, Stan and Emily have wreaked billions of dollars in damages in the Mexican South East and in the U.S., private sector leaders have the challenge and opportunity to fine-tune the benefits of micro-financing as a basis for rebuilding devastated areas on both sides of the border.

The Mexico Example

In Mexico, we have created an entirely new business infrastructure based on micro-financing. At Grupo Salinas, of which I am Chairman, we have launched a series of initiatives to drive micro-financing programs through the convergence of our many businesses.

For example, when you walk into one of Mexico’s 940 Elektra stores (over 1,000 when counting also the rest of Latin America); you’ll also see a Banco Azteca branch office distributing loans and transacting deposits and withdrawals. The truth is that the vast majority of the seven million people who transit through a Grupo Elektra store each week don’t have the opportunity to bank anywhere else. Even if some percentage of them could afford to open accounts at other more traditional-looking institutions, the ease of transacting all of their business in a single familiar location may well be the initial steps by which they eventually qualify as entrepreneurs, not just borrowers.

Through this venue, our micro-loan program, which is a critical ingredient to lifting the financial barriers that small entrepreneurs in Mexico face today, has grown remarkably well. Each week 50,000 new savings accounts are opened and 80,000 loans are granted to the working-class population – a very important accomplishment when you consider that 70 percent of the population in Mexico is under-banked. Through our Azteca Entrepreneur Program (ASMAZ), small business owners can also obtain machinery, equipment, and other goods at accessible prices and payment terms via the Elektra stores, not to mention legal, consulting, and other services.

Don’t give away fish. Teach people how to fish.

In Mexico, self-employment has never been an easy concept to sell. Yet, because of the efforts of micro-financing, 40 percent of the GDP of Latin American countries derives from micro-businesses – a figure that will only continue to soar, according to the Inter-American Development Bank.

Targeted Initiatives

The key to putting effective micro-financing initiatives in place is to target them to specific communities where future entrepreneurs can be easily identified and action steps taken immediately. At the same time, the businesses supporting these efforts need to be able to move quickly and offer agile micro-loans that are tailored to the needs of small business and entrepreneurs.

In Mexico, commercial banks have reduced drastically the number of loans granted to enterprises after 1994, when a major economic crisis took place. In fact, in 2004 only 16 percent of the companies that received a commercial bank loan were micro-enterprises, even though the overwhelming majority of the businesses in nation are micro-businesses. As it turns out, commercial banks do not offer loans under \$5,000, even though a recent study reports that the money needed to improve or to initiate a micro-business is approximately \$2,500.

By contrast, Azteca Entrepreneur Program loans, of up to \$3,000 each, have terms that expand from 13 to 53 weeks, do not require future entrepreneurs to present the same credit guarantees that a commercial bank does, and, as a non-traditional commercial bank, encourages the trust of the people who normally would not go to a bank at all.

A Helping Hand

Even beyond the work we in the private sector can accomplish, help from the government is also needed – especially in those areas of the U.S. and Mexico that have been hardest hit by natural disasters. The first order of business in both countries is to eliminate or drastically reduce income taxes on small business so that they will have a chance to flourish and become taxpaying entities themselves.

It is hard enough to start or rebuild a business, but bearing a large and complex tax burden right after launching an enterprise will destroy most of them before they have a chance to succeed. In addition, placing huge tax burdens on payrolls will inhibit job creation and is exactly the wrong medicine for the communities that are struggling today.

Americans and Mexicans alike should not wonder how to rebuild their hurricane- and flood-affected areas.

Micro-financing already exists across this continent, in the United States as well as Latin America. Micro-financing is consonant with the culture of the United States and proven effective at every practical level. Such “cultural” compatibility is growing quickly in Mexico as well.

I have observed in my work that attitude is actually more important than ability. Entrepreneurial zeal will uncover the means by which to inculcate skills when and where they are needed. It is simply a question of corralling the resources – of putting the money where it’s required and showing people how to use it.

That’s how you revive wounded cities and regions.