Financing development

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Inefficient credit markets and a sheer lack of wealth make limited liability constraints more binding in developing countries. It is important to stress this point because many of the problems in regulation and competition policy result from difficulties in borrowing and attracting foreign capital.

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Access to finance matters for growth

- Infrastructure
  - Attracting foreign investments
  - Universal Service Obligations
- Access to information technology
  - Ability of the South to benefit from the knowledge of the North
- Private sector development
  - microfinance

Infrastructure development

- Attracting foreign investment
  - Stability: credibility, enforcement, favoritism
  - Risk sharing
  - Active investment policy is necessary
- Universal Service Obligations
  - Services should be maid affordable to all (income) groups of customers
  - Cross subsidies may be unavoidable
  - Short term goals of project operators vs. long term goals of development

Access to information technology

- IT revolution has spurred great hopes that developing countries can benefit from all information public goods available in the developed world
- The evidence shows that IT revolution might exacerbate rather than mitigate the differences between developing and developed countries
- Information goods are public goods with a possibility of exclusion
  - Private cost of access to public goods
    - Access to internet requires access to local communications, availability of computes, usage cost depend on education level

. access may be limited by financial constraints

How to relax credit constraints for private sector development?

- Lending to the poor may be a challenge for traditional banking sector
  - No collateral
- Group lending may facilitate access to finance due to peer monitoring
  - Neighbors can impose powerful non-financial sanctions at low cost
    - Adverse selection
    - Moral hazard