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NOTE FROM MEXICO

Piloting Prepaid Cards to Improve Rural Clients' Access to Financial Services

A three-year USAID-funded project offered FINCA Mexico clients prepaid cards as a means to provide convenient, secure and quick access to loans. The project is now scaling up and the card will be offered to all of FINCA's more than 115,000 clients in Mexico.



Photo credit: FINCA Mexico

FINCA client Silvia Lanto displays her ATM user guide.

Silvia Lanto of Torreón, Coahuila, can now access her loan at ATMs any time of day. "This is a much better way to access my money," she says. "It's more flexible."

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Thousands of FINCA clients in Mexico regularly rush to the bank to cash their loan checks as soon as their Village Bank meetings are over. FINCA currently delivers loans to its clients as paper checks. While more secure than cash, the check system presents clients with some logistical challenges. To cash their checks at a bank, clients must appear during limited opening hours, and typically wait in line anywhere from 30 minutes to three hours. The nearest bank in rural areas is sometimes as far as three hours away. FINCA clients in San Juan Bautista Cuicatlán, Oaxaca, for example, spend as much as \$14 in transportation and other expenses just to cash their checks in Oaxaca City. Long travel and wait times pull clients away from their businesses, reducing possible sales and profits. Furthermore, clients risk being robbed on their way home from cashing a check, losing their entire loan.

FINCA's small loans are a vital resource for clients like Silvia Lanto to expand their businesses and, once they receive their loans, they want to hit the ground running. But for Silvia, having to travel to the bank every two weeks to access her second Village Bank loan of 8,000 pesos (around US \$620) to expand her inventory has until recently meant time away from her clothing shop in Torreón, Coahuila. Now, with the prepaid card FINCA has been piloting since May, she is able to invest the 70 minutes she would usually spend on transportation and waiting in line at the bank, as well as the two dollars for travel expenses, back into her business, which over a period of months, adds up to a substantial amount of both time and money.

In 2006, USAID awarded FINCA International a three-year grant under the Financial Services Implementation Grant Program (FS IGP) to test ways to increase access to financial services for very poor and rural populations. One approach taken by FINCA was to develop a

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prepaid card product to disburse loans to clients, thereby reducing client travel times to cash checks and providing financial services more conveniently. FINCA initiated a partnership with HSBC to offer its clients the “*Cheque Inteligente*,”¹ a customized prepaid card that allows access to loans at ATMs,² merchant point of sale (POS) terminals, and *Telecomunicaciones de México*³ outlets throughout the country. The card was piloted in branches throughout five Mexican states: Coahuila, Michoacán, Morelos, Oaxaca, and Puebla starting in May 2009.

For many FINCA clients, the *Cheque Inteligente* represents their first contact with the formal banking sector. About 65 percent of clients surveyed prior to implementation had no experience using electronic banking cards or ATMs. To overcome this obstacle and assuage clients’ anxieties about using the prepaid cards, FINCA, with support from USAID, developed a comprehensive set of training materials to teach clients how to use the cards. These included a model ATM for simulating transactions and two printed mini-guides with step-by-step instructions on how and where to use the *Cheque Inteligente*. Clients can test transactions using the mini-guides and the practice ATM at their Village Bank meetings before initiating real transactions at functional automated terminals. Commenting on the model ATM, Giset Galindo, a credit officer and training facilitator in Cuautla in Morelos, says, “You can really see

FINCA pioneered the Village Banking methodology of microlending. A Village Banking group consists of 10-30 neighbors—usually women—who meet biweekly to provide themselves with three essential services:

- small self-employment loans to start or expand their businesses
- an incentive to save, and a means of accumulating savings
- a community-based system that provides mutual support and encourages personal empowerment

Village Banking group members guarantee each other's loans and run a democratic organization.

the clients’ confidence rise as they use [it].”

Pilot testing revealed that FINCA clients enjoyed a number of benefits from using the *Cheque Inteligente*. Not only did they save valuable time by not having to wait in bank lines, they also gained unlimited access to their loans 24 hours a day, seven days a week. Timotea Lopez Marín from Oaxtepec in Morelos appreciates the flexibility of card-based disbursements, saying: “I can go to the ATM in the early morning before work, when banks are closed, or whenever I want.”

The prepaid card has proven to be a valuable money management tool, allowing clients to withdraw their loan on an as-needed basis. FINCA client Marta Elena Escalera, who runs a beauty salon in Torreón, uses her loans over several weeks. “I don’t have large expenses, so I don’t need all of the money at once,” she says. “With the card, I can buy my products at the beauty supply when I need them, without handling a lot of cash.” By eliminating the need to carry large amounts of cash, the card also offers greater security to clients.

There are also intangible benefits for some clients, who said that having a card with their name printed on it made them feel important.

Overall satisfaction with the program is very high. Of clients surveyed, 93 percent intended to use the card again for their next loan disbursement. Furthermore, 99 percent claimed that the training and materials they received proved useful. María Ortiz in San Juan Bautista Cuicatlán says, “[The card] motivated us a lot. We want to take advantage of these new products.”

With the pilot testing completed and the project in scale-up, FINCA will soon be able to offer the prepaid card to all of its over 115,000 clients in Mexico. Meanwhile, several new features are under consideration, including negotiating special discounts at selected retail outlets and adding a model POS terminal to the simulation module. In the future, the cards may be used to transact remittances and provide other services as well. Through the IGP, USAID and FINCA have helped impoverished Mexican entrepreneurs like Silvia make the

most of their loans, and brought them one step closer to the formal banking sector.

¹ Spanish for “intelligent check.”

² Automated Teller Machines

³ A Mexican government agency that offers a variety of communications and money transfer services.

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