"Microfinance and the Millennium Development Goals: The Way Forward"
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Distinguished delegates, ladies and gentlemen.

As the Chair has just indicated, my role this morning is to try to help set the scene for our discussions over the coming two days. Discussions, that, at their core, will be about how to include the 2.7 billion people in the world who currently lack access to formal financial systems.

The larger questions before us have to do with:

- The overall case for microfinance and its links to the Millennium Development Goals (MDGs);
- The policy context and enabling environment;
- The tremendous innovation that is taking place in business models, in delivery channels, in financial products;
- And of course the legal and regulatory aspects of all of these dimensions, which is where things can get quite complicated, as different and sometimes contradictory goals risk pulling things too far in one direction at the expense of another.

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Underlying all of this are the key questions of exactly what needs to be done to push the agenda forward and by whom; and of course the question as to the appropriate role for the various parts of the UN system in general, and UNCITRAL in particular.

This is a tall order, which means we have our work cut out for us in the coming two days.

Before beginning I want to stress that I am by no means an expert on all the various questions that revolve around the larger issue of microfinance. It is true that, depending on whom I'm talking to – and especially whether there are UN colleagues in the room who will let me get away with it! – I sometimes describe the agency I work for, the UN Capital Development Fund as "the UN's microfinance agency".

This is useful shorthand; particularly for people who have difficulty keeping all the UN's acronyms straight, because simply using the word "microfinance" usually registers with people. Even if they don't understand the nuances, I find most people are now familiar with the larger concepts, especially since Mohammed Yunus won the Nobel Peace Prize some years ago.

Yet I suspect one of the things that will come out strongly in this colloquium is just how many – and how diverse – are the issues tied to the recent and very rapid evolution of microfinance. This is a field that is largely private sector driven and it is evolving incredibly rapidly. It involves entities from self-help groups to traditional microfinance institutions to banks to Microfinance Investment Vehicles to a broad range of government ministries to central banks to telecoms companies to post offices to corner kiosks, to name just a few. It is an area of tremendous innovation and change.

In this sense I congratulate UNCITRAL for its thoughtful approach of bringing all of us together to "take stock" of where the field is, before deciding what role it may be able to play.

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So in the brief time allowed to me this morning I intend to speak a bit about the evolution of the field – from microcredit to microfinance to "inclusive finance", and how and why it seems to be gaining momentum, particularly with respect to being a key accelerator of the Millennium Development Goals. I will then go on to talk a little bit

about the key barriers to the growth of inclusive finance worldwide and what might be done about them.

Let me begin by offering a definition of financial inclusion. Financial inclusion, simply put, is universal access to a broad range of financial services, at a reasonable cost, provided by a diversity of sound and sustainable institutions.

Now, that is far cry from early notions of "microcredit" at the beginning of the 1980s, which grew out of innovations such as the use of peer guarantees in lieu of physical collateral. These group-based approaches were embodied by the centers promoted by Yunus's Grameen Bank in Bangladesh and the solidarity groups promoted by Accion International, as well as the village banks promoted by Finca International and others in Latin America.

In this very early stage the insight was that poor people were not as great a credit risk as had been traditionally assumed. And this set the scene for the explosion in micro-credit throughout the 80s and 90s.

At the same time, early pioneers such as Bank Rakyat Indonesia began to explode the myth that poor people were too poor to save money. In recent years increasing attention has been paid to the fact that the poor can – and do—save. Indeed, as we have gained a greater understanding of the complexity of the financial lives of the poor, many people have come to believe that savings may in fact be the single most important financial product for the poor. The fact is that the poor do save, but they often find it difficult to do so conveniently or safely.

There has also been a greater recognition of the importance of financial services for consumption-smoothing and asset building amongst poor people, in addition to the importance for being able to invest in businesses.

As a result, in recent years the range of services on offer for poor people has expanded, from mostly credit, to credit and savings, to an array that now also includes micro-insurance, remittances and payment services.

And this is why we have come to speak of "inclusive finance". To reiterate, from an early focus almost exclusively on credit, the goal has become to enable universal access to a broad range of services provided by a diversity of institutions.

The United Nations has supported the evolution of microcredit to microfinance and now to financial inclusion. In 1998, the General Assembly designated 2005 as the International Year of Microcredit, and over one hundred countries joined in the global effort to build inclusive financial systems. The dialogue also led to a consensus document known as "The Blue Book" (or Building Inclusive Financial Sectors for Development) that serves as a guide for policy makers.

The Year of Microcredit gave way to the creation of the UN Advisory Group on Inclusive Financial Sectors from 2006-2008. This group was convened to mobilize political will and financial support; to engage stakeholders on critical issues; and to build capacity of stakeholders to establish inclusive financial sectors. The group produced key messages and recommendations aimed at governments, regulators, development partners, and the private sector, as well as the UN itself.

And the UN Advisory Group has now given way to the UN Secretary-General's Special Advocate for Inclusive Finance for Development, HRH Princess Máxima of the Netherlands. Princess Maxima is extremely active on behalf of the entire UN system, at both the global and national levels, in advocating for greater financial inclusion.

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The UN of course already has a great deal on its plate, so the question sometimes arises as to why it is concerned about financial inclusion. After all, the larger area of "finance" has traditionally been the purview of the International Financial Institutions and other actors.

The central reason for the UN's strong championing is of course the ties between financial inclusion and progress on the Millennium Development Goals. In other words, financial inclusion is not an end in itself, but rather a means to an end. The end goal, of course is better lives for people throughout the developing world, as embodied by the MDG targets.

Financial inclusion is one of those factors that we at UNCDF, and others within the wider UN system, believe are critical to accelerate progress towards the MDGs. While there is no MDG *specific* to financial inclusion, financial inclusion is an "enabler" with strong links to the achievement of all of the MDGs.

Financial inclusion helps to increase economic growth and also—crucially—to ensure that the growth is pro-poor. How does it do this? Through having access to financial services, the poor are better able to participate in the economy, and can invest to stabilize, grow or diversify their businesses -- or some combination of these. Strengthened businesses in turn provide products, services, jobs, and other linkages in the local community.

The poor also have additional resources to invest in other things—like the health and education of their families. Children are able to go to—and stay in—school. Families can invest in preventative health, reducing their overall health costs and improving their health outcomes. This is particularly important as illness and health-related crises are often the cause of the most significant set-backs for the poor, and amongst their greatest constraints in escaping poverty.

With access to financial resources, the poor are also better able to weather household or business emergencies and to prepare for life-cycle events such as weddings and funerals. By helping people manage risk and enabling them to smooth income and expense fluctuations and maintain consumption levels even during difficult times, financial inclusion helps people to protect themselves and their families against life's inevitable setbacks as well as to invest in their futures.

There are other ancillary benefits as well, that contribute to the achievement of the MDGs. Studies have found that women clients often have more confidence, contribute more to household expenses and decision-making, and take on greater leadership within the community than do similar non-clients. While correlation is not causality, the preponderance of the evidence suggests that access to and use of financial services makes a difference in achievement of the MDGs.

The same holds true for environmental sustainability – especially when products such as improved cook stoves and energy-efficient light sources or drinking and irrigation water technologies are linked to appropriate financial products.

I do not want to overstate the case, and much more research is needed on the impact of financial inclusion on the MDGs. In particular research is needed over longer time frames than the typical 12 – 18 months that has characterized studies to date. Getting of poverty tends to be a longer term endeavor.

It is also clear that the benefits of financial inclusion come out most powerfully and sustainably in conjunction with other interventions to improve health, education, water and sanitation, agricultural development, infrastructure, employment, and so on.
Even with these substantial caveats, however, I believe most people would accept the larger case for strong linkages between financial inclusion and the agenda to accelerate progress toward the MDGs.

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The good news is that we seem to be making good progress. The overall field of inclusive finance is seeing tremendous growth and innovation, including around the difficult "last mile" challenge of reaching poor people where they live. The progress includes high-tech solutions through the use of mobile banking, and low-tech solutions including innovative institutional arrangements and the use of agent-banking.

Mobile banking has shown incredible promise in Kenya and the Philippines and even in the Pacific Islands, where UNCDF has supported a mobile-banking initiative that is dramatically expanding access. Agent banking in Brazil has demonstrated that at low cost and without much new technology, access can be opened up even in very remote areas where there are no traditional banks.

One of the most exciting things about this tremendous growth and innovation is that it is largely being led by the private sector. This makes the area of inclusive finance quite different from other areas of development, and is in my view one of the reasons for much of the current excitement around inclusive finance, within UN circles, as well as in the G-20 and elsewhere.

The private sector does things almost in real time, and at scale, and the public sector sometimes has to struggle to keep pace. It also has to walk a fine line: producing policy responses that protect individuals and the wider public good, without stifling the innovation and growth that is increasing much needed access to finance.

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So if we are making progress, where are we? What still needs to happen? If the case for financial inclusion is so strong – as it seems to be – what is holding back the agenda? What needs to be addressed as a priority?

Let me outline four priority areas for action.

The first priority action area is for greater coordination, along several different dimensions.

- It is country-level authorities who translate global and national conversations into action based on local context. A national platform can bring all stakeholders together and build the strategic partnerships required to deliver the right financial product in the right place and at the right price, and with the right supports and controls in place. This coordination is likely to involve players different from those that have been traditionally involved in microfinance—as telecommunications come into greater play, using mobile technology for banking services; or as ministries of agriculture work with ministries of finance to look at what they can do together to support weather-based insurance or input financing.

- Coordination also needs to happen between policy makers and regulators from different countries, so that they can learn from each other. This is particularly true as a wider range of services are being provided using non-traditional platforms, and by new players. This is an area where the Alliance for Financial Inclusion (AFI) has already made a very good start.

- Finally, coordination needs to happen amongst the different international standard setting bodies, especially those dealing with financial inclusion, financial stability and financial integrity. This can be complicated, given the apparent conflict between financial inclusion and ensuring the financial system is not used for money laundering or financing terrorism. Progress is being made, though. For example the Financial Action Task Force (FAFT) is preparing an inventory of national financial inclusion policies that do not hamper financial integrity, but actually strengthen it.

The second priority area is to build effective inclusive financial systems focused on access for the poor. We must not silo microfinance, but create a continuum of access to finance– from individuals to micro, small and medium-sized enterprises. This means both microfinance institutions growing with their clients, and commercial banks reaching down market. Financial inclusion must be seen as part of the overall financial sector strategy, and attention must be paid to the implications for policy, regulation and supervision.

The third priority area is to develop the enabling financial infrastructure within countries, especially payment services. Interoperability is critical to financial access. It allows a variety of players to offer specialized services, while driving costs down, and volumes up.

For the unbanked, access to reliable, secure, and transparent payment services reduces their out-of-pocket and opportunity costs. These can also be the basis for savings accounts that can help people manage their money with a longer term time horizon. M-PESA and M-KESHO in Kenya are leading examples. And we at UNCDF are doing some promising work in the Pacific Islands with transaction accounts—essentially electronic wallets—linked to cell phones.

Basic transaction accounts are also now being seen as a social protection mechanism that governments can use for transferring government benefits (G2P), and in the process create the foundation for financial inclusion through a broader range of services.

The <u>fourth</u> priority area for action is that inclusive finance must be responsible finance. Clients must be protected from potential abuses through a combination of industry standards and self-regulation and appropriate consumer protection regulation and oversight. More transparency about products, particularly pricing, can go a long way.
Increasing the capability of clients to make informed and sound choices about financial products and even money management will yield better results for clients, as well as their financial services providers.

There is increasing consensus in the industry about the principles of responsible finance. The more financial service providers show themselves to be responsible, the more the outliers will be ostracized. Investors have a responsibility to scrutinize their investments in financial services providers to see that they uphold the standards of client protection. And, finally, government must ensure that there are basic protections in place for clients, particularly in terms of ensuring transparency of pricing.

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Let me end by saying there is no one-size fits all solution—whether we are looking at financial products or their distribution, types of institutional providers, or regulatory frameworks. There are overarching principles and sound practices that can guide our

work, and we can learn from the experiences of others. But the greatest advances in financial inclusion have been where the players at all levels were willing to innovate and adapt, and then replicate and scale up.

Policymakers and regulators need to be active partners in this process, and continue to balance financial integrity and client protection with expanded access to services, as they determine what and when to regulate. There is a need to regulate and to do so in a timely manner, but we should not rush in before it is clear what needs to be regulated or harmonized. The focus should be on getting the regulations right at a country level, and on building on the learning and experiences from elsewhere.

Finally, let me say that we at the UN believe the wider UN system could be playing an even greater role in enhancing financial inclusion. With this in mind we will be bringing the key players in the system together in late March to explore enhanced collaboration. We believe the UN can play a stepped up role in promoting financial inclusion, and in so doing, contribute even more strongly to achieving the Millennium Development Goals.

Thank you very much.

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