

International  
Workshop

**MICROFINANCE**

JULY 2011



# FOREWORD

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During the French Presidency of the G20, the Ministry for the Economy, Finance and Industry and the Banque de France entrusted the Microfinance Observatory with the organisation of a workshop to discuss some of the major issues in the field of microfinance.

This workshop took place on 8 July 2011 at the Palais du Luxembourg in Paris, home to the French Senate, and was chaired by the President of the Senate Finance Commission, Jean Arthuis.

Bringing together around forty speakers from different horizons (central banks, international organisations, banks, NGOs, investors, etc.) and all continents, the debates provided an opportunity to compare experiences in microfinance between South and North countries and made a significant contribution to the work of the G20 on financial inclusion. The discussions notably focused on the importance of respecting the original spirit of microfinance and on the need to implement microfinance regulations tailored to the specific circumstances of each country. The aim of such regulations would be to prevent bad business practices from exacerbating in certain countries.

**Michel Camdessus**

*President of the Microfinance Observatory of the Banque de France  
November 2011*



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This publication contains transcriptions as well as translations of the presentations given at the workshop. The professional capacities of the speakers referred to in the publication were those at the date of the workshop.

It was compiled under the supervision of Paul Loridant, Secretary General of the Microfinance Observatory and his team, who also organised and prepared the workshop.



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## About the contributors (July 2011)

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## CONTRIBUTORS

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Jean Arthuis graduated from the *École supérieure de commerce* of Nantes and *Sciences Po Paris*. Qualified Chartered Accountant, he is a former consultant in an international audit firm. He is also founder of a firm of chartered accountant and statutory auditors.

Former mayor of Château-Gontier (1971-2001), he is President of Mayenne Regional Council since March 1992, Senator of the Mayenne since 1983, Member of the Centrist UDF group in the Senate. He is currently

Chairman of the Finance Committee since July 2002. He was Secretary of State (March 1986-May 1988), General Rapporteur on the budget to the Senate (1992-1995), Economic Development and Planning Minister (May-August 1995), Economy and Finance Minister (August 1995-June 1997).

He has written several books, his last book being "*SOS finances publiques : Osons les vraies réformes*" (Éditions Calman-Lévy – March 2011).

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**President**, PlaNet Finance Group

Writer, former Special Adviser to the President of the Republic from 1981 to 1991, founder and first President of the European Bank for Reconstruction and Development in London from 1991 to 1993, Jacques Attali is currently CEO of A&A, an international consulting firm specialised in new technologies, based in Paris, and President of PlaNet Finance, an international solidarity organisation whose mission is to fight poverty by improving access to financial services through the development of microfinance.

He has a Doctorate in economics and is a graduate of the *École polytechnique* (first in the class of 1963), the

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He is a columnist for the magazine *L'Express*. He has written more than fifty books, translated into more than thirty languages, with over eight million copies sold all over the world, including essays (dealing with a wide variety of subjects ranging from mathematical economics, to music), biographies, novels, children's tales and plays.

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## Armand BADIEL

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Appointed Director of the Financial Stability Directorate in 2009, Armand Badiel is responsible for drafting the current microfinance regulations for the eight countries of the West African Monetary Union (WAMU<sup>1</sup>). In this position, not only is he in charge of the regulations of microfinance, banking and payment systems, he is also responsible for coordinating and overseeing the establishment of infrastructures and systems aiming at strengthening the financial stability of the WAMU.

Prior to his current responsibilities, he has held several senior positions within the Central Bank of West African States (BCEAO). From 2003 to 2008, he was

simultaneously Deputy Director and Director of the Economic Studies Directorate. At this stance, he was mainly responsible for defining and implementing the monetary policy, organising the economic, monetary and financial analysis, coordinating the conduct of economic studies, as well as coordinating the Regional Economic Outlook Report team. He was also in charge of BCEAO's relations with regional and international institutions.

He holds a Master Degree in economics from the University Cheikh Anta Diop of Dakar. He begun his career at BCEAO in 1988.

<sup>1</sup> West African Monetary Union (WAMU) is formed by eight countries which are Benin, Burkina, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

## Essma BEN HAMIDA

**Co-founder & Executive Director**, Enda inter-arabe

Essma Ben Hamida is a development activist. Born in Tunisia in 1951, she graduated in history and geography and completed one post-graduate year in urban planning. She began career as a secondary school teacher and a TV journalist/reporter. She opened the first bureau of the national press agency, TAP, in New York at the United Nations, and worked with the International Foundation for Development Alternatives and with the Third World Press agency, Inter-Press Service, in Rome and Geneva.

She co-founded Enda inter-arabe in Tunisia in 1990 with Michael Cracknell. In 1995, she launched the first microcredit programme in Tunisia which today reaches 175 000 active

clients, mainly women, throughout the country from 65 branches with a portfolio of some 50 million euros. 75% of Enda's clients are in urban areas, the rest rural. 25% of clients are aged 35 or less. She was awarded Social Entrepreneur of the Year 2010 by the Schwab Foundation and the World Economic Forum (Marrakech). She is a member of the Smart Campaign for client protection.

In 1986, she wrote a series of articles on Palestinian people living conditions in the Occupied territories; the latter were published in booklet form by Third World Network under the title: *"Behind the Palestinian Uprising"* (in English, Chinese and Malay).

## Pervenche BERÈS

**Member**, European Parliament

Pervenche Berès has been a member of the European Parliament since 1994. In the new Parliament elected in 2009, she is the Chairwoman of the Employment and Social Affairs Committee and a substitute member in the Economic and Monetary affairs Committee.

She has been appointed Rapporteur of the temporary Committee on the financial, economic and social crisis.

Previously, she was Chairwoman of the Economic and Monetary affairs Committee (2004-2009), head of the French socialist delegation and Vice-President of the Socialist group in the European Parliament (June 1997-June 2004). From December 1999 to October 2000, she was the Vice-President of the European Parliament delegation to the Convention in charge of elaborating a European Union Charter of fundamental rights. She was also a member of the European Convention in charge of drafting a Constitution for Europe from February 2002 to July 2003.

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### Marc BICHLER

**Chairman, European Microfinance Platform**

Marc Bichler is a trained lawyer, diplomat and currently Director of development cooperation in Luxembourg's Ministry of Foreign Affairs. He has accreditation as Luxembourg's non-resident Ambassador to Mali, Burkina Faso and Senegal. Since the mid-90's he has been instrumental in integrating microfinance in Luxembourg's official development cooperation programs and has sustained an ongoing advocacy effort in building bridges between microfinance and the financial sector in Luxembourg. As of November 2007, he chaired the "United Nations Advisors

Group on Inclusive Financial Sectors" and led the work for the group's report on *Microcredit, microfinance, inclusive finance: Building on success* presented to UN Secretary General Ban Kimoon at the Doha International Conference on Financing for Development in November 2008. Since 2006 Marc Bichler is serving on the board of "LuxFlag", Luxembourg's labelling agency for microfinance investment vehicles and since 2009 on the board of the Luxembourg Microfinance and Development Fund. In November 2010 he was elected Chair of the "European Microfinance Platform".

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### Abderrahim BOUAZZA

**Head of the Banking Supervision unit, Bank Al-Maghrib**

Abderrahim Bouazza joined the Bank Al-Maghrib in 1980 and held several responsibilities ranging from banking regulatory, accounting area to off-site supervision.

Since 2002, he has been appointed Head of Banking Supervision Department.

He serves as Vice-Chair of a Committee which gives a view to the Governor on licensing issues. Besides, he is

Vice-Chair of Credit Institutions Committee that reviews and approves all banking regulation drafts.

He is member of the Board of Directors of the *Conseil déontologique des valeurs mobilières*, the Financial Market Authority in Morocco.

He is a member of the Consultative Board of Microfinance, chaired by the Ministry of Finance.

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### Magali BRABANT

**Director of Investment, Caisse des dépôts et consignations**

Magali Brabant is Director of Investment in the Regional and Branch Network Development Directorate, in the Investment unit of the Caisse des dépôts et consignations.

She was assigned to conduct a financial analysis of local authorities for the Paymaster-General of the Vosges in 1997, and in 2000 was charged with the audit of the General Treasury of the *département* of the Isère in her capacity as Principal Treasury Inspector. She took part in study assignments, notably on the management of and perspectives for the rationalisation of the Treasury's departmental branch network.

In 2004, she became the Deputy of the Director of the Management Audit Project in the Public Accounts Directorate

General. She was appointed to the General Inspectorate of Finance in 2006, where she carried out verification missions and numerous assessments (organisation of the State Treasury, the Association for the Professional Training of Adults, etc.), sometimes as head of mission (companies' access to EU funding for research, microcredit), as well as strategic consultancy assignments for the government (autonomy for universities, the opening-up of the gaming market).

She has a degree in Economic and Social Administration from the University of Franche-Comté and is a graduate of the *École nationale du Trésor public* and of the *Institut français de l'audit interne* (IFACI).

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Bob Christen is Senior Advisor of the foundation's Financial Services for the Poor initiative. For 25 years prior to the foundation, he provided microfinance services in 40 countries. He organised a number of microfinance institutions and has served as advisor to commercial banks, governments and international organisations. He founded and remains as President of the Boulder Institute of Microfinance, which has 3,000 alumni from more than 150 countries. He founded the *MicroBanking Bulletin*, which reports on the performance of 1,200 microfinance institutions.

Before joining the Boulder Institute of Microfinance, he worked for the World Bank for six years as senior advisor to the Consultative Group to Assist the Poor.

He received his bachelor's degree in political science and economics from Beloit College and later obtained a certificate of graduate studies in regional planning from Syracuse University. He also holds a master's degree in agricultural economics and development finance from The Ohio State University.

**José Francisco de CONRADO Y VILLALONGA***CEO, MicroBank – La Caixa*

José Francisco de Conrado y Villalonga became President of MicroBank on April 2008. He currently holds this post.

He was appointed Deputy Executive Chairman of the Regional Council of the Unión Industrial Bancaria in the Balearic Islands in December 1965.

When Bankunion merged with Banco Urquijo, he was appointed Regional Manager for the Balearic Islands, with the rank of Deputy General Manager.

He became the Regional Manager of "La Caixa" in the Balearic Islands in 1990, and in 1996 he was made Deputy General Manager of that savings bank in said area. In that role he was responsible for the expansion of "La Caixa" in the islands, the bank now being their leading banking organisation.

He was appointed Executive Manager of "La Caixa" Community Projects and General Manager of "La Caixa" Foundation on 16 December 2004

Aside from his professional work, he has always been involved with the cultural life of the islands, having held office as Minister of Culture in the Regional Government of the Balearic Islands.

He commenced his Law degree in 1957 and graduated in that subject. He was later awarded a Doctorate *cum laude*.

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Chris De Noose (born in 1948) holds a Masters Degree in economics and finance, Consular Science, commercial engineering and management from the Flemish University of Brussels.

He began his professional career in a Belgian savings bank in 1974 as Adviser to the Chairman. From 1980 till 1994, he was Chief Executive Officer of the Belgian Savings Banks Group.

At the same time, he was among others, member of the Board of Banksys (1983-1994) – the company which developed the Belgian ATM network and the 'Proton' electronic purse project in Belgium – ; the *Fédération des entreprises de Belgique* – the Belgian Employers Federation – (1984-1994) and co-founder of Incofin – a non-gouvernemental organisation dealing with financial projects in developing countries (1990-1995). Until 1995 he also gave lectures in finance and macroeconomics at the *Institut supérieur pour traducteurs et interprètes* in Gent. He has also written numerous articles and papers about the financial services sector. In 1986 he co-ordinated the academic study on "*Belgian savings banks – history, law, economic role and institutions.*"

In 1994, he took up the post of Managing Director of European Savings Bank Group (ESBG) and World Savings Bank Institute, which he has held up to now.

He is member of the Board of TEVEA International, a company providing international assistance and consultancy to small and medium sized enterprises, a joint subsidiary of the Belgian, French, German, Italian, and Spanish savings banks. In June 2003 he became Board member of Eufiserv – a joint venture owned and controlled by several individual ESBG members and ESBG as an association. He is also a member of the European Banking Industry Committee, a member of the Board of the *Hochschule der Sparkassen-Finanzgruppe* (University of Applied Sciences), member of the European Payments Council (Plenary, Coordination Committee and Nominating and Governance Committee) and member of the European Financial Reporting Advisory Group EFRAG (Supervisory Board and Budget Board). Furthermore, he is also a member of the Kuratorium of the Foundation for International Cooperation of the German Savings Banks.

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Since he joined CGAP in January 2003 he has focused his work on policy issues and aid effectiveness. He has managed the Microfinance Donor Peer Reviews, the Country-Level Effectiveness and Accountability Reviews, and CGAP's work on the broad role of government, as well as advisory services for donors and investors. He has also led CGAP's research on national microfinance strategies and on Apexes.

He regularly teaches policy issues to regulators at the Turin/Boulder course, and a course on microfinance at

*Sciences Po Paris*. A French national, he speaks English, and some German and Lao.

Before he joined CGAP, he spent seven years in Laos, where he worked with UNCDF/UNDP, the World Bank and the Central Bank to help set up microfinance institutions and a conducive policy and regulatory framework. He has also worked for short periods in several countries including Cambodia, Haiti, Indonesia, Mali, Nicaragua, Madagascar, Pakistan, and Sri Lanka. He holds a master's degree in management from the Lyon EM (*École de management*) and a master's in economics and international relations from the School of Advanced International Studies, Johns Hopkins University.

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Within PlaNIS responsAbility SAS, Sébastien Duquet is in charge of supervising responsAbility portfolio in Middle East and North Africa, Caucasian, Central Asian and South East Asian countries (285 million USD of investments in 82 microfinance institutions). He is also the supervisor of the offices in Paris, Hong Kong, Melbourne and Lebanon, a team of 15 persons.

He has participated and is currently participating in the development of new products/projects at responsAbility level. Besides, he helps to define and support the

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He has 10 years of experience in corporate finance in the banking sector: former auditor (Andersen for 8 years) and bank (HSBC 2 years), 8 years of experience in microfinance (managing Director of PlaNet Finance, PlaNet Finance Morocco, PlaNIS), founder of Planet Guarantee and FinanCités.

He graduated from EDHEC business school (with a major in finance) and holds a DESCF diploma (Chartered Accountant).

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## Tilman EHRBECK

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Tilman Ehrbeck is CEO of the Consultative Group to Assist the Poor (CGAP), a policy and research center dedicated to advancing access to finance for the world's poor. CGAP is supported by over 30 development agencies and private foundations that share a commitment to improving the formal financial services available for poor people. Housed at the World Bank, CGAP develops innovative solutions, promotes standards and best practices, provides market intelligence and global data, and advises governments, financial services providers, as well as donors and investors on how to best promote financial inclusion around the world.

Prior to CGAP, he was a Partner with the global management consulting firm McKinsey & Company, where he held a series of leadership positions in the firm's Banking and Healthcare

Practices, working across Africa, Asia, Europe, and North America, including four years living and working in South Asia. Over the past 10 years, he has advised a number of governments, microfinance networks, foundations, and commercial players on a broad range of financial inclusion issues ranging from new services and products aimed at better meeting underlying end-user needs, to new business models significantly lowering operating costs, to enabling infrastructure and policy interventions.

He holds a Ph. D. in economics from the European University Institute, the graduate school and research center sponsored by the European Union, and an undergraduate degree from the University of Hamburg. He started his professional career as a Staff Economist at the IMF.

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He has been with the BSP since 1981, had worked in Economic Research, in International Operations, and in the Office of the Governor. He was seconded to the International Monetary Fund in 1990-1992.

He serves concurrently in various BSP policy committees: Chairman – Microfinance Committee; member – Payment

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Nestor Espenilla holds a Bachelor of Science in business economics and a MBA from the University of the Philippines, and a MS policy science from the Graduate Institute of Policy Science in Tokyo.

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### **Ramon FERNANDEZ**

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Born on 25 June 1967 in Paris, he graduated from *Sciences Po Paris* in 1988 and from the *École nationale d'administration* in 1993.

From 1993 to 1997, he held a range of posts in the French Treasury Directorate before being seconded to the International Monetary Fund (from 1997 to 1999) as Alternate Executive Director. He was appointed in turn Head of the Energy, Telecommunications and

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### **Muliaman D. HADAD**

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Born in Bekasi, on 3 April 1960, Muliaman D. Hadad obtained his Bachelor's degree in economics at the University of Indonesia, Jakarta. He obtained his Doctoral degree in business and economics at Monash University, Melbourne, Australia.

He began his career as a general staff at the Office of Bank Indonesia in Mataram, in 1986. In 2003, he was appointed as Head of the Financial System Stability Bureau

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Currently, he represents the Republic of Indonesia as a designated member of the Financial Stability Board and the Basel Committee on Banking Supervision. He is also currently the Head of Indonesia Sharia Economic Society and an active lecturer at several universities in Jakarta.

## Alfred HANNIG

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Alfred Hannig, a German national, heads the AFI management unit in Bangkok which implements activities and provides services for members. His responsibilities also include taking an avid role in representing AFI to various stakeholders, and serving as a member of the Steering Committee. He led the design and development process of AFI's unique peer to peer knowledge network structure over a three year period before launching the organisation in 2008.

Formerly, he was Director of GIZ's Sustainable Economic Development programs in Indonesia and served as the head of the Financial System Development Program in Uganda, a joint initiative by the Bank of Uganda and GIZ, co-funded by SIDA.

He started his career at the German Ministry for Economic Cooperation and Development working on financial sector policy issues, and for several years represented the Federal Republic of Germany at the Consultative Group to Assist the Poor (CGAP).

## Channy IN

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Channy In was one of the founders of the Association of Cambodian Local Economic Development Agencies (ACLEDA) in 1993. He specialised in overall management of both social and commercial financial institutions and, in particular, of transformation of a public funded microfinance NGO into a triple bottom line commercial bank. He managed the development of ACLEDA into a bank with 249 branches and offices (in Cambodia and Lao) and over 1 billion US dollars in assets by the end of December, 2010.

He is also the Chairman of ACLEDA NGO, the Trust since its transformation to a commercial entity in 2000. He's the Co-Chair of Government-Private Sector Working Group on Banking and Financial Services. He is a member of the executive committee of the International Business Chamber of Cambodia. He was a member of the Advisory Board of Mekong Project Development Facility, an initiative

of the World Bank/IFC, and a member of United Nations Advisor Group for the Year of Microcredit 2005.

He sits in three government committees: the Credit Committee for Rural Development, the Sub-Committee for Corporate Governance, and he is the Secretary General of the Cambodia Youth Leadership Award Committee.

He holds a Master's degree of business administration from Norton University and studied Business Organisation and Management at Gwynedd Mercy College, USA in 1990. In 1992 he obtained a bachelor's degree in education at Faculty of Advanced Education in Thailand. In 1998, he completed an executive course on Financial Institutions for Private Enterprise Development at Harvard University, USA. He is a Graduate of the Australian Institute of Company Directors. And he has received a Diploma on Productivity Improvement and Management for Asian Economy in Transition, Torino, Italy.

## Rafael JABBA

*Principal Investment Officer, African Development Bank*

Rafael Jabba has a diverse background in multi-sector program management with 15 years of experience in microfinance and SME lending, remittances, low-income housing credit and mortgage lending programs, small business loan programs, agriculture, local governance and construction management.

He is a Principal Investment Officer at the African Development Bank (AfDB). In addition he analyses a wide

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In addition to working throughout the African continent, he has worked in the Gaza Strip, Jordan, Iraq, Cambodia, Pakistan, Egypt, Lebanon, Afghanistan and Indonesia. He has a Master's Degree in Finance from the University of Maryland.

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The same year, he joined the Inter-American Development Bank in Washington, as Chief of the Programming and Priorities Unit of the Multilateral Investment Fund, where he was promoted to Deputy Manager in 2005.

He has a Bachelors' degree in economics and was, since 1984, a civil servant of the state body of trade and economist technicians and developed most of his professional career at the trade and economy departments in Spain.

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### Jean-Pierre LANDAU

**Deputy Governor**, *Banque de France*

Jean-Pierre Landau has been appointed Deputy Governor of the Banque de France in January 2006. Previously, he held numerous positions in the French Ministry of Economics and Finance, including Under-secretary for External Economic Relations and Treasury Representative in the United Kingdom (French Embassy, London).

He is currently a member of the Board of the Bank of International Settlements, a member of the Financial Stability Board and a member of the Steering Committee. He also serves as a G7 and G20 Deputy and as member of the OECD Working Party 3 on economic and financial policy.

He served as Executive for France at the International Monetary Fund and the World Bank (Washington DC) from 1989 to 1993, and Executive Director for France at the European Bank for Reconstruction and Development (London) from 2001 to 2005.

He was a Visiting Professor at the School of Advanced International Studies (Johns Hopkins University, Washington) from 1991 to 1993. He currently teaches International Economics at *Sciences Po Paris*.

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### Daniel LEBÈGUE

**CEO**, *Épargne sans frontière*

Daniel Lebègue was born in 1943. He started his career in 1969 at the Direction of the Treasury, French Ministry of Economy and Finance.

From 1974 to 1976, he was the Financial *Attaché* to the French Embassy in Japan. Back to the Direction of Treasury, he occupied successively the functions of Head of the Balance of Payments office and of Head of Treasury Office at the Treasury. In 1981, he was promoted as the Technical Adviser to the Prime Minister's Cabinet in charge of the economic and financial affairs. He became the Assistant Director of the Treasury in 1983, then Director of the Treasury from 1984 to 1987. In 1987, he attended the Banque nationale de Paris as Chief Executive Officer, then as Vice-Chairman. From 1998 to 2002, Daniel Lebègue was the Chief Executive Officer of the Caisse des dépôts et consignations.

Moreover, he is also Chairman of the Board of the French section of Transparency International, Chairman of the Board of the *Institut du développement durable et des Relations internationales*, Co-Chairman of Eurofi and Chairman of the Board of *Épargne sans frontières*.

Since July 2003, he is at the head of the *Institut français des administrateurs* (IFA), a French professional association of directors.

Since 2008, he is Chairman of the Board of the *Observatoire sur la responsabilité sociétale des entreprises* (ORSE).

He is non-executive Director of Technip, Scor.

He is graduated from the *Sciences Po Lyon* and from the *École nationale d'administration*.

**Paul LORIDANT****General Secretary** of the Microfinance Observatory, Banque de France

Paul Loridant is adviser to the Banque de France' Governor on relations with the regions. He has been general secretary of the Microfinance Observatory since May 2008. Besides his position of senior manager within the Banque de

France, he was mayor of the town of Les Ulis (1977-2008) and senator, elected in the *département* of Essonne (1986-2004). During his senator mandate, he was a member of the Senate Finance Committee.

**Bold MAGVAN****CEO**, XacBank

Bold Magvan became CEO of TenGer Financial Group from January 2011. Before joining TenGer, he worked for XacBank for two years as the CEO and for over three years as the President.

He is a senior banking professional with more than 20 years expertise in public and private, global financial institutions, including the World Bank and the International Monetary Fund. Bold's career experience includes four years at the Bank of Mongolia (Central Bank) in the top management position of the Deputy Governor (1996-2000). His prior professional career accomplishments include that of Deputy Director at the Market Research Institute (1989-1992), an economist-accountant in the Trade and Development Bank, and ITI Bank (1991,1993), CEO of the Mongolian Export-Import Bank (1995-1996), Board member

of the International Investment Bank and the International Bank for Economic Cooperation in the Russian Federation (1996-2000), and Advisor for *Da Afghanistan Bank* (Central bank), Islamic State of Afghanistan (2003-2004).

He is a graduate in international economics from the Budapest University of Economics, Hungary. He also holds a master's degree in international affairs with a Major in economic policy management from the Columbia University, New York, USA.

He serves as the Honorary Consul of the Republic of Iceland in Mongolia since 2008. He is a Chairman of the Board of the Development Solutions NGO in Mongolia. He is serving as Vice-President of the Mongolian Bankers Association since 2007.

**Vijay MAHAJAN****CEO**, Basix

Vijay Mahajan is the founder and Chairman of the Basix Group, which promotes livelihoods for over 1.5 million poor households. Established in 1996, Basix offers microcredit, microinsurance, savings and agricultural and livestock development services and skill development.

He served on Government of India Committees on Financial Inclusion and on Financial Sector Reforms. He is the Chair of the Consultative Group to Assist

the Poor, a global microfinance forum, comprising nearly 40 bilateral, multilateral and foundations in development.

He studied at the Indian Institute of Technology, Delhi, and Indian Institute of Management, Ahmedabad, and was a mid-career Fellow at the Princeton University, USA. He was selected as one the 60 global outstanding social entrepreneurs at Davos in 2003.

## CONTRIBUTORS

About the contributors (July 2011)

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### **Mahmoud MOHIELDIN**

*Managing Director, World Bank*

Mahmoud Mohieldin is a World Bank Managing Director, responsible for the Bank's knowledge development as represented through the networks: finance and private sector development, sustainable development, poverty reduction and economic management, human development and the World Bank Institute. As the World Bank's representative at the G20 Deputies Meetings, he also oversees the Bank's work in support of the G20 agenda.

Prior to joining the World Bank, he held numerous positions in the Government of Egypt and served on several Boards of Directors in the Central Bank of Egypt and the corporate sector. He was a member of the Commission on Growth and Development and selected a Young Global Leader of the World Economic Forum in 2005.

His professional reach extends into the academic arena, serving as Member of the Board of several universities in Egypt and holding leading positions in national and regional research centers and think tanks. As a Professor of economics, he has authored numerous publications and articles in leading journals in the fields of international finance and economics in English and Arabic. Topics include financial reform, prudential regulations, credit markets, exchange rate and monetary policies, trade in services, globalisation, corporate governance and competition policy.

He received his Ph.D. in economics from the University of Warwick and a Master of science in economic and social policy analysis from the University of York.

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### **Njuguna NDUNG'U**

*Governor, Central Bank of Kenya*

Njuguna Ndung'u is the Governor of the Central Bank of Kenya since March 2007. Prior to this appointment, he was the Director of Training at the African Economic Research Consortium. He has taught economics at the University of Nairobi and also worked at the International Development Research Centre and at the Kenya Institute of Public Policy Research and Analysis. A member of various boards in the financial sector and in the Vision 2030 Delivery Secretariat, he also chairs the Steering Committee of the Alliance for Financial Inclusion based in Bangkok, Thailand.

He is a member of the Committee of Ten comprised of five African Finance Ministers and five Central Bank

Governors representing the five regions of Africa. This Committee, formed during the global financial crisis, was mandated to look into ways of mitigating the crisis through appropriate policy response; communicating and coordinating Africa's response and required global reforms especially in the world's financial architecture.

He is a researcher and trainer in various fields of economics. He has published widely in journals and chapters in volumes on inflation, exchange rate, economic growth and poverty reduction. He holds a Ph.D. in economics from Gothenburg University, Sweden, a Bachelors and Masters of arts in economics from the University of Nairobi and is an Associate Professor of economics from the University of Nairobi.

## Maria NOWAK

CEO/Founder, Adie

Maria Nowak has pursued a career in the development field working for the *Agence française de développement* where she transferred the Grameen Bank approach to West African countries. Seconded to the *World Bank* in Washington, in 1991, she participated in the development of microlending programmes in Central Europe, while also initiating a similar programme in France through the *Association pour le droit à l'initiative économique* – Adie (Association for the Right to Economic Initiative), an association she founded in 1989 and of which she has voluntarily served as Chairwoman until March 2011. She is now the President of Adie international, microStart

and Adie Microfranchise Solidaire, belonging to the Adie group, as well as the association The Friends of Grameen.

She is a graduate of *Sciences Po Paris* (1956) and the London School of Economics (1959).

She is author of "*La banquière de l'espoir*" (*The Banker of Hope*), Albin Michel, 1994; "*On ne prête (pas) qu'aux riches*" (*Lending (not only) to the rich*), JC Lattès, 2005; "*L'espoir économique : de la microfinance à l'entrepreneuriat social, les ferments d'un monde nouveau*", JC Lattès, 2010.

## Christian NOYER

Governor, Banque de France

Christian Noyer has been Governor of the Banque de France since November 2003. In November 2009, he was reappointed for a second six-year term. He is a member of the Governing Council and General Council of the European Central Bank (ECB).

He was born on 6 October 1950. He studied law and subsequently graduated from *Sciences Po Paris* and the *École nationale d'administration*.

Appointed to the Treasury in the Ministry of the Economy and Finance in 1976, he then spent two years (1980-1982) at France's permanent representation to the European Communities in Brussels. Back at the Treasury, he held a range of posts (government cash and debt management, banking affairs, financing of industry and state-owned enterprises, multilateral issues and export financing). He worked closely with several Ministers of Finance: he was Advisor to Edouard Balladur (1986-1988), and Chief of Staff for Edmond Alphandéry and Jean Arthuis (1993 and 1995-1997 respectively). He was appointed Head of

the Treasury in 1993 then Vice-President of the European Central Bank when the institution was set up in 1998.

He is Chairman of the *Autorité de contrôle prudentiel* (the French Prudential Supervision Authority), the Banking Mediation Committee, the Observatory for Payment Card Security and the regulated savings Observatory. He also chairs the supervisory boards of the *Institut d'émission des départements d'outre-mer* and the *Institut d'émission d'outre-mer* (two French overseas note-issuing banks).

He is also Chairman of the Bank for International Settlements, for a period of three years, commencing on 7 March 2010, and alternate Governor at the International Monetary Fund.

He has been awarded the honours of *Officier de la Légion d'honneur* and *Chevalier de l'Ordre National du mérite* in France, and has received decorations from several other countries, notably the *Gran Cruz de la Orden del Mérito Civil* from Spain, the *Ordre national du Lion* from Senegal and *Officier de l'Ordre national de la Valeur* from Cameroun.

## CONTRIBUTORS

About the contributors (July 2011)

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### Jean-Luc PERRON

**Managing Director, Grameen-Crédit Agricole Microfinance Foundation**

Aged 59, graduated of the *École nationale d'Administration* (Voltaire Class, 1980) and Stanford Executive Program (1992), Jean-Luc Perron started his career at the French Ministry of Agriculture as Head of the Budget Division, then as financial Advisor to the Minister of Agriculture.

In 1985, he moved to Caisse nationale de Crédit Agricole (today Crédit Agricole SA), the apex body of Crédit Agricole Group, where he filled the following positions: Head of the Division in charge of agriculture, housing and SMEs (1985-1986), Head of the Department

in charge of the financing of large leisure and tourism developments (1986-1991), CEO of Credit Agricole Consultants (1992-1997), Head of the International Affiliates Division (1997-2002), Head of EU Affairs (2002-2009). In 2007 and 2008, Jean-Luc Perron played a material role in the design, then the setting up of the microfinance initiative jointly taken by Grameen Trust and Crédit Agricole.

He has been Managing Director of the Grameen-Crédit Agricole Microfinance Foundation since October 4, 2008.

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### Arnaud POISSONNIER

**CEO, Babyloan**

Arnaud Poissonnier obtained a master's degree in private law and prepared a postgraduate degree in business management and administration in Lille (North of France). Then he obtained a diploma to become a Notary in 1992.

He spent 12 years in banks and dedicated his work to wealth management in Paris. When he was posted Sustainable Development Manager in OBC bank in 2004, he got involved in a skills partnership in order to develop the activities of OXUS – the microcredit branch of the

French NGO ACTED. He went to Tajikistan and his passion for microfinance began! In 2005, he decided to leave his job in the bank in order to structure the OXUS microfinance institutions network.

In February 2008 he created ABC Microfinance – in partnership with ACTED, the BRED and the Crédit coopératif – which was a pioneer company and its website, [www.babyloan.org](http://www.babyloan.org), became the first European solidarity-based microcredit website. He also became an ACTED Administrator in 2008.

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### Cyril ROUSSEAU

**Head of Official Development Assistance and Multilateral Development Institutions, French Treasury**

At the time of the conference, Cyril Rousseau was head of Official Development Assistance and Multilateral Development Institutions at the French Treasury and, under the G20 French Presidency, co-chair of the Global Partnership for Financial Inclusion. Since September 2011, he is deputy head of economic and financial affairs at the French Embassy in Beijing.

Between 2006 and 2009, he was head of market operations of the French debt management agency, Agence France Trésor. Previously, he had served as deputy secretary general of the Paris Club. Before joining the Treasury, he was a project manager for intelligence and surveillance systems at the French defence procurement agency.

Mr Rousseau is a graduate of *École polytechnique* and of *École nationale supérieure de techniques avancées*.

**Stuart RUTHERFORD****CEO – Founder, Safesave**

Stuart Rutherford is a researcher, writer, practitioner and teacher of microfinance. Since 1974 he has been exploring how poor people manage their money.

In Bangladesh in 1996 he set up SafeSave (*www.safesave.org*), the world's first microfinance organisation aimed at helping poor people with basic money management (as opposed, say, to microenterprise development).

His best-known book is *The Poor and Their Money* (2000, revised 2009). In 2009 he co-authored

another book, *Portfolios of the Poor*, which reports on detailed household-level examinations of how poor people manage money in South Asia and South Africa.

He is a Senior Fellow at the Brooks World Poverty Institute at the University of Manchester, UK.

He was born in London but has lived most of his life abroad, including sixteen years in Bangladesh. He is currently based in Japan.

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**Plutarchos SAKELLARIS****Vice-President, European Investment Bank**

Plutarchos Sakellaris is Vice-President of the European Investment Bank (EIB). His responsibilities include supervising operations in Denmark, Ireland, Greece, Cyprus, the African, Caribbean and Pacific countries and South Africa. He also supervises Risk Management, the Economics Department and the Bank's activity reflecting its energy policy.

Prior to joining the EIB, he held the position of Chairman of the Council of Economic Advisers at the Hellenic Ministry

of Economy and Finance and acted as Deputy to the Finance Minister at the Eurogroup and ECOFIN Councils. He has also served as Staff Economist at the Federal Reserve Board.

He has been Professor of economics at the Athens University of Economics, the University of Maryland and other Universities.

He completed his undergraduate studies at Brandeis University and his doctoral studies at Yale University.

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### Michael SCHLEIN

President and CEO, Accion International

Michael Schlein is president and CEO of Accion International, a nonprofit microfinance organisation dedicated to a world in which all people have access to a full range of quality financial services to help improve their lives.

Under his leadership, Accion continues to expand the reach of microfinance into under-served regions of the world, championing double-bottom line microfinance institutions (MFIs), capacity-building, and active advocacy for client protection initiatives. He is leading the organisation in a sharply-focused strategy based on management services, investment and governance for MFIs, strengthened by industry thought-leadership led by Accion's Center for Financial Inclusion. Over time, Accion has helped building 62 MFIs in 31 countries on four continents. Those institutions are currently reaching millions of clients.

Prior to joining Accion in 2009, he served as President of International Franchise Management at Citigroup in New York, where he managed the bank's network of 100 chief country officers, responsible for performance, regulatory relations, governance and reputational risk in

their respective countries. Previously, he led Citi's Human Resources and Global Corporate Affairs departments.

In addition to banking and management experience, he has also brought to Accion a distinguished background in public service. He served as chief of staff at the United States Securities and Exchange Commission, as well as chief of staff for the New York City Deputy Mayor for Finance and Economic Development. He currently serves on the board of the nonprofit organisation Wildcat Service Corporation; is a corporate member of the Council on Foreign Relations; and serves on the Business Council of the Asia Society. He began his career in public finance at Smith Barney.

His involvement in the field of microfinance prior to Accion included leadership at the Citi Foundation, which boasts an extensive history of microfinance funding, and membership on Accion's Board and Executive Committee.

He holds a Bachelor's degree in economics and a Master's degree in political science from the Massachusetts Institute of Technology, where he graduated Phi Beta Kappa.

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### Jean-Michel SEVERINO

CEO, Investisseurs et Partenaires

Jean-Michel Severino is a French citizen born in Abidjan, Ivory Coast. He began his career working for the French Ministry of Finance and Economy before becoming an adviser of the Minister for Development in 1988. In 1990, he was in charge of the Development Ministry's macroeconomics department before taking the Director's seat for the Ministry's Development Programs in 1994. His career took an international turn in 1996 when he was appointed Director for Central Europe at the World Bank. From 1997 to 2000 he was the World Bank's Vice-President for Asia. In 2000 he returned to France for an appointment as the Inspector-General of Finance in the Ministry of Economy, Finance and Industry in Paris. In 2001, he was appointed Chief Executive Officer of the *Agence française de développement* (AFD), the French agency for development and cooperation. He left AFD in 2010 and has taken over an impact investment private

equity firm dedicated to african small and medium sized enterprises and microfinance institutions, *Investisseurs et Partenaires*. He also sits on the boards of Danone and France Telecom.

He has been associate professor in economics at CERDI (*université d'Auvergne*), and is a senior fellow of the German Marshall Fund and the FERDI. He is a member of the *Académie des technologies*.

He graduated from the *École supérieure de commerce de Paris* before entering the *École nationale d'administration*, from which he graduated in 1984. He also holds research degrees in economics from *université Paris I*. He has published widely books and articles on development economics, Official Development Assistance policy, global public goods, Asia and Africa.

## Keng Heng TAN

**Secretariat**, Basel Committee on Banking Supervision

Keng Heng Tan was a Deputy Director in the Complex Institutions Supervision Department of the Monetary Authority of Singapore, where he led a team responsible for the regulatory and prudential supervision of a local financial group on a consolidated basis across its banking, insurance and securities activities. He joined the Secretariat of the Basel Committee on Banking Supervision in August 2009. Besides the Basel Committee's microfinance paper published in August 2010, his main areas of work

in the Secretariat have been the "Good practice principles on supervisory colleges" issued in October 2010 and the introduction of the leverage ratio under the December 2010 Basel III framework. He is currently involved, among other things, in the revision of the "Core Principles for Effective Banking Supervision".

He holds a Degree of Bachelor of Accountancy (Honours 1st) from the Nanyang Technological University in Singapore.

## Arnaud VENTURA

**Co-founder and CEO**, PlaNet Finance Group

**Founder and CEO**, MicroCred

Arnaud Ventura is co-founder and CEO of PlaNet Finance Group, an international organisation dedicated to the development of microfinance. He is also founder and CEO of MicroCred, an international holding company which creates and manages a network of banks and non-bank financial institutions dedicated to microfinance.

As a young Internet entrepreneur, he discussed the idea of an international organisation using information technology to develop microfinance back in 1997. He met with Jacques Attali who had developed the idea of a virtual bank using Internet to support microenterprise. They worked together to create PlaNet Finance, in Paris, in October 1998. They received initial support from three sponsors: Michel David Weill, Benjamin de Rothschild and Dexia Bank.

In the last twelve years, PlaNet Finance quickly developed to become one of the leading organisations developing microfinance worldwide and with 1,200 staff, active in close to 80 countries.

From its start as a non-profit organisation, PlaNet Finance matured in a group that includes an international non-profit organisation, a foundation and a number of social businesses.

Before co-founding PlaNet Finance, he worked for BNP Paribas in France and Argentina. Prior to that he participated in the creation of two leading Internet providers in France and in Thailand (Club-Internet & Internet Thailand). He speaks French, English and Spanish.

## Chuck WATERFIELD

**CEO & President**, Microfinance Transparency

Chuck Waterfield has 25 years experience in microfinance, with a mixture of practical field experience (six years starting microfinance institutions in both Haiti and Bolivia) and experience leading network strategy development (serving as microenterprise director for both MEDA and for CARE International). He developed Microfin, the most popular financial planning software in the microfinance industry and teaches business planning courses around the world, with more than 3,000 microfinance professionals having been trained in his courses. His current work as an independent consultant includes clients across the industry.

Currently on Faculty of Columbia University School of International and Public Affairs, he was formerly on the Faculty of the Boulder Microfinance Training Program for ten years and Southern New Hampshire University's Microenterprise Development Institute for eight years. In addition to Microfin, he has a broad range of products and publications including the SEEP FRAME Tool, the CARE Credit and Savings Sourcebook, and CGAP Handbook on Management Information Systems. In 2008, he founded Microfinance Transparency and works as the CEO and President.

## CONTRIBUTORS

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### Muhammad YUNUS

**Professor, Founder of the Grameen Bank**

Professor Muhammad Yunus, Peace Nobel Prize (2006), established the Grameen Bank in Bangladesh in 1983, fueled by the belief that credit is a fundamental human right. His objective was to help poor people escape from poverty by providing loans on terms suitable to them and by teaching them a few sound financial principles so they could help themselves.

From his personal loan of small amounts of money to destitute basketweavers in Bangladesh in the mid-70s, the Grameen Bank has advanced to the forefront of a burgeoning world movement towards eradicating poverty through microlending. Replicas of the Grameen Bank model operate in more than 100 countries worldwide.

Born in 1940 in the seaport city of Chittagong, he studied at Dhaka University in Bangladesh, then received a Fulbright scholarship to study economics at Vanderbilt University. He received his Ph.D. in economics from Vanderbilt in 1969 and the following year became an assistant Professor of economics at Middle Tennessee State University. Returning to Bangladesh, he headed the Economics Department at Chittagong University.

From 1993 to 1995, he was a member of the International Advisory Group for the Fourth World Conference on Women, a post to which he was appointed by the United Nations secretary general. He has served on the Global Commission of Women's Health, the Advisory Council for Sustainable Economic Development and the UN Expert Group on Women and Finance.

He is the recipient of numerous international awards for his ideas and endeavours, including the Mohamed Shabdeen Award for Science (1993), Sri Lanka; Humanitarian Award (1993), CARE, USA; World Food Prize (1994), World Food Prize Foundation, USA; Independence Day Award (1987), Bangladesh's highest award; King Hussein Humanitarian Leadership Award (2000), King Hussein Foundation, Jordan; Volvo Environment Prize (2003), Volvo Environment Prize Foundation, Sweden; Nikkei Asia Prize for Regional Growth (2004), Nihon Keizai Shimbun, Japan; Franklin D. Roosevelt Freedom Award (2006), Roosevelt Institute of The Netherlands; and the Seoul Peace Prize (2006), Seoul Peace Prize Cultural Foundation, Seoul, Korea. He is a member of the board of the United Nations Foundation.

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### Dov ZERAH

**Managing Director, Agence française de développement**

Dov Zerah was born on July 31st, 1954 in Tunis (Tunisia). He is the CEO of the French Development Agency (*Agence française de développement*, AFD), since June 2nd, 2010.

He graduated from *Sciences Po Paris* and holds a Master in Economy from the University of *Panthéon-Sorbonne*, Paris. He is former student from the *École nationale d'administration*.

He began his career at the French Treasury where he spent thirteen years. He then became the permanent secretary of Michel Roussin, the Minister of Cooperation, in 1993. From July 1993 to November 1995, he was Deputy General Director of the *Caisse française de développement* (CFD), which would later become AFD. He became Corinne Lepage's permanent secretary within the Ministry of the

Environment, where he stayed from 1995 to 1997. He then headed the cabinet of Edith Cresson, the European Commissioner, from 1997 to 1999. From 1999 to 2002, he was the CEO of DAGRIS (*Développement des agro-industries du Sud*), the former French Company for the Development of Textile Fibers, as well as of the *Compagnie cotonnière* (COPACO). He then became the Mint-Master of the *département des Monnaies, Médailles et Antiques de la Bibliothèque nationale de France*, between 2002 and 2007, before holding the post of senior counselor at the French Court of Financial Auditors until his nomination as the General Director of AFD.

He is the author of five books on the French currency and financial system, and of around thirty articles dealing with subjects ranging from economics and the evolution of French society to Jewish thought and philosophy.

# SUMMARY

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## Summary of the international workshop on microfinance organised by the Banque de France on 8 July 2011

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*In association with the French Treasury and with the support of the Caisse des dépôts et consignations (CDC), the Banque de France organised a workshop on microfinance at the Palais du Luxembourg (home to the French Senate) on 8 July 2011. The event was organised as part of France's presidency of the G20 until November 2011.*

*The only central bank in the European Union to possess an observatory dedicated to microfinance, the Banque de France decided to entrust the Observatory with the organisation of this workshop. The objective was notably to extend and pursue the work already commenced by the GPMI – Global Partnership for Financial Inclusion – created by the G20 at the Seoul summit in December 2010.*

*This reflection on financial inclusion and in particular on microfinance has more than just symbolic value for G20 leaders, who also recognise a role for the poorest populations in endogenous economic development and for whom an improvement of the social conditions in emerging countries is a priority. In a different context, microfinance is also developing in Northern countries based, in some cases, on best practices in Southern countries. The day was structured around four round tables that were rich in debates animated by approximately forty guest speakers from all over the world and in the presence of Muhammad Yunus, Nobel peace prize laureate, and keynote speaker at the event.*

*The discussions were introduced by Jean Arthuis, President of the Senate Finance Commission, Christian Noyer, Governor of the Banque de France, Professor Yunus, Jacques Attali, President of PlaNet Finance and Ramon Fernandez, Director General of the French Treasury. The conclusion was delivered by Jean-Pierre Landau, Deputy Governor of the Banque de France.*

*All the speakers emphasised the importance of microfinance as a tool for “socially sustainable economic development” and its singularity in the banking and financial sphere that protects it, to a certain extent, from generalised systemic risk.*

Nb: This summary was written by Paul Loridant, General Secretary of the Microfinance Observatory, Béatrice Raoult-Textier, from the Directorate for the Supervision of Relations between the General Public and the Financial Sector and Luc Jacolin, Julien Moulouquet, from the Economics and International Relations Directorate.

## 1 | To what extent can microfinance contribute to financial inclusion and poverty reduction?

The different speakers of the first round table all stressed — to various extents — the social and economic utility of microfinance as well as its role in the financial inclusion of the most vulnerable populations and in promoting *entrepreneurship*. However, they also reminded us of the need for a degree of realism in the defining of the sector's targets since it is ultimately just one of the many poverty reduction instruments that can be implemented.

Thus, giving the poorest populations — who are excluded from the traditional banking system — access to basic financial services, and in particular to small loans intended to finance resource-generating projects under stable financial terms with the potential to create hope and a better future, constitutes a vital factor of economic integration and of social inclusion and cohesion.

The discussion on the utility of microfinance also highlighted the importance of broadening the tool to a diversified range of financial services (microloans, deposits, savings, insurance) in order to satisfy, under appropriate conditions, all the needs of the poorest populations (project financing, life-cycle needs, etc.).

Apart from the offer of financial credit, the speakers also emphasised the importance of the proximity of microfinance institutions to microloan beneficiaries, the establishment of trust-based relationships, the search for a certain flexibility and the utility of loan-accompaniment arrangements.

The discussions focused on the conditions under which microfinance tools should be implemented and notably on the importance of integrating these arrangements into public policy aimed at fighting social and financial exclusion.

From this point of view, the implementation of policies intended to favour the access of poor populations to education in the broadest sense and to financial education in particular as well as to a broader range of public services (health, infrastructures necessary for every-day life, etc....) appeared in the eyes of the speakers to be an essential way of alleviating the vulnerability of poor people to financial risks.

In the same vein, the discussion also pointed to the importance of creating conditions for the development of the offer of microfinance within an appropriate banking and financial environment capable of promoting the establishment of a sustainable growth model. Thus, the role of government support policies was stressed, not only in the form of direct financial support but also in improving the regulatory and financial environment and in the development of innovative products such as the simplified bank accounts set in place in Brazil.

Lastly the speakers highlighted the place for microfinance in Europe as part of policies to fight against social exclusion and poverty with the introduction of specific programs: Progress (microfinance), Jasmine (program to support microfinance institutions) and Jeremie (program to improve access to finance for small and medium enterprises (SMEs) and microenterprises).

The discussions were concluded by Professor Mohammad Yunus, Nobel Peace Prize Laureate, who stressed the importance of respecting the specificities of the microfinance sector (banking for the poor) compared to the traditional financial system and the special role played by microfinance in the financial and economic inclusion of women who form the bulk of the clientele of the microfinance institutions in Bangladesh.

## 2 | How can advanced economies learn from the development of microfinance activities in developing countries?

Introducing the discussions of the second round table on the lessons to be learnt from microfinance activities in the South, it should be remembered that while much remains to be done, the system has proved its capacity to function in these countries. After roughly thirty years of development, microfinance today impacts the lives of nearly 200 million borrowers and is characterised by a very low default rate.

This development, which has been accompanied by a very substantial broadening of the offer of financial products and services conceived and adapted for poor people (loans, deposits, savings, means of payment,

insurance), illustrates the system's capacity to reconcile profitability with social objectives.

Microfinance in developed countries operates in an economic and financial environment that is very different from that which exists in emerging and developing countries. The lower levels of financial exclusion and of poverty and the relatively smaller informal sectors in developed economies typically prompt microfinance institutions to offer substantially different products and services (micro-lending, basic banking services).

It was therefore emphasised that the objective of experiencing-sharing should not be to simply replicate the experience of developing countries, but rather to adapt to the local economic and social conditions.

The spread of microfinance in developing countries has, nevertheless, undoubtedly been a major source of inspiration for developed countries, both at the conceptual level (the [re]discovery of the central role that financial inclusion can play in the economic integration of the most vulnerable populations and hence as a factor of social cohesion) and in terms of organisation and the adoption of specific types of financial products.

The discussion on experience-sharing showed that such exercises can be particularly effective in the domains of governance, consumer protection, technological innovation (mobile banking) and public support schemes, the objective being to facilitate the overall development of the sector in order to maximise the economies of scale.

### **3 | The funding of microfinance: using local resources, transfers of savings from the North to the South, international financing**

The first part of the discussion in the third round table focused on ways of insuring the sustainable development of microfinance institutions (MFIs) on the back of long-term resources. Although still marginal operators within the global financial system,

the MFIs represent a dynamic financial activity, whose aggregate balance sheet assets — negligible thirty years ago — represent a total outstandings of approximately 60 billion dollars today. Although public funds used to represent the bulk of microfinance institutions' resources (one sixth of total resources today), MFIs resources are increasingly derived from local savings (half of total resources today) and from private international institutions (banks or international investment funds). In addition there is the still very marginal but nevertheless highly dynamic segment of savings transfers from the North to the South, facilitated by the development of peer-to-peer international money transfer websites and migrant remittances to home countries.

According to certain speakers, the mobilisation of local resources seems a priority in order to limit the financial dependence of MFIs and ensure their financing at a reasonable cost, for example, by allowing MFIs to collect public savings in countries where it is prohibited or by the development of fund transfer activities. To stabilise their resources, MFIs have also decided to accompany the needs of their traditional microfinance clientele as the latter's projects develop (bottom up approach) by diversifying the financial products they offer (consumer loans, insurance products, etc.). Technological and financial innovations can also allow developing countries to benefit from technological shortcuts in the development of their financial systems and therefore from financial inclusion (mobile banking, transfers of migrant funds).<sup>1</sup> Peer-to-peer internet platforms that serve as intermediaries between individual investors and MFIs have experienced strong development. Although still very small, the collected resources are growing very rapidly and according to their promoters, should represent 5 to 10% of the microcredit loans by the year 2020, and at a very low cost since investor loans are by nature solidarity-based.

International investors, for their part, are playing an increasing role in financing MFIs. Apart from bilateral and multilateral public investors and NGOs, private investment funds are playing a fundamental role in the development of microfinance. The discussion on their investment strategies — which of course are different from one institution to the next — gave rise to the following questions: to what

<sup>1</sup> A study currently being conducted into migrant remittance channels, focused on North African and Franc-zone countries and financed by the French Treasury, the French Development agency (AFD) and the African Development Bank (BAfD) was also cited.

extent do financial performance criteria undermine the social objectives of MFIs or, alternatively, do they in fact guarantee their sustainability? What risk exposure strategies do investment funds adopt and do these strategies foster an expansion in size of MFIs and the “professionalisation” of the sector (i.e. bank-type structures and operating methods)?

Lastly, the speakers underscored the complementary role played by public funding and NGO initiatives – notably in the riskiest sectors of microfinance – in the form of a broad range of financial support tools (guarantees, acquisitions of stakes, loans). These initiatives continue to provide significant leverage for their MFI beneficiaries.

At the end, the discussion on MFI financing focused on the question of the responsibilities of lenders, whether public or private: what requirements in terms of governance quality and social responsibility can investors reasonably and legitimately make? Investors – both public and private – can play an essential role in the diffusion of sound practices, for example, by ensuring high levels of transparency in their pricing, internal controls, accounting and risk management systems, or via the adoption of codes of good conduct aimed notably at ensuring better consumer protection. Lastly, public investors can play a specific role vis-à-vis national authorities in promoting better business environments, enhanced administrative capacities and better regulatory frameworks via the provision of technical assistance.

## 4 | The regulation of microfinance

Observing the broad diversity of MFIs, of their resources and of the financial services they provide in different countries, the speakers in the fourth round table started by highlighting the difficulty of defining a set of universal regulations for microfinance. Regulations in this sector – when they exist – mostly reflect the existing characteristics of local banking and financial markets and particularly the degree of maturity of the microfinance market, its dynamism and, in certain cases, the appearance of saturation effects that can lead to borrower over-indebtedness. Some speakers also pointed out that the very success of microfinance has actually led to an increasing diversification of the sector and

to the associated governance and risk management difficulties encountered, prompting regulatory authorities to adopt regulations specifically designed to link certain MFIs to banking groups, to consolidate overly fragmented sectors or to restrict the debt collection practices of MFIs in certain situations of over-indebtedness.

The discussion also focused on the applicability of traditional banking sector regulations to the microfinance sector. According to some speakers, the sector's regulations need to be adapted to its development model, characterised by high unit transaction costs, which, in developing countries, should also be assessed in the light of the specific objective of promoting the financial inclusion of vulnerable populations. One important theme of the discussion concerned adequate access for MFIs to financial infrastructures, and notably to payment systems, whilst maintaining respect of the security rules governing payment and settlement systems.

According to certain speakers, the regulatory framework should be sufficiently flexible to encourage private initiative (via the creation of MFIs) and the broadening of their activity scopes as they grow. At the same time, the framework needs to be sufficiently strict to ensure the financial stability of the sector, adequate risk control and adequate protection for depositors and, more broadly, of consumers, thereby limiting the risk of crises.

These regulations should also go hand in hand with an effective supervision of MFIs. This supervision would of course have to be adapted to the different countries and different structures to be supervised (associations, cooperatives, banks with micro-lending activities, etc.). Central banks have a predominant role to play in the conduct and oversight of this supervision that should notably allow an improvement in the governance of the microfinance sector and in the transparency of the costs of its services that is sometimes inadequate given the level of financial education of the populations concerned. In some developing countries, a strengthening of the supervisory capacity will be essential if the objectives are to be met effectively.

In sum, the theme of microfinance regulation has substantially evolved over recent years mainly because its field of application has been grown much

broader from “microloans” to “microfinance” and then to “financial inclusion” which covers a whole range of financial products typically offered by MFIs. The regulatory questions that developing and emerging countries particularly need to resolve cover a broad range of areas including standard banking regulations, insurance products, means of payment, consumer protection and anti-money laundering as well as the governance and internal control of MFIs.

At the international level, the Global Partnership for Financial Inclusion (GPFI), created in December 2010 by the G20 in Seoul, intends notably to disseminate a set of harmonised regulatory principles, based on best practices, allowing the maintenance of financial stability

and the inclusion of the most vulnerable populations particularly in emerging and developing countries. The GPFI has established principles for financial inclusion aimed at facilitating the implementation of regulatory and strategic frameworks in the domain of technological and financial innovation. The GPFI notably works in coordination with international standardisation bodies such as the Basel Committee on Banking Supervision (BCBS) that published a report on microfinance regulations in August 2010, the Financial Action Task Force (FATF) and the Committee on Payment and Settlement Systems (CPSS) with the aim of promoting a better integration of the objectives of financial inclusion into these organisations' fundamental objectives of financial stability.

*At the conclusion of the workshop, the speakers reiterated the importance of the microfinance sector for the social and financial inclusion of the most vulnerable populations. They look forward to a time when the sector has access to appropriate and sustainable resources that guarantee the security of clients, borrowers and savers alike.*

*Three major challenges have been identified for the development of microfinance:*

- **the financial stability challenge:** *the financial security of the microfinance sector could be strengthened by an appropriate regulatory framework and supervision that would bolster the financial soundness of the institutions, promote the professionalisation of the operators in the field and improve the quality of the information available to lending structures;*
- **the resources challenge:** *to grow, microfinance needs greater private sector financing, particularly from local resources. One option could be to develop financial support structures for experimental microfinance projects, for hedging exchange rate risk and for providing technological, financial and regulatory support for migrant remittances;*
- **the social and financial inclusion challenge:** *the social aspect of microfinance being of primary importance, the sector should take the diversity of client needs more into consideration and make its primary objectives the reduction of poverty, the support of the most fragile regions and the development of entrepreneurial culture, whilst continuing to pursue social and financial innovation.*



# OPENING ADDRESSES

## Jean ARTHUIS

*Chairman*

*The Senate's Finance Committee*

It is a great honour for the French Senate to welcome you today and I would like to express my pleasure as President of the Senate's Finance Committee in introducing this high-level international conference on microfinance. To be honest I know little of microfinance, but a financial system that functions without the need for rating agencies appears to me, in the first instance, as a splendid idea. A world that leaves little room for hedge funds, nor CDSs, nor structured products... a world that involves the personal judgments of the investor, yes ladies and gentlemen, I am very sympathetic to microfinance. I believe that holding the conference under the French Presidency of the G20 is a remarkable event. We remember that the G20 in Pittsburgh made a commitment to improve access of the poor to financial services based, in particular, on the example of microfinance. More recently, the G20 in Seoul has also addressed the issue of financial inclusion. However, this issue remained largely overshadowed by other news which was, indeed, perhaps more pressing.

Make no mistake, microfinance is not a micro issue. Today there are more than 10,000 microfinance institutions, 190 million clients and nearly 60 billion euros in outstanding microfinance loans. It was therefore essential that the G20 focus on this issue. And I am especially pleased that it should do so here and now in France. Microfinance is too often ignored, perhaps even frowned upon by the so-called Northern countries who consider that their financial system can provide for all the needs of both individuals and professionals. According to this mindset, microfinance should be reserved for so-called Southern country lacking a strong banking infrastructure. Yes, but look what has happened to our great system of which we had every reason to be so proud. And I believe that we in the North should at the least have the humility to look objectively microfinance model. For microfinance brings us back to the essence of finance, that is to say, an activity that collects savings to redirect to a productive activity, to the real economy. Our financial system, supposedly mature, appeared to have lost sight of this somewhat essential principle. In a world of external growth operations, mergers and acquisitions of banks and

financial institutions, the emergence of systemic risks, the conversion of the state and taxpayers into systemic insurers in application of the famous anti-bankruptcy shield "too big to fail", I am indeed very much in favour of the emergence of microcredit, as you have no doubt already understood. Does it not represent a return to the fundamentals of life and of economics?

We know, moreover, that the art of finance is essentially the art of mastering time. In this respect, I believe a great merit of microfinance is to allow an entire category of the world's population that lives – or survives – from day to day to project into the future.

Receiving a microcredit implies the obligation – but also the opportunity – to look further ahead than tomorrow. It provides the opportunity to gradually escape from poverty and look forward to a future in which your children go to school and receive quality care. Not just looking forward to the future ... but to a better future.

So is this model transferable to the North? This is one of the questions you will address this morning. Without wishing to pre-empt the conclusions of your work, I hope your answer will be positive because in a country like ours, it is not so easy to convince your banker that you have sound business plan. We saw it during the crisis, it was the SMEs that suffered most from the credit crunch. And as regards start-up companies... the situation was hopeless. Yet we know that the spirit of enterprise – and e-commerce contains numerous examples proving this point – supports the growth of all countries, including developed countries. SMEs are a veritable reservoir of growth. Of course, microfinance is not underpinned by an exclusively financial (or should I say speculative) logic. It is also driven by a social logic, and as such, it agrees to take risks that our banking system refuses to accept whereas the latter is never afraid of creating and distributing complex structured products.

That is why microfinance as a support for entrepreneurial initiative must be supported and encouraged by governments.

I mentioned just a moment ago the notion of risk taking. In this respect, we must be aware that microfinance can also be systemic on its own scale, of course. The recent Indian micro-financial crisis reminds us of the need to regulate the microfinance sector notably by creating a new culture in which accountants and lawyers will play a key role. Overindebtedness, embezzlement and the insolvency of institutions are all menaces to the world of microfinance. We have too often suffered from deficient regulations in our own banking system to allow such dangers to mar the microfinance sector. Nevertheless, in saying this, I fully appreciate the distance between setting out the principle and its practical implementation in the field, especially as microfinance covers such a wide variety of forms.

Yes, the question is indeed both interesting and pertinent for everyone. Microfinance should not be confined to so-called Southern countries and the

Northern countries should take an interest in both for their own good and out of solidarity.

The French Presidency is honoured to address this issue, which fits perfectly with the founding spirit of the G20: i.e. a forum for developed and emerging economies to discuss global problems which are therefore common problems. These are my thoughts, presented somewhat simplistically. However... as the program of the day already looks so vast and exciting I do not wish to overshoot my allotted time.

Before concluding, I would particularly like to thank Paul Loridant, one of our former colleagues in the Senate's Finance Committee, whose energy and commitment have made this conference possible today. Ladies and gentlemen, welcome once again to the Senate. Thank you and perhaps you will tell us: "if microfinance had been the only finance available, would we have escaped the crisis that caused so much damage in the summer of 2008".

**Christian NOYER****Governor***Banque de France*

I am very pleased – once again – to be invited by the Senate today and I would like to extend my warmest thanks to Jean Arthuis and President Gérard Larcher for having organised this international conference at the Palais du Luxembourg under the French Presidency of the G20. I would like to say a special welcome to Muhammad Yunus, founder of the concept of microcredit and Nobel Peace Prize laureate and say that we are honoured by the presence of all the distinguished participants. I am indeed grateful to you all for agreeing to participate in this working day of collective reflection on microfinance. A special word of thanks to the Caisse des dépôts et consignations which organised a day of preparation for this workshop in collaboration with the Banque de France.

To continue in the same vein as the introduction to today's work given by President Arthuis, I would like to share some convictions I have about the importance of the development of microfinance and the need for business and political leaders from all regions of the world to support its development as effectively as possible.

To my mind, microfinance has two fundamental advantages for a healthy and sustainable economy. It is both an instrument of social integration and an instrument of economic growth.

An instrument of social inclusion, firstly because it allows people who are, as Jean Arthuis said, excluded from traditional funding – particularly women – to pursue a professional project. Microfinance gives these people the confidence that traditional financial institutions denied them because of their too low income and gives them access to services that are essential for successful integration into the economy. Microcredit, of course, as well as micro-insurance, payment tools, information on savings and sometimes providing business support or even share capital.

Microfinance is also an instrument of economic growth. It is very real. We are talking about people who have ideas, who have the motivation and the

capacity to undertake an activity, but cannot do it because they do not have financing of the investment needed to start and no-one gives it to them. In a way, the seed is sown, the soil is good, the sun is there, but it lacks water, and the tree does not grow. Microfinance can just release this potential for growth which is sometimes exponential.

I would like to make two additional observations. The first is that microfinance meets the needs expressed in developing economies and the first experiments, as we all know, were conducted in these countries, including the Grameen Bank of Mr Yunus, but also in developed economies where the situations of exclusion and inequality persist. It is therefore an economic issue common to all regions of the world and that is why I believe it has its very legitimate place in the G20.

The second point is that both of these social and economic qualities are united in a single financial instrument. And I emphasise this point; President Arthuis was extremely eloquent on the different facets of finance... finance that is useful to the economy and finance that it is less useful. We are just coming out of two years of crisis triggered by the excesses of financial innovation. We are thinking at this point about the future of finance. We urgently need to demonstrate that finance is not just a vehicle of instability and risk and that it is above all necessary for economic development. Where financial markets are not developed, activity does not develop either. Financial intermediation can open up numerous opportunities for growth and it extends the range of possibilities by providing leverage. It was an intermediation that did not work for these poor populations, despite the fact that the yields on microcredit are good and default rates are generally very low. Microfinance is exactly what is needed to remedy this market failure.

In effect, microfinance could become one of the jewels in post-crisis finance. A finance that is socially and economically useful, innovative and healthy. For these many reasons, I believe, business leaders and

## OPENING ADDRESSES

Christian Noyer

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politicians now have a responsibility to support its development, and this is really one of the aims of today's conference.

Another key objective, I believe, is to reflect on an architecture that would ensure sustainability in the long run of microfinance. As I said, the way I see it, microfinance is based on sound foundations: the amounts borrowed are low and the default rate is generally very low. It is therefore a lot less risky than many other financial activities; but it is a financial activity, and must, as such, be subject to some form of supervision.

In conclusion, I would like to reiterate that we see the potential of microfinance. This is an ambitious activity that deserves widespread support. We have a responsibility to ensure that its development proceeds in compliance with the two original objectives: financial inclusion and economic growth. This is absolutely essential.

I hope of course that the G20 Cannes will continue the efforts engaged in this direction at Seoul last December. Anyway, I am confident that your deliberations today will feed these initiatives and I wish all participants a very fruitful conference.

## Muhammad YUNUS

*Founder*

*Grameen Bank*

Participating in the microcredit for a long time now, it's a thrilling experience for me to come here because when I mentioned that I would be attending a meeting in the Palais du Luxembourg, even the French people here looked at me with big eyes, so it must be something very important. I feel extremely privileged that I have been allowed to come here and say a few words about the work that we do.

There are several significant things that happened along the way of microcredit. One of the things I remember was that there was the creation of Consulting Group to Assist the Poor (CGAP). I think it was a significant event. The first microcredit summit in 1997 was also a significant event. We brought together many people there. The Nobel Peace Prize was a very significant event in 2006, gaining for the first time such positive exposure and recognition for the concept of microcredit.

I'm relating this because today is also a very significant moment, not only because we are in the Palais du Luxembourg in the Senate House of the French parliament. It's also G20 recognising the importance of microcredit. We don't seem to have done well with the political leaders. We have been battling with the banking community all this time, but somehow we've missed out on the political leadership adopting it, absorbing it and providing the leadership in this direction. So this is a very significant event, that the G20 would be paying attention to it and that is an exciting moment for us.

It took us 35 years to get here, but we celebrate that finally we are here and that attention can be drawn to this idea, that the financial system is tremendously flawed. One basic flaw is that it doesn't take into account a huge population of the world. Sometimes we say this is about two thirds of the world population, but to be more conservative, at least one half of the world population is excluded from the banking system. Not only is it excluded from the banking system, this happens to a portion of the population who deserve the banking system much more than anybody else because it's a question of their lives.

They are left to a kind of traditional financial system that is extremely heartless and torturous, which is loan sharking. It goes on everywhere in the world, but the banking system has never paid attention to it, always arguing that banking cannot be done with those people who are left out because they are not credit worthy. When I was pushed into the situation in a village in Bangladesh, out of desperation, I challenged it. Why do you say it cannot be done? Has anybody tried it? So I said to myself, why don't I try it? That was back in 1976. I tried it in one village and it did work. The most important part of that work was doing banking without collateral, kind of de-linking the entire idea of banking based on collateral. You are jumping into something where you have nothing to hang onto, but we found a way. It's the kind of resourceful relationship that we built among people who needed the money so that they can retain their clarity, real sustainability and so on.

We created a bank called Grameen Bank in 1983. The idea then spread around the world. Sometimes people think this is lending a small amount of money to poor people and that's what makes it microcredit. That's actually a very small part of microcredit. The real part of microcredit is much bigger than that. It's not only small loans to the poor people. When I say small for us, it was a loan of USD 10 or USD 20. Even today an initial loan in the Grameen Bank would be somewhere in the range of USD 35 to USD 40. The essential part of the bank is to reverse the entire banking system. The banking system is based on collateral. This idea is to just ignore the whole idea of a collateral-based banking system on the basis of trust. That is our first distinguishing feature.

The banking system goes to the rich and the microcredit goes to the poor. The banking system in most countries basically goes to the men; microcredit goes to the women exclusively most of the time. Today Grameen Bank has 8.3 million borrowers in Bangladesh and 97% of them are women.

Conventional banks need the credit history of the person. We have discouraged that. We said that we

are not interested in the past of the person, but we are interested in the future of the person. Let's move on with the future and not get stuck in the past of the person.

We made it income generating lending, rather than lending for consumer goods. We focused on the rural areas, whereas the conventional banks concentrate on the urban areas and the city centers. We made it a principle that people should not go to the bank; banks should go to the people. Still today wherever you see microcredit, that is what has done. No matter how many variations you can find, it is always the bank going to the people, the people in the poorest places, and particularly women. So if you compare piece by piece, it's a kind of reversal of the system.

All this together makes up the microcredit. An amazing thing is that in all these 35 years of work globally, the payment rate is amazingly high. In 2008, we started a program in New York City called Grameen America. We wanted to focus on the poor people in New York City because we were challenged by others that it could not be done in a city like New York. We took that challenge, started it up and it did wonderfully. We repeated everything we do in the villages of Bangladesh in New York City. Everyone said we were crazy and that it couldn't work there. It worked and it's still working. It's a beautiful program.

The point I'm making is that in 2008 the financial crisis came. We began in January, but in the latter half of the year, the whole banking system was collapsing. I think somebody should now ask me the question: «Who is credit worthy?». In the beginning, the banks were explaining that poor people are not credit worthy and that's why it cannot be done. I wish some journalists would ask me who is credit worthy. On one side of the street the Grameen program is flourishing and payments are 100%. On the other side of the street, huge banking structures are collapsing. I would say that anyone could tell you who is credit worthy; it's the poorest who are credit worthy and they have upheld it. In the financial crisis some of you raised the question: What kind of financial system do we want? Do we want one which occasionally creates, and not just once, in a very repetitive way so much disaster for people? It's not the rich people who suffer. They suffer for a little while and then they go back up to their level when normalcy comes back. It was the poor who lost their jobs, who lost their livelihood. They are the ones who have suffered

the most. Why does this happen? We can't redesign the whole system? We're in a crisis period and this is the best time, the best opportunity to redesign the system, making it an inclusive system. We keep talking about the inclusive system, but somehow we don't pay attention to how to do it. Today the examples are here, how to incorporate it into the total system. Today after 35 years, microcredit is still a footnote, a separate, small chapter at the end of the book. It's not part of the financial system. Why shouldn't it be? Is there any argument left? These are the questions that we should be asking at the G20. Raising this topic raises hope. We have problems with our political leaders everywhere. Somehow they have not gotten involved in this issue to provide the leadership that is needed in terms of legislation and in terms of new structures to be recognised.

The impact of it is documented and if you look at the empowerment part of it, enormous empowerment is created among women. Women suffer the most in any society where such extreme poverty is concerned. Microcredit brings hope to them. They start handling money for themselves and they can see a future for themselves, using their own capacities that they didn't even know existed within them. Microcredit is a sort of can opener, allowing them to see that they have some power and they can surprise themselves that yes, they can handle money, they can handle USD 30, they can handle USD 50, they can handle USD 100. Step by step they discover themselves and the dignity that they gain from that. This is amazing. Microcredit has always demonstrated that it is sustainable. It's not a charity outfit. It's genuine banking, not artificial banking which builds castles in the air and then collapses.

While the conventional banking is moving away from the basic concept of banking and creating castles in the air, microcredit remains true to its mission, working with real people and changing their lives. It is not only sustainable in the sense that it covers its costs. It's also sustainable in the sense it generates its own money. It's not donor dependent and it's not charity dependent. Grameen Bank is a good example because all of its money comes from its own deposits. It doesn't take money from the government, it doesn't take money from anybody else and it makes profit. The profit goes back to the borrowers because they are the owners of the bank, so it's making a complete circle. This is another aspect, that if you can do that, why aren't you doing it enough?

As I mentioned, we are not having good luck with the political leaders. Grameen Bank is a good example of that. I am sure some of you are familiar with what is happening to Grameen Bank today. Our government is somehow misdirected. They are expressing themselves in a very negative way. One such negative way is that I have been removed from Grameen Bank.

Our ambition and our goal was to make Grameen Bank an institution owned totally by the borrowers of Grameen Bank. We came very close to it; 97% of the ownership of the bank is with the borrowers. That's why they are not simply borrowers; they are also the owners of the bank, and they sit on the board. But somehow this was not appreciated by the government. This is the only bank in the world that has received the Nobel Peace Prize, so it's not an ordinary bank. The government has their own ideas. They want to change the ownership to get it into the government's hands, which is not what I have envisioned and also not beneficial for the borrowers. This is because government-owned banks in Bangladesh don't seem to work efficiently. Converting Grameen Bank into a government bank will be the most disastrous thing to happen. Government is trying to change the laws of the bank so that they can make the ownership by the Government permanent. Grameen Bank is a large institution which is owned by poor people, who are women. The political leadership should be supporting it, encouraging it, taking it as a global example and feel proud about it. It is trying to do the opposite.

I mention this because this is not the only case, though very extreme in our case. You also have the demonstration of such conflict with the politicians in

Andhra Pradesh, where political leadership is clashing with the microcredit organisations. So how do we address this? How do we persuade the antagonistic political leaders to look at it from a different perspective? Luckily, Andhra Pradesh problem is a localised problem; it is not happening in any other state of India.

I'm very grateful to the people of France who have been expressing their support for the Grameen Bank and the owners of the Grameen Bank, the borrowers. President Sarkozy has written to the government of Bangladesh, supporting the Grameen Bank and the borrowers' cause. The parliament in France has made their feelings known to the government of Bangladesh also, so I'm very grateful to all of you in France for your support, especially to my friend, Maria Nowak, who is leading the Friends of Grameen, an organisation based in France, acting globally, to stand up for the support of microcredit and the Grameen Bank in Bangladesh.

I bring this up as an example of how things can go wrong in such a messy way even when things are going so well. How can we reconcile this? This is also an issue that we have to address. Again, I'm expressing my thanks and gratefulness to all of you for inviting me here today. It's also significant for me to be addressing the meeting of G20 sponsorship on microcredit in the Senate building here today, while the government situation in Bangladesh is so different. That also gives a kind of contrast to the situation we are looking at. Let's see how can we reconcile all this and create an environment where microcredit is not a separate issue, that it becomes a central issue and it becomes the most important issue of the financial services.

**Jacques ATTALI****President***Groupe PlaNet Finance*

It is a great pleasure to be here with you today. To see that after so many years, microfinance is now being recognised. So much has been said and well-said to boot, and I have no doubt we will hear a lot more interesting contributions. For my part, I would like to take this opportunity to focus on a couple of several areas in the few minutes that I have. I recognise so many friends in this room with whom we work at PlaNet Finance in the 80 countries where we operate, and I am sure I have nothing special to teach them. I would just like recall a few small points.

First, microfinance is not just about credit; it has many other dimensions and, in fact, it remains extraordinarily weak. One billion people have bank accounts around the world. 5 to 6 billion do not have a bank account. Nearly one billion people are directly or indirectly affected by the microfinance, either because they have an account, or because their family has one. Outstanding microfinance represents around 1 per thousand of global banking assets, which is a ridiculously small amount, and between 3% and 5% (being generous) of total assistance provided by the Northern countries. It remains a marginal activity and is still considered marginal despite the fact that it is obviously absolutely fundamental as the previous speakers correctly indicated, both for the development of employment in the North, as for the development of employment in the South. I wish to emphasise four points very quickly, giving just one minute to each.

First, we often talk about sustainable development and indeed the term has become common parlance. I think we should introduce the concept of "socially sustainable development" because a development can be environmentally sustainable, but if it is not socially sustainable, it is not sustainable at all. Both because politically it can lead to disaster, and also because the evidence shows that without strong demand, there is no strong growth. Without healthy demand, there cannot be healthy growth. Microfinance is therefore a dimension of socially sustainable development that includes a great many other dimensions: education, health, governance, democracy, etc.

The second dimension – and I would like to stress this point particularly – because some ecologists argue that socially sustainable development is contrary to ecologically sustainable development, and that growth is, of itself, bad since it leads people into the market economy and into the increased production and consumption of raw materials. But I reject this argument: the two objectives need to be followed simultaneously; they are not contradictory and at PlaNet Finance and elsewhere we work in many dimensions to show that the objectives of ecologically and sociologically sustainable development are not contradictory.

The second factor I believe is very important is that we are entering a world in which the key will be the inclusion of everybody in modern society. Financial inclusion, of which microfinance is one of the fundamental dimensions, is clearly a major evolution. Access to credit is one of the dimensions, but it is part of a much broader concept in which there is, simultaneously, the importance for the market of inclusion – looking at the vast numbers of poor people – for many other reasons than finance. The Salon du Bourget was a tremendous success for the airline companies mainly because low-cost airlines have bought more planes than ever. The poor represent a huge market for the future. They are a market for themselves, they are a market for their own activities, and they are a market for the global economy. They are the heart of a potential crisis resolution, which in my opinion is far from being just around the corner. But inclusion is not only financial, there is also political inclusion. We should think of inclusion in democracy. Inclusion in democracy is both major and fundamental; there can be no inclusion of socially sustainable development without the inclusion of all humanity in the democratic process. Where microfinance is a very important link is that it is a tool not only of traditional financial inclusion, but also of democratic construction. Firstly, because it is part of community life; secondly because it helps people not to depend on charity, brings them out of unemployment and, in all countries that are now in transition towards democracy, if microfinance is to grow very quickly, the great democratic hopes that

were raised will collapse. I am thinking of Tunisia, Egypt, Ivory Coast... I am thinking of a large number of countries in which we work and where we see the extraordinary job creating efficiency of microfinance. In France I see our activities of all kinds – ours and those of all other players in French microfinance – prove that in France, as in all countries, job creation through the support of micro-entrepreneurs is a key factor in development.

The third dimension I believe is very important to stress is that within the microfinance sphere, but also elsewhere, we are seeing the emergence of something often called the “third sector” without really knowing what to call it. These are cooperatives, NGOs – social enterprises – Muhammad Yunus himself has developed a specific concept of “social business”. This is one of the possible dimensions. These are companies that must behave like businesses, that is to say efficiently and professionally, but which are not expected to distribute excess profits, or in some cases, any profits at all, if their shareholders are donors. This is what I call “patient capitalism”. Basically, we are in a world where the poor are patient and the rich impatient... when in fact it should be the opposite. We are seeing the emergence of a new form of economy whose avant-garde is microfinance and within which new entities gradually appear. NGOs are a very interesting example; but they are not the only organisations that are producing brilliant top level management professionals – and many are in this room – who do not make their remuneration or the accumulation of wealth the only engines of their lives. In the South and in the North we are seeing extraordinary initiatives of this kind, and I believe just

as capitalism emerged as a kind of harmless parasite inside the feudal world in the 12th century (which it gradually superceded), I think the social economy sector, in all its forms – cooperatives, NGOs, social enterprises, etc. – is now, not necessarily destroying capitalism, but I would say sort of giving it meaning, providing a complementary alternative and forcing mankind to collaborate.

As a last observation, I would say that it is very important for developed countries to take this seriously. G7 after G7, G8 after G8, G20 after G20, and at least since Gleneagles, we find *communiqués* that say a few lines about the importance of microfinance, I salute Dov Zerah and the great work of the AFD, the Caisse des dépôts et consignations which makes a superb contribution to this field, and many others in this room. However despite the efforts, I think the international community has not quite realised the importance of socially sustainable development, of inclusion and of the relationship between democracy and microfinance. I think it is something very concrete, which is measured very simply in financial resources, in gestures of generosity, in support for the professionalisation of microfinance institutions and in aid for their development. Consider the enormity of the new professions that are emerging in the areas of micro-insurance, mobile-banking, regulation... vast projects in which the experience of Southern countries can be useful for the North, and in which the financial resources of the Northern countries can be less vested in the simple budget support for white elephants. These resources could help speed up a process whose effectiveness is now widely recognised.

**Ramon FERNANDEZ***Director General of the Treasury**Ministry of the Economy, Finance and Industry*

Christine Lagarde would have liked to be with you today. She attached great importance to the issue of microfinance, but, as you know, she has sailed to other shores and I am certain that she will hold high the torch of financial inclusion and microfinance at the International Monetary Fund. So her absence is nevertheless good news, the subject will also be on the agenda at the IMF in Washington.

François Baroin has been unable to attend this workshop due to prior commitments and has asked me to represent him. I therefore have the honour and pleasure of addressing you on the issue of microfinance in the context of the French presidency of the G20.

So why are we gathered here today for this workshop "labeled G20" and co-organised by the Banque de France and the Caisse des dépôts et consignations, whom I would like to thank for this initiative. This is certainly not the first workshop on the subject with an international impact, but it seems to me that it distinguishes itself by the quality of the speakers who have marked the already rich history of microfinance and who were here this morning. And also by the diversity of the audience which comes from all over the world. This workshop is also, and especially, based on the assumption, still not sufficiently widespread, that in the area of microfinance Northern countries have more to learn from the South than the reverse. And it is also a great opportunity for all, policy makers, administrators, central bank governors, company or bank managers, to reaffirm the major role of microfinance in the fight against poverty and vulnerability, as in the financial AND social inclusion – and I insist on the "and" – of the poorest. Obviously, microfinance is not the answer to all problems, it is not the alpha and omega of crisis exit policies, but when the distribution mechanisms of microcredit and all financial services available to the poorest have seized up or become distorted – I am thinking for example of savings, insurance or remittances from migrants – a country's development can be hampered. Human despair may then lead to personal and family tragedies and it is precisely to avoid such tragedies,

to get millions of people out of poverty, to speed up development, that the G20 should take head on the issue of development and securing of microfinance.

This is why France has focused on microfinance and financial inclusion in the framework of its presidency of the G20, as a continuation of the work that has been carried out for several years. Fighting for financial inclusion involves taking into account the challenges of microfinance and the solutions it provides. As you all know, financial inclusion comprises, in addition to microfinance, all of the means for getting access to finance, from banking services for individuals to access to credit for SMEs. Of course, these are closely linked and inseparable issues. To be convinced of this, one only needs to look at today's agenda. The discussions this morning have already highlighted the global nature of our questions and all the recommendations from the microfinance sector constitute a step forward for financial inclusion in general. We will verify this again this afternoon in particular when we discuss regulatory issues in more detail. In Seoul last November, the G20 decided to put these critical issues at the centre of its priorities. It is quite a challenge: approximately 2.5 billion adults worldwide do not have access to banking services and close to 70% of SMEs in emerging countries do not have access to credit. However, financial inclusion is a powerful weapon for fighting poverty and inequality. Through its effect on employment and income, it is essential to ensuring strong and sustainable development as promoted by the Seoul Development Consensus for Shared Growth.

Microfinance also contributes to the development of social protection, it reduces the vulnerability of fragile groups of society to the vagaries of life, it allows them to project themselves into the future by funding their projects and provides them with a basic social coverage, especially against health risks. It therefore fits in perfectly with our common objective of developing a social protection floor in order to achieve the Millennium Development Goals and reduce global imbalances.

Finally, it should contribute to the stability of the financial system. Its impact in this area should not be underestimated, as the bankruptcy of microfinance institutions in some countries have unfortunately shown over the past two years. Governments must therefore be particularly vigilant and implement detailed and demanding regulatory and supervisory policies and have recourse to new information technologies for optimising the functioning of this sector. This is an important topic that you will address in all its dimensions, legal, technological and financial, in workshop No. 4 on the regulation of microfinance.

We therefore have a large responsibility in this regard, that the G20 should fully assume, and I should like to acknowledge the outstanding results of the Korean Presidency of the G20 in 2010. Under its leadership, the G20 adopted in Seoul nine principles for an innovative financial inclusion. An exhaustive and detailed list of experiences and best practices for developing SME access to financing has been drawn up. And the launch of an SME Finance Challenge has helped to select 14 projects proposing innovative models for channeling more private capital into SMEs

Completing this process, a global partnership for financial inclusion, the GPFI, was launched at the end of 2010 to pool the resources and experiences of the G20 countries, developing countries, central banks, multilateral institutions, industry associations and expert networks. The first forum of the partnership scheduled for early October in Mexico – which, as you know, will chair the G20 in 2011 – will be another opportunity to make headway on this subject in connection with the action on migrant transfers within the G20 group working on development.

Indeed, the social and financial inclusion of the poorest also requires a more effective mobilisation of migrant savings for development purposes. Cutting the cost of these remittances must remain a priority, according to the objective that was set at the G8 summit in L'Aquila in 2009 of reducing the overall average cost of these remittances by 10 to 5% in 5 years. Reducing these costs is a necessity. We should also go further by giving all stakeholders the regulatory, technical and financial tools for optimising financial flows and their allocation in particular through microfinance institutions. France is particularly active on this issue. Workshop No. 3 on

the financing of microfinance will be an opportunity to talk about it.

These goals are ambitious. I want to show that they are within our reach provided we take a series of measures. First, governments should be more involved in the regulation of microfinance. Several avenues may be explored here to increase the stability and financial security of the microfinance sector: strengthening the mechanisms whereby microfinance institutions receive authorisation and are supervised by central banks or at the very least by the ministries of Finance, subjecting microfinance to more stringent solvency standards to improve the balance sheet structure of the institutions concerned and strengthening the quality of operators by compelling them to comply with clear and transparent internal procedures and by supporting the spread of their assessment based on universally shared criteria.

We should also encourage the development of balanced partnerships between the public and the private sector. Microfinance should incite to modesty and humility, both on the part of public and private players. Grants from public investors cannot support alone the necessary growth of microfinance and cover the needs of the majority of those excluded from the banking sector. These public subsidies are nevertheless essential and can be used to launch innovative projects or products, to support the start-up of new microfinance institutions or strengthen the capacity of existing operators, to increase the presence of institutions in rural areas when market mechanisms are deficient. The leverage of these public investments on private resources can be significant, especially if the microfinance institutions involved are well integrated into the local economic and financial fabric and have access to refinancing from banks.

However, our efforts will not be fully successful unless we add to them a small dose of imagination to offer an ever wider and more efficient range of services for the benefit of the poorest. This is where microfinance is also linked to financial inclusion: it is a question of taking advantage of the real-time service opportunities opened up by e-banking and mobile banking to offer a wide range of financial and social products that meet the needs of the poorest. There is considerable scope for developing a range of specific services that would even cover the needs of

## OPENING ADDRESSES

Ramon Fernandez

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daily life such as childcare, support for mobility, for example, and creativity in this area should be given the free reign, in accordance with the standards of financial security.

I come to my conclusion. The needs of the fight against poverty and financial exclusion are huge but I think that today's workshop may mark a new stage in three respects: It promotes the convergence of views between stakeholders in the North and South; this is obviously essential. It sheds new light on key issues for

development, especially in the fight against poverty, and this is a positive message that we must convey. Finally, it emphasises the need to take advantage of existing tools and experiences, in particular those in the South. This is essential, we do not capitalise enough on past experiences to support what works. The time has come for governments, in particular for members of the G20, to offer greater and more appropriate support to microfinance projects and institutions in the face of the development challenges throughout the world. Together we must, we can, meet this challenge.

# ROUND TABLE I

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## TO WHAT EXTEND CAN MICROFINANCE CONTRIBUTE TO FINANCIAL INCLUSION AND POVERTY REDUCTION?

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## Maria NOWAK

CEO, Founder

Adie

I'm not sure we will manage to really get to the bottom of the messages, because time is limited. I'll just say a few words of introduction. I was always amazed that people who would never question the role of financial services in developed economies often question the usefulness of these services for the poor, as if the poor were fundamentally different from other people, as if they were allowed only two types of treatment, the gallows or pity, to borrow the title of Bronislaw Geremek's book (*The Gallows or Pity*) on the history of Poverty in the Middle Ages.

This dual processing continues to exist.

On the one hand, policies supporting agriculture that block the development of local production, food aid that helps to destroy it, obstacles to the free movement of labor while capital moves freely in an economy that is said to be global. On the other hand, emergency aid, the millennium targets, commendable public and private efforts to meet basic needs, access to water, energy, to eradicate endemic diseases, to develop education.

I believe that in the range of instruments in the fight against poverty – none of which can by themselves solve the problem – the first quality of microfinance is not to miraculously eradicate poverty; – but contributing to its eradication is already not bad – but to treat the poor as economic actors in their own right, helping them to better control their destiny.

To introduce our discussions, let me make three patent observations.

The first is that credit is as old as the world, it was already practiced in Babylon 3400 years before Christ and if it has existed for so long, one may logically assume that it is useful. We can also observe empirically that the poorer you are the more you need to save and borrow to cope with the vagaries of life.

Second, credit is a double-sided instrument: it creates wealth but is also a debt. So microcredit should be carefully managed to avoid generating a social drift that leads from over-indebted clients to the bankruptcy of microfinance institutions, to the emergence of financial malpractices which benefit some but crush the mass of borrowers instead of improving their situation, or communication drift where the idea is much stronger than the reality on the ground.

Lastly, if at the macroeconomic level credit is one of the main levers of public policy, it is clear that it can also be at the microeconomic level. Credit is on the borderline between private asset and public asset. Private asset, because it is linked to capital via bank regulation and this capital belongs to shareholders. Public asset, because credit is a factor of production whose externalities are particularly significant. Like other public assets, microcredit is subject to market failure and its positive externalities go far beyond the direct borrower by contributing to growth, employment and social cohesion, as indeed the Governor of the Banque de France was saying earlier. In fact, it can generate positive externalities that go far beyond the borders of the countries where it is practiced by limiting migrations, by promoting trade rather than conflict.

## **Stuart RUTHERFORD**

**CEO, Founder**

*Safesave*

I've been talking to poor people in their homes around the world in many, many different countries for about 35 years now and I've learnt many things from them, obviously. One of the most important things is that I found that poor people everywhere, more or less irrespective of the economic development of their countries, seek better tools for basic money management. Let me give you an example.

I was showing some guests around a slum in Dhaka, Bangladesh, and we met an obviously very poor woman. My guests were surprised to hear that she belonged to several private savings clubs and two microfinance organisations. When she told them that she was a beggar, they were astonished. "Why", they asked, "does someone like you need so many financial services?" She said, "Well, don't I have a daughter that needs to get married? Don't I need to buy a new sari for the next Eid festival? Don't I have to plan for when I'm too old to work?"

I think her answer showed why poor people everywhere urgently need and urgently seek ways to manage money. If you're living on 2 dollars a day, your income is not only small, it's likely to be irregular and unreliable as well. Your 2 dollars unfortunately don't arrive like clockwork everyday because 2 dollars a day are just an average. That has lots of consequences. It deprives you of the automatic mechanisms like deductions from salary that help richer people to save or to repay loans. Lacking these, the poor need to be especially active money managers. Just managing money to survive day to day is hard. To make sure there's food on the table everyday and not just on the days when income arrives, you must set money aside to be sure to eat tomorrow and to repay that small loan that you took from your neighbor to eat last week. This is consumption smoothing, but don't dismiss it as trivial because it can have serious consequences if it's not well done. When your child has an eye infection in a dusty slum, it matters a lot whether you can find a dollar or two to buy the antibiotic to put her eye right. Failure to find that small sum now can lead to her going blind later.

Managing bigger sums is obviously even harder. The poor and not just the rich have to find money for childbirth and education, marriage and home building, for fans, refrigerators and mobile phones, land, livestock or businesses. They have to deal with emergencies,

which hit them more often than the rich. That usually means finding large sums of money quickly. If you're poor, arranging your financial affairs well, having safe places to save and sure sources of credit helps you with the lifecycle needs that can distinguish successful lives from unsuccessful ones, and can make the difference between being wiped out by an emergency and recovering from it. No wonder poor people take money management seriously. The research that we did in poor people's money behaviour in Bangladesh, India and South Africa found that poor households commonly have many financial tools on the go. In a year, many of them push more money through these instruments than their total annual incomes. The poor's need for basic money management tools is more pressing than that of the rich, not in spite of their being poor, but precisely because they are poor.

Despite microfinance's wonderful advances, the poor still do most of this money management at home or through local informal tools, like saving clubs, moneylenders and borrowing and lending amongst family and neighbors. Such tools are essential and some of them are sophisticated, but they're not good enough. Informal finance has major weaknesses. It's unreliable, savings clubs break down, moneylenders don't always lend when you need it and your husband steals the cash from your piggybank. Informal finance is not good at dealing with large sums over long periods of time. It's too risky to pile too much money for too long into a local savings club. Even the greediest moneylender won't risk a large sum with you for a long time. So it's hard to save up or borrow for those big ticket items using informal tools and informal finance can't insure you against the risks that you're bound to encounter in life.

By offering reliability and the chance to save up or borrow in large sums over the long term, formal financial services can transform the financial lives of the poor. To sum up, there are basic money management needs that are universal to the poor: short term consumption smoothing, assembling large sums of money for major life cycle expenditures and ensuring that you can get hold of cash to deal with crises. Serving those needs reliably would constitute true financial inclusion. It would bring stability to the financial lives of the poor and it would lay the foundation for more ambitious goals, such as poverty eradication.

## Essma BEN HAMIDA

*Co-founder, Executive Director*

*Enda inter-arabe*

Let me begin with a scene that I experienced in the 90's upon my return from abroad after twelve years of absence as a journalist who had long been writing about development and poverty. It happened in front of the Sous-Préfecture in the largest poor district of Tunisia, Ettadhamen. It was before the month of Ramadan and they were distributing food baskets for the holy month ahead. About fifty people got their baskets before the gates closed and the other people and families remained behind the gates. There were people crying, people begging and shouting, "Are we going to get a basket?" It was just small basket with a little oil and pasta ... . Returning from abroad where I thought my country was advanced, modern and developed, I was moved, stunned and I was struck by the lack of dignity in this charitable approach to poverty. That scene was probably a trigger for what I did then, on my return to the Grameen Bank, and for everything I saw when I was a journalist and working in the microfinance field.

And that's how Enda actually started a microcredit program in the largest poor neighborhood, where we decided to focus the priority on women.

I just want to digress here since the theme of our main topic essentially asks the question "can microfinance eradicate poverty?". I think we have invested too much hope in microfinance. We were given a responsibility that is much larger than our resources and ultimately, of course, when things do not work, microfinance becomes the scapegoat "you see... microfinance cannot solve the problems of poverty".

We need to remember that microfinance is just one tool among many others. Governments cannot ignore the poor under the pretext that microfinance is now there as a quick fix solution. I could tell you hundreds of examples where we have donated more than 800,000 seventeen-year loans to poor families. For these families, when a child is sick the mother, who usually has no access to social security, must sell some (or all) of their meager belongings just to be able to care for the child. Once there is an urgent problem in a family, there is no cushion, no savings: this vulnerability is devastating because there is no choice but to sell the property, when it exists! Poverty

is complex and if, alongside the micro-loans, there are no basic services: education of children, basic health care, infrastructure, the quick fix does not function.

Unfortunately, for all these years, even microfinance has been affected by a profit mentality... how much will microfinance generate? And even in the impact studies, we always measured the economic aspect ... what was the impact on family income. What I want to say is that there are more important aspects than the purely economic; what I observed during these 16 years of experience is something more important: dignity... dignity that microfinance can give to the poor and especially women who no longer have to reach out for charity. It is the emancipation of women – their "empowerment" which Professor Yunus talked about – that is very important. It is not only about women of course, but I insist on women in a society like an Arab-Muslim society like ours in Tunisia. The entry of women into the economic sphere is of vital importance! In the '90s, when I started in that neighbourhood, I didn't see any women outside, I didn't see any women working outside the home. With microfinance, today you have a female entrepreneurial explosion and I think that alongside this explosion, there is also an explosion of "empowerment", there are happier women: even if they are not rich, they are proud. I would also say that this "empowerment" is something that will help prevent religious extremism: one should not forget that. Today, after the revolution in Tunisia, the extremists are back with their discourse of women returning home, with polygamy, and I think that these years of microfinance in Tunisia have had the effect that women clients today, even veiled, say to you "we will not return to the 'home'... we will remain active... we want to keep our freedom and our freedom especially to manage money" and that wherever we are in Tunisia.

The other aspect is the resilience to crisis. Indeed, what Professor Yunus also said, we observed after 14 January, after the revolution in Tunisia. The effects of the revolution have hit the poor hard. Fortunately, they have managed to pick themselves up from this crisis. We are seeing it now: even with great difficulty, the poor are picking up and microcredit allows them to keep a source of income even if it means changing jobs. I pass rapidly over the effects of this revolution,

## ROUND TABLE I | TO WHAT EXTEND CAN MICROFINANCE CONTRIBUTE TO FINANCIAL INCLUSION AND POVERTY REDUCTION?

Essma Ben Hamida

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closed markets following the war with Libya, the impact on agriculture etc. About 30% of our clients are very affected by this crisis. Despite this, we do not despair, people are keeping hope and continue to fight. Some have had their loans rescheduled, others have been refinanced, more money has been awarded to those in need and they have demonstrated their ability to get back in business despite the crisis.

Unfortunately, we also observed that after the crisis, without the microfinance, without saving (because microsaving is prohibited in Tunisia by the Central Bank), there is extreme vulnerability. The microentrepreneurs themselves realised that had they

had savings, things would have been better for them. The same goes for microinsurance. In times of crisis, we feel the importance of microinsurance. Lastly, I would like to mention the support services. Microcredit, money alone, cannot change the lives of the poor. Support in terms of training, information and discussion networks, marketing ... are all essential for people to get out of poverty. Finally, I feel it is appropriate to caution investors: microfinance does not exist to make the rich richer; microfinance is there to help or support the poor to become a little richer. So, ladies and gentlemen, do not be greedy... you cannot consider yourself 'social' investors unless you accept a yield well below the general return on financial markets.

## Channy IN

President & CEO

Aclede Bank

I have noted for the past ten years, especially since 1999 when the National Bank of Cambodia started to improve the regulations on banking and finance, that the number of microfinance institution banks and specialty banks have increased drastically. In 2000 we had only eleven commercial banks, three specialised banks and three licensed microfinance institutions. Five years later, the number of financial institutions has increased drastically from 17 to 35 in terms of institutions, but it rose to 361 in terms of branches and offices.

In our case it's a little bit different. I note that if the microbusiness entrepreneur does not have a branch and office close by, it doesn't matter how interesting our institution is, they won't go to us. They will still go to the private moneylenders. This is why my focus is on the branch and office network. I have noted that the relationship is very strong between the number of branches and offices of microfinance institutions and the access to finance. The more there are branch and office networks of financial institutions, the more it opens doors to access finance for them.

Currently, the number of branches increased to 1,034 branches and offices throughout the country. Also, the new regulations allow licensed microfinance institutions to expand nationwide. Microfinance is the response to the needs of the customers, the low income people. After the regulations ten years ago, microfinance has become more professional. They work professionally and technically they are like a commercial bank. They are different than banks because they are external workers. They work right in the community and they are close to the customers. The microfinance institution (MFI) governing structure is the structure that understands the needs of the microfinance borrower and the management and staff of licensed microfinance institutions are groomed to do the job.

The MFI strategic location is that they are right in the community, they are close to the customer. Mostly

they tend to work in the low income population area. A MFI has its financial product and services tailor made to the needs of the customer. This is one of the main reasons they open more access to them. They speak the same language of the low income people. They don't come with technical terms that the borrower cannot understand.

I see that the MFI is not just for the inclusive finance. They are delivering services across the whole spectrum, from micro, small to medium enterprise, but they also bridge all sections of the community in both rural and urban areas. This is particularly important to less developed countries, where the microfinance services is the most needed, as the majority of the population are living in the countryside.

In our experience, our deposit by the end of last year was at 1 billion dollar. In the capital city in terms of loan disbursement is only 67% collect, but it's 70% in the countryside. You can see that they need one another. With a large branch and office network, microfinance has mobilised the financial resources from where it is placed to where it's needed the most. From my eighteen years experience with microfinance and with the banks, I can say that microfinance is a means for accessing finance. I can see that the more access there is to finance, the more income and employment is generated. More income and employment generation means more economic development, which acts as a powerful tool for poverty alleviation. So far I haven't seen anyone claiming that microfinance is the cure for poverty, but it is a means to help entrepreneurship development to those low income people. If we work with them to help them to develop their microbusiness, it means they become the entrepreneur and they are less dependent on charity. Of course we work with them to give them more independence and to build their self-esteem. Above all, it contributes to the development of a grass roots economy, which benefits the community at large.

## **Luiz AWAZU PEREIRA DA SILVA**

**Deputy-Governor**

*Banco Central do Brazil*

I was listening to the very wise words of Professor Yunus previously very carefully and it reminded me of two messages that I heard recently. One was from my own President, Dilma Rousseff. Strengthening microfinance, strengthening financial inclusion is one of her priorities. She expresses this very strongly to us in the government. The second line that I was reminded of was a message that President Lula used to tell us repeatedly. In fact, it was a very strong message associated with you, Professor Yunus, that the best collateral of a poor man is his reputation. Actually, President Lula grasped intuitively very extensive literature that economists grapple with in terms of asymmetric information, the value of collateral, pooling of risk and a number of things that lead to Nobel Peace Prizes. Intuitively it was a very important message to explain why it is that non-performing loans are so low, given the value that poor people attach to their collateral, which is their reputation, in microfinance.

I would like to continue by saying that obviously the development of microfinance and financial inclusion are top priorities for Brazil's development strategy. We have had good experience in Brazil that proves that it can be an extremely effective tool for developing an offer of credit with excellent trickle-down. It has allowed us to reach an extremely broad universe of micro entrepreneurs with a lot of projects that produce many positive externalities and which therefore have an impact on the poorest communities. This was achieved in Brazil once a number of important prior conditions were met. First of all we had to stabilise the economy. Price stability is very important, control of inflation and of course also the financial stability of the overall system with financial institutions that are sound, well capitalised, and are beginning to pay attention to microcredit operations. Without financial stability and without price stability, it is very difficult to develop sustainable financial inclusion and microfinance. We have also developed a model of growth with social inclusion — as Jacques Attali was saying — with rising employment and real income and well-structured social programs, that is to say, sustainable from a budgetary point of view, continuous, and focused in terms of their effectiveness such as

the programs we have around the Bolsa Familia. So obviously macro-, price and financial stability are necessary conditions, but they are not sufficient for the development of social inclusion and are not sufficient for the development of a microcredit offer. Our experience shows that four or five things can help the growth of this offer, hence the development of microfinance and of financial inclusion.

First, we proposed and we now have a stable source of funding and guarantees; we have a legal obligation to allocate a portion of our savings deposits: 2% of the savings system as a whole goes towards the provision of microfinance loans at low rates under penalty of a sterilisation of unallocated resources in favour of the Central Bank. Secondly, we have better information for lenders which helps eliminate asymmetries of information. At the bank, in particular, we have created a central credit register on borrower credit quality.

We also have better information about the borrower (the microentrepreneur), alongside our efforts to enhance financial literacy, simplify procedures, and reduce and homogenise bank charges. Fourth, we have made legal improvements with the creation of loans secured by direct debit from the employer, and we have created simplified bank accounts for small depositors. Lastly, and this is a very interesting element of the Brazilian model we have enhanced the trickle-down effect by developing a network of non-banking correspondent counters as well as banking correspondents which are authorised to provide decentralised financial services, invoice payments, reception of loan requests, and so on. which has been developed over the last five to six years to cover the entire country.

So what are the results? I believe that the combination of macroeconomic stability, controlled inflation, increased redistributive economic growth and better trickle-down via the development of a network of correspondent banks has given us good results. We have virtually universal access to financial services by the general population. We have coverage of almost 100% of our municipalities in Brazil, in particular through the network effect of these correspondent

banks. You know that Brazil is an enormous country; we have 5,566 municipalities. Today these correspondent banks cover all of these municipalities. The number of bank accounts, for example, has increased from 55 million in 2002 to approximately 90 million. Over the same period, the number of correspondent banking outlets rose from roughly 78,000 to almost 160,000 across Brazil. We have also developed computerisation, ATM (at the money) coverage, territorial coverage with bank branches and positions of access to financial services across the country. Computerised banking for example in Brazil particularly helps people who are beneficiaries of our Bolsa Familia programme, our program of conditional transfer budget that now affects nearly 13 million households in Brazil. Of course all this is done in an environment of growth of bank credit. Five or six years ago we were at 25% of GDP, which was relatively low for an economy with Brazil's level of development. Today we are at nearly 50% of GDP.

The growth of microfinance is a special and very strong element of this strategy. For small depositors and microentrepreneurs, the country's total microfinance outstandings amount to approximately 3 billion reais posting growth of nearly 200% in 5 years. And the social indicators in Brazil... I think the figures are well publicised... a model of sustainable and responsible growth with social inclusion, financial inclusion, gives us indicators that are good at the social level. Our extreme poverty fell from 15% to just over 5% and as you may know, our indicator of inequality,

our Gini coefficient, fell from about 0.6, one of the highest in emerging countries to approximately 0.5.

So there is, I think, and the Brazilian experience shows, a strong correlation between the development of microfinance, an increase of access to financial services and an improvement in social indicators, when it occurs in a context of the macroeconomic stability. We have nearly 25 million people who have been lifted out of poverty in recent years and nearly 35 million Brazilians have attained the status of middle class. Today we are not remaining satisfied with these good results, we believe it is necessary to ensure the sustainability of our growth model with redistributive social inclusion. Obviously this fits in with the very good prospects for our economy. The context in which we live today, the global economy, is a complex environment, we know that there are upward pressures on commodity prices. These pressures have an influence on inflation in emerging countries, which we obviously need to control. We also know that the international context of the post-crisis is a situation where there is a large quantity of very liquid capital flows into emerging countries and which also put pressure on the credit market and indirectly on inflation. We strive to limit the risk elements of the post-crisis while preserving our model of sustainable growth with social inclusion, so we are very happy to express and exchange our experience with other participants. We do this in the framework of the G20 and it is a great pleasure to do it here at the French Senate.

## **Rafael JABBA**

*Principal Investment Officer*

*African Development Bank*

The African Development Bank fully supports inclusive financial services. We recognise that these types of programs are extremely positive for the poor. Let me give you a couple examples of what we're doing.

We recently launched a remittances program with funding from the government of France, as well as with International Fund for Agricultural Development (IFAD). This is a program that will be used to leverage disparate resources and also attempt to lower the cost of remittance transfers. In a period of approximately six weeks, we had over 800 institutions register, 700 applied and approximately 52 million dollars in grant requests came in, so there is a strong demand for remittances services and this was just focusing solely on West Africa.

We also set up a program that was related to financial inclusion, but from the perspective of insurance. The European Food Safety Authority (EFSA) authority, located in Egypt and which regulates the insurance market, approached the African Development Bank and asked us if we would support this type of initiative through the access of insurance initiatives. We went to Egypt and we took a look at what the needs were and they clearly showed, as EFSA has indicated, that approximately all low income Egyptians did not have access to any type of insurance services. Our only question at the time was if we do provide insurance services and it does cover health, does this mean that the insurance recipients will be going to the same clinics and getting the same level of healthcare that they're currently getting now?

I think as you set up any type of inclusive financial service, you need to take a look at the issues that surround it as well. Client protection principles are key in any type of inclusive financial service. We need to ensure that when credit is given, clients know the cost of their credit. When we take a look at the issue of saving deposits, these are benefits to the microfinance institutions (MFIs) because they provide a source of short term capital. It's very important for them, it's very important for the MFIs, but we also have to make sure that the clients are not over indebted. This is an issue that needs to be taken seriously.

Some of our entrepreneurs don't have the basic financial skills and even though they want a loan, we need to provide support for these individuals as well. We have non-financial service training programs, which is important, and we need to integrate them into our credit programs as well.

When it comes to the question of whether or not microfinance has the ability to eradicate poverty, this isn't a question that we ever answer at the African Development Bank. We know for sure that microfinance does mitigate poverty. When we sit down at our tables we ask ourselves: "Should we provide resources for small and medium industries (SMI) financing? Should we provide resources for microfinance? Should we take a look and provide resources for roads and bridges that will bring goods in markets to ports, or should we focus on clean technology?" There are numerous demands for us at the African Development Bank and what we try to do is make sure that we include microfinance and microfinance related activities in all our interventions.

Sometimes though you have to be flexible, and let me tell you a story. Approximately fifteen years ago, I was setting up a program in Jordan. I had the opportunity to work in the rural areas, but for the rural areas in Jordan it meant the desert. It was a challenge in the sense that we were able to set up a program, but there was one group of people that I couldn't figure out what to do with, and these were Bedouin women. I know that Dr Yunus will be upset about what I'm going to tell him we actually had to do. This woman came to me and she said, "I want to start a group." I asked her where she worked and she said she was a shepherd. I said, "Well, we're going to come out and meet your group. Where are you going to be?" She said, "I know where I am now, but only God will know in the future because it depends on where the grass grows." I had no idea how I was going to set up a group lending mechanism for a client that's roaming through the desert and I had no idea what I could do with her. I happened to go downtown that day and I saw that some of the women were taking the jewelry off their wrists and they were giving it to the gold dealers. What they did was they were selling

their gold at the value of the gold with no intrinsic value being taken into consideration. That following day we got back in touch with this woman and she said, "If I give you my gold, will you give me a loan?" I said that I would be glad to put her gold in a safety deposit box and when she repaid her loan, she could get her gold back, which is what we did.

I can tell you that we had over several thousand women come to us because they were able to protect their family heirlooms. If they had taken it to the gold

dealer, they would never have seen it again as it would have been melted down. We had 100% repayment on our loans and these women were very pleased that they had their rights.

So I think that we need to be flexible in any of our activities, we need to be creative and we know that financial services help the poor. Sometimes we need to be a little bit different in our approach, but let's just keep that in mind as we move forward and try to help people get over the line of poverty.

## **Fernando JIMÉNEZ-ONTIVEROS**

### **Deputy Manager**

*Multilateral Investment Fund, Inter-American Development Bank*

I would like to stress first that we know that microcredit and microfinance are going through a trying moment. There's like a soul searching movement. There is criticism and I think we should kind of step back a little and congratulate ourselves. What Grameen has done, what we've been able to do in order to build a sustainable microfinance industry in the last thirty years I think is amazing, frankly. Of course we can't be too complacent because as it has been said, there are still 1.7 billion people that don't have access to microfinance. I think what we have been doing at the multilateral investment fund is critically important, promoting and helping more than 200 microfinance institutions to become fully regulated. I would also tell a little story which is linked to remittances in this case.

It's the story of an Ecuadorian going to Spain ten years ago. Of course he had to go to a moneylender in order to even pay for the plane ticket. The minute he got to Spain, we were able to put into place an agreement between Banco Solidario, a very small microbank at that time, and La Caixa from Catalonia so that he was able to open an account in a microfinance institution. He was able to rescue this loan so that instead of paying 100%, he had to pay 20%.

Going beyond this, it's what Essma said about empowering people. This is a way of empowering the transnational family so that they can make more informed choices about present and future consumption, because really savings are future consumption. As Stuart Rutherford eloquently said, it's critically important for these poor households because it's very expensive to be poor and of course the income stream is random, so they actually have to be extremely careful with their cash flow management. By having financial inclusion in this account, it also allowed this migrant to actually allocate and assign money for certain purposes, such as for education and health. Financial inclusion has a whole array of externalities that are very difficult to capture. The truth is that testing the impact of microcredit on poverty is still surprisingly difficult and attribution is complicated, but we all agree that perhaps it's not the right way to look at it. Actually,

the poor vote with their feet. When they go and meet the loan officer there's fidelity and repayment not only because of peer pressure and reputation, but also because they want to keep access to this stable financial mechanism.

I'm going to quote my good friend, Tilman Ehrbeck from Consultative Group to Assist the Poor (CGAP). I hope I'm not stealing his lines for his talk later today. Other than this, it's obvious and it's been stressed that not only financial inclusion is important for households. It's also a strong correlation, as the Vice-Governor of the Bank of Brazil said, between financial inclusion and growth as a whole and it allows for public policies to be implemented in a much more cost efficient way. In the case of Bolsa Familia, it's impressive how the transaction cost was dramatically reduced. I think what we need to do now is to move to the next frontier. The next frontier has the promise of technology. Technology should help us dramatically reduce the costs of reaching out to these ladies who are in the desert through mobile phones. I think microinsurance is certainly one of the next frontiers. I think it will be extremely important in the next decade and it will help asset accumulation for microentrepreneurs. I think clearly there hasn't been an over indebtedness, but we have to move more into consumer protection because there's this risk that a high growth of microfinance might eventually lead to over indebtedness. So we must concentrate on transparency, consumer protection and social returns. We have focused a lot on having a sustainable industry and microfinance. I think we have to do a better job of seeing how the final beneficiary is moving ahead.

Of course the beauty of this is that it needs a partnership between governments to deal with the regulatory aspects. We have a product called the Microscope that actually measures the environment for microfinance. It started in Latin America and it's the general index for fifty-five countries, which caught the attention of the regulators. It's important that the civil society is present. Commercial banks and multilaterals still have a role to play in order to really bring legitimacy and in order to test and have demonstration effects.

## Mahmoud MOHIELDIN

*Managing Director*

*World Bank*

We have done a great deal of work on microfinance and our empirical studies are showing that microfinance helps financial inclusion, and financial inclusion and financial development do really provide good support for sustainable growth and sustainable development. We've been seeing as well that there have been improvements in equity in different countries that had done well in the work related to work finance.

Our work doesn't stop at just getting some ideas from the field. We have been putting money in also. The World Bank has been putting 2.7 billion dollars from 2004 until 2009 in microfinance. Our private sector of the International Finance Corporation (IFC) is putting around 1.7 billion dollars and of that, about 15% of it is the contributions of main players in the field. Those who are cooperating with us with the IFC are contributing around 11 billion dollars with 8.5 million dollars microloans associated with them. It's not just the money. We are very happy to be involved with the Consultative Group to Assist the Poor (CGAP) in the technical assistance. The CGAP is going to be presenting the cases of sharing knowledge and the technical support. The World Bank is providing ideas as well. One of the main things that we are trying to do is whenever we have a useful experience that works in some countries, we try to convey the good news and the good experience to others such as the use of telephones and the mobile systems in Kenya through M-pesa. I'm very pleased to have the CEO of M-pesa as a fellow colleague and now he's working with his colleagues in Indonesia. Luiz mentioned the great work in harnessing the networks and the connections that Brazil managed to have during the years as ways of connecting people to the financial sector within a very small period of time. Again, having these kinds of non-financial points of engagement is a good way to enhance branchless banking and we're working with that as well.

I'd like to share with you some challenges and pillars of work. First, we shouldn't really be stopping at one good experiment and assume that it will work forever. As mentioned by our colleagues, in some areas you really need to go beyond what worked well in some countries and to understand better

the cultural impediments and to be more flexible and pragmatic.

In some cases we have been celebrating group lending through peer monitoring schemes, but in some other cases like in the Philippines, for instance, when the group lending moved into the individuals, we have found better cases of dealing with microfinance and with higher returns. So the issue of flexibility is very much important.

The other thing is that even with a very small change, like the extended grace period for repayment, it can have an impact on repayment and the profitability of the business, even if it was only a two or three-month period. Getting into new lines of business, not just credit like insurance is basically how to encourage innovation. I'll be sharing some experiences from India on that subject.

Also associated with that is increasing entry into the system in order to have a more contestable and more competitive market. We have banks that are involved and we have some new entities that are still to be defined in the provisions of the service. They have to be encouraged to work within competition policy and within contestable arrangement to lower the impediments to get them to enter the market. This is the second issue.

The third is basically on the investment in the financial infrastructure and, to a great extent, to make this kind of infrastructure available for all, not to demand major investments in matters that are only going to benefit people if they are abiding with the rules of economies of scale.

The fourth is support of regulation. I'm very much pleased with the introductory remarks today about the importance of regulations. This kind of regulation needs to be prudent and understanding the markets in a way that is not too complicated.

The fifth issue is about consumer protection when dealing with people who might be valuable, more valuable than others. All that we expect in the consumer protection schemes when it comes to

financial services in advanced economies or with high income groups has to be available for the benefit of the low income groups as well.

Number six is related to literacy. The financial literacy programs could be useful for financial inclusion on microfinance. As mentioned by Professor Shiller, however, when he was explaining what went wrong before the subprime mortgage crisis, he blamed it on the absence of financial literacy. He was talking about the United States of America, which is very much familiar with financial institutions. I think, with all humility, this kind of work is needed as well in many developing countries.

The seventh issue is basically matters related to gender. Because of flexibility and pragmatism, as it was mentioned by Professor Yunus, we have been seeing that microfinance helps deal with the special needs, requirements and the cultural constraints that women are facing in society, but we need to do more work in this field as well.

The eighth issue is basically the cultural constraints. In many countries, even in France and in Europe, you will find that many people, and not just the poor but the rich as well, do not have accounts. They are not interested in joining the financial sector because of cultural constraint or because of some religious beliefs. They may have the money to save, they certainly have the need for getting credit or insurance, but because of the complications of cultural constraints and the lack of flexibility, they do not have accounts. Microfinance can really be helpful here in understanding the cultural needs for different groups in developing countries as well as developed countries.

There's a great deal of concern for political economy. While we were seeing great developments in microfinance, with repayment much better than the averages in the formal financial sector and with very

minimal default cases, suddenly and without warning we had a collapse in the system. We have seen that in Andhra Pradesh in India and we have seen that in a couple of cases in North Africa, this kind of a political economic constraint and the poles during election don't pay. Not paying means basically a sudden collapse in the system because of absence of consumer protection or lack of financial literacy. As we have seen in India, if you are not really providing a formal financial sector to the poor, they are going to be getting informal financial services. In some cases this will be five times, ten times and sometimes twenty times more than the formal financial sector. Even when you bring the poor into the system, the charge could still be more than double, sometimes three or four times the average in the formal financial sector. Some people might consider that they are being abused or they might be charged too much, so there is a real need to give them better understanding of why they are charged for fees or rates of interest.

There are many positive examples here that we can share, but I'd just like to leave you with the following. First, there has been a great deal of development since the start of the business of financial inclusion to be limited to credit. Now we are seeing it extended to different areas of business, such as microinsurance in the case of Africa, to financial leasing or even for providing some support to housing demands and getting into some sophisticated lines of business that are not even offered in conventional financial services, like insurance for weather developments, as is the case in some African countries and India.

There is a great deal of work that is expected from us. We are very happy to be involved in different areas, not only just by giving money, but also in sharing knowledge. The knowledge in the bank is not desk research. It's basically good ideas that are being developed in different countries, like in Bangladesh, like in Kenya, like in Brazil, and trying to avail that through our knowledge network.

## Dov ZERAH

*Managing Director*

*Agence française de développement*

As many of you know, the *Agence française de développement* (AFD) today has more than 23 years experience of providing financial support for microfinance projects. This support was initiated by Maria Nowak who I welcome here. She also introduced me personally to microfinance 23 years ago when I was a young office manager at the Treasury Department in charge of the Franc zone in sub-Saharan Africa and what is called the “control”, i.e. the supervision of the AFD. I would like to take this opportunity to personally thank Maria Nowak.

Fortunately, we do not meet this challenge alone, but alongside partners in the field such as ADIE (*Association pour le droit à l'initiative économique*), PlaNet Finance, Enda Inter-Arab and think tanks like Epargne Sans Frontière. Over the last 5 years, the AFD's total commitment has amounted to 310 million euros. This strong and multifaceted continuing involvement, through loans, shareholder equity, guarantees and technical assistance prompts me to share two observations with you as well as two questions and two possible courses of action for the future.

The first observation is that the proven effectiveness of microfinance in reducing the vulnerability of the poor does not mean this mode of intervention provides a comprehensive insurance policy against poverty. A powerful tool for addressing inequalities, microfinance only seems to thrive optimally when three conditions are satisfied. Firstly, it must first be socially ethical, as stated notably in the *Appel de Paris pour une microfinance responsable* (Paris Appeal for Responsible Microfinance) last May. It must be accompanied by pertinent public policies in the areas of Social Security and the provision of health and education infrastructures. Lastly, it must have a specific place in the regulatory framework for banking activities. Microfinance should not be left outside the regulatory framework for banking activities, but rather integrated into with specific ratios and conditions.

My second observation is that microfinance makes a major contribution to the progressive financial inclusion of the people to whom it is addressed, and

this reality has greatly assisted by crucial innovations in the offer of diversified financial products ranging from variable sum micro-loans to various types of insurance, not to mention the opening of remunerated deposit and savings accounts. And lenders have also contributed by providing portfolio guarantees to the institutions in order to reach even more needy clients.

This progress — responding to real needs — has been verified by the statistics. In West Africa in 2010, including Nigeria, 1.8 million loans were issued of which only 127,000 by the conventional banking system. The others loans come from associations, cooperatives or limited microfinance companies. While the penetration of microfinance is still very inadequate in most rural areas, there is a risk of actual or potential indebtedness existing in the peri-urban areas, or in sub-Saharan cities such as, for example, the capitals of Democratic Republic of Congo, Mozambique and Ghana. The peri-urban areas have been over-targeted by too many *micro-financiers* because their economic contexts are considered more dynamic. As for us, it is essential to develop in rural areas, particularly in sub-Saharan Africa to support the vital development of agriculture. Agricultural development should ensure food security, but also help stop the advancing desert and slow down the rural exodus. We are facing the challenge of generating a more controlled type growth in terms of quantitative targets, with greater risk management professionalism and increasing reliance on qualitative benchmarks... hence my two questions.

Different actors, investors, governments, public and private lenders, should aim for a more case-by-case definition of the success and risk factors associated with the operations they develop. Reality shows that the cultural, historical and family factors require extensive preliminary analysis and tailored action integrating an ethical and differentiated offer. Lastly, microfinance, which is very small as a % of GDP, but nevertheless important from a social point of view, should be monitored much more closely, both in regard to the effectiveness of the internal management tools used to manage operations, but also in terms of the external controls that remain to be organised in

most countries. A movement in this direction has already started in several countries, but uncertainties remain that must be eliminated. That is why it seems essential for me that microfinance should not be excluded from the field of banking regulations, or from the banking system: microfinance should – if I may dare say so – be a legitimate segment of the banking world, but with recognised particularities.

Finally, I would like to suggest two areas of action that deserve greater attention and development. The first is to promote common and robust prudential rules and the development of clear ethical principles such as those contained in the Paris appeal. The gradual development of an international base of principles and rules to facilitate the development of microfinance with fair competition between the best operators, seems essential for the protection of clients and their savings, and, I agree with what was Mohieldin said, particularly about the need to protect consumers and their interests. The second would be to partially redistribute private funds from successful experiences and public funds to support the development of microfinance for the penetration

of rural areas, where necessary developing new financial products and support for an increased use of new technologies.

In conclusion, I would say we need to strengthen microfinance in the areas around the globe that are poorly served, particularly in sub-Saharan Africa where the demographic future is a challenge for global solidarity. We should remember that there are 850 million people living in in sub-Saharan Africa today and in 40 years there will be 1.8 billion people, an increase of one billion people.

Part of the value created in recent years by microfinance institutions should be used to finance, along with public incentives, new investment in disadvantaged areas. Lastly, public/private support for the rules of good ethical practices is a priority partnership. The AFD, like many other financial institutions here today, is not just a *financier*, not just a simple donor, not only a lender. It is more than that: a true partner in microfinance with all that that implies in terms of commitment.

**Magali BRABANT****Investment Director***Territorial and network development directorate, Caisse des dépôts et consignations*

I am very happy to be here today to say a few words about the French example where, although microfinance is not massive, it nevertheless represents a significant share of business startup assistance. Microfinance developed in France about twenty years ago, first with professional micro-loans and instruments comparable to unsecured loans associated with bank loans, and then more recently in the area of personal microcredit, which is not business start-up financing, but rather the financing of assets that allow the return to paid employment such as the acquisition of a vehicle or the improvement of living conditions and hence the improvement of household living standards. The major particularity of the French microfinance segment – and one of its strengths in my opinion – is that the loans are granted along with specific support for their beneficiaries, which allows them to move from the idea stage to the concrete project stage, and the beneficiaries are then given veritable management support for the companies they have created. This takes the form of a kind of financial education that they may not have had and which improves the chances of success of the funded projects.

I guess that in the room this morning there are not so many questions; however we should accept that microfinance is still the subject of a certain amount of skepticism. Without wishing to bore you with figures or take too long, I would like to give you some reference points that show how these tools are devices that have a remarkable social and economic utility. In France, as elsewhere, the default rates that we see on the various microfinance schemes are very low; in France as elsewhere, the populations concerned are those the furthest away from employment, the least qualified, the least educated and who find themselves in long-term insecure situations. With this support, the created companies have a physical durability, that is to say, continue to exist three years after their creation, which is remarkable figure: It is even higher than the average longevity of start-ups in France (only 65% of all French start-ups still exist three years after creation) compared with close to 80% for companies that benefit from microcredit. Another figure, concerning employment this time: thanks to statistics produced by Adie (Association pour le droit à l'initiative économique),

whose activities I welcome, we know that 80% of micro-credit beneficiaries are still, two years after receiving their micro-loans, in employment, having been “long-term” unemployed beforehand.

On another level, CDC (*Caisse des dépôts et consignations*) co-sponsored a survey to assess, if not the happiness of the individuals concerned, at least their opinion of their daily lives. 75% of the people who received these facilities said they had noticed a significant improvement in their economic and social situations. Beyond these figures, the beneficiaries of micro-loans often say “we were given credit and not just a financial credit, and we were also trusted.” You meet people who have recovered their hope and their dignity and this is priceless.

Beyond the social utility, it has a real sense in economic and financial terms. In France, unlike some developing countries, microcredit is not self-sufficient and needs public support to function. But if we reason in purely financial terms, what we observe is that the costs incurred by the public to support the microfinance schemes are much lower than the costs of “national solidarity” to fund basic welfare, unemployment benefits, etc. Thus, even in cynically financial terms, these facilities are perfectly logical. It is, of course, not a panacea against poverty; but it is nevertheless, considering all these elements, a promising sector that relies primarily on associative initiatives, supported by the government. The state in France has regulated the sector by establishing a microfinance institution status, by setting up guarantee schemes, by trying to encourage solidarity savings and by giving plenty of publicity to its future investment programme, reflecting its faith in this sector. CDC humbly finances the development of this promising sector by making patient and rational investments (let me assure you), but also by agreeing to subsidise the sector – something it normally doesn't do – taking into account exactly the socio-economic externalities that I mentioned earlier.

So support of any kind from these public institutions is important, and, in my opinion there is not enough. We are seeing the development of “solidarity savings”

## ROUND TABLE I | TO WHAT EXTEND CAN MICROFINANCE CONTRIBUTE TO FINANCIAL INCLUSION AND POVERTY REDUCTION?

Magali Brabant

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that will, I hope, irrigate the sector and complement public funding. We are also seeing that banks are increasingly mobilised in these areas of activity. In France, banks have traditionally got involved in this sector as part of their corporate social responsibility

programmes. Now they are adding the micro finance sector to their corporate purpose. I have no doubt that they will continue to do so, and, in any case, I am very optimistic about their increasing involvement in the sector.

## Pervenche BERÈS

*Member*

*European Parliament*

Allow me to make two observations by way of introduction... many have said it around this round table... Microcredit is not a charity and I believe it is very important to repeat this, because those who do not know the world of microcredit often think it only concerns the poor or that it is a sort of charity. The problem with this idea is that it fails to include all the objectives that microcredit is trying to achieve in terms of the leverage effect, social inclusion and economic development, i.e. the much broader concept of microfinance.

My second introductory point: Here today no-one will use the term "financial industry". Everyone will speak of "financial service" or "banking service", and there is a perfectly logical reason for this: microfinance is a service and not an industry. I think we, advocates of microfinance, should ban the term "financial industry" because behind that term there is the perversity of the world of finance, which considers itself to be a generator of added value, like an industry and, in so doing, forgets that its purpose is to be a service. Achieving greater acceptance of this concept in the financial services value chain would, I believe, be a very positive step forward.

Basically, in Europe, we have a highly developed banking system, sometimes too developed. We have said it. We have seen it. We are even suffering from it. Ant yet not all European citizens have access either to banking services, or to credit, so there is something that is not working here.

I have to say, and I apologize to the director who is present in the room, but Commissioner Barnier had tabled in his "Act for a single market" a proposal that we had hailed as an innovative, important and pioneering in this package of legislation. It was the idea of a universal banking service, basically, the idea of a right of access to an account. Following two impact studies and, it would appear, relatively strong lobbying from banking associations, the initiative was withdrawn at the request of the President of the European Commission. I regret this because what remains is a mere recommendation with regard to access, right to an account, the cost of the account and

of payment cards not eligible for an overdraft facility. This is considerably less than what we had hoped for. Yet 30 million EU citizens are excluded from access to a basic account and 27 million unemployed persons are victims of the credit contraction. All this argues strongly in favour of microcredit in Europe albeit for different reasons than those in developing countries (where it is the absence or weakness of the banking system that leads to the development of microcredit). In the developed countries it is more the shortcomings or failures of the banking system that produce this need, but ultimately, the need is the same.

At the European level, we have initiated — as you said Maria — a number of absolutely crucial actions to promote a European plea for microcredit; On 8 April 2010 the granting of 100 million euros for a "European Progress microfinance facility", which is starting to collect useful results, including coverage of the whole country that is absolutely essential. This is combined with other tools that are sometimes better known, developed by the European Investment Bank, around the Jasmine programme, which strengthen the capacities of non-bank microcredit entities, and the Jeremie programme, which aims to improve access to growth finance for SMEs and therefore for microenterprises also.

To conclude: Firstly, I should say that some Member States challenge this European dimension, this commitment at a European level in support of microfinance, because they believe that these issues are subject to the subsidiarity rule exactly as they consider the fight against social exclusion or poverty to be a national rather than supra-national question. We believe that this is not compatible with the basic treaties of the European Union since Article 9 of the Lisbon Treaty says that the European Union, in all its actions, must measure the contribution of its actions to the fight against social exclusion. There is therefore a strong basis for a European dimension in this field.

Lastly, since I understand that European regulations will not be directly addressed until your fourth panel, allow me to say a word about the G20's pre-conclusions that I examined very carefully, suggesting

two complementary dimensions. Firstly, we cannot talk about the regulation of microfinance without looking at what is happening at the Basel Committee level. I think one useful message that this workshop could send would be to suggest that the Basel Committee should give a little less space, authority and exposure to the work of credit rating agencies and take more account of the role, impact and financing conditions of microfinance.

The second thing is about the seventeenth proposal, concerning monitoring tools. What is needed in terms of microfinance throughout the value chain is also needed in exactly the same way at the macro level. This is the question of the traceability of financial flows. We must therefore strengthen the bridge between monitoring tools in the sector and the macroeconomic supervision of financial movements.

## Muhammad YUNUS

Founder

Grameen Bank

It's a wonderful experience sharing here what's going on. Since this is again towards the G20 meeting, what will we be looking forward to so that the decision makers find something concrete? There's no debate that it's needed. From whichever way you look at it, you cannot say this huge number of people should be kept outside of financial services. Nobody would agree with that, so we have to extend it. What is needed with all these experiences we have had that have gathered us here?

One, I strongly feel that we take it as serious banking. It's not just somebody donating some money. It's not like that. This is serious banking. In banking you have to have some framework. It should be a legislative action, first of all. Today we have a banking law in every single country and when you say banking law, the law is actually a banking law for the rich. It's not a banking law for the poor and that's the distinction. You cannot create a bank for the poor by taking the structure of the banking for the rich. That has been demonstrated again and again. Everybody is saying we're requesting the banks to extend their services, but they cannot because the law doesn't allow them any convenient way. They can do some minor things with you, but not as a serious business proposition. We have to get out by creating that legislation. This is the number one priority. After all these years of experience, we cannot just walk away with them saying, "Do more and we'll give you some more money and don't make noise for us". That's not a solution. A solution is a fundamental change in the whole system because the legislation is needed.

The reason Grameen Bank worked is because Grameen Bank has a separate law. It's not created under a conventional banking law in Bangladesh or anywhere else. So we created a separate law at the beginning and that's why it can function. What does it do? It doesn't need money from outside because it can take deposits. Most of the programs that you will be seeing for microcredit are taking money from the banks, the donors or from someone else and lending money to the poor. That is not a sustainable system. It has to be its own complete system. We take deposits and lend money to the people, poor people in this case, and that has to be in the law so that deposit

taking becomes an integral part of the law. Grameen Bank for example lends out over 1.5 billion dollars a year and all this money comes from within the system. We don't take money from the government, we don't take money from the donors and we don't take money from anybody. We just take deposits and lend money to the poor people and that gives us strength. We always have plenty of money; that's not a problem for us. We have endless sources of money because you can spend as much you want and there's plenty of money in the system. People give you deposits and you take the money, just like any other bank. Our borrowers in this specific case are poor, particularly poor women.

The second important thing is when you take deposits, you also take savings. Here many of you have mentioned that savings is not allowed; that's not a true bank either. We take the deposits from everybody, but we also encourage the borrowers to save. Each one has a savings account, sometimes more than one savings account, with different products, and that is a source of money too. Clearly, savings is also a big power. Today when we give 1.5 billion dollars a year, not only do we take it from the deposits of the people, but more than half the money comes from the borrowers' own deposits. It's a large amount of money because every week you are putting some money into your account and it grows big over time, so you feel confident. We have many branches, more than 500 branches in Grameen Bank, where the amount of savings by the borrowers is much larger than the loan they have taken. In that case, the bank is the borrower, not the borrowers. The borrowers actually lend to the bank. For at least half of our branches, at least 75% and above of the loans that they have taken is the amount of savings in the bank. So we transformed the whole system completely.

So my first suggestion is: let's look at the legislative action. My second suggestion is when you allow a bank to function, you need a regulatory authority. A bank cannot function without a regulatory authority. I have always advocated that the regulatory authority should be separate from the regulatory authority of the banks for the rich because these are two different games. It's like a football game. A football game in

## ROUND TABLE I | TO WHAT EXTEND CAN MICROFINANCE CONTRIBUTE TO FINANCIAL INCLUSION AND POVERTY REDUCTION?

Muhammad Yunus

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the United States is not the same football game in Europe, although they're both called football. We need separate coaches to train each player, separate rules and completely different. We need that regulatory authority and luckily in Bangladesh we've created

an independent microcredit regulatory authority, separate from the other regulatory authorities.

These are the two points that I wanted to mention so that we can move forward.

# ROUND TABLE 2

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## HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

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**Arnaud VENTURA**  
*Co-founder, Vice-President*  
*Groupe PlaNet Finance*

**W**e are mainly going to talk about what the Northern countries can learn from microfinance practices in Southern countries. I hope that each one of my colleagues will come up with a few lessons so that the organisers may flesh out the final declaration and the proposals for the G20.

For my part, I would like to make two or three preliminary remarks. We have talked a lot this morning about the success of microfinance, you all remember the figures. Today, according to the summit on microcredit, close to 200 million people have access to microfinance. I remember, about 15 years ago, when we were starting to think about and set up PlaNet Finance, we would be talking of 5 to 7 million people. We have therefore gone from 5 to 200 million; that is an enormous success. We should not forget that, at the same time, in another sector that has a huge impact on people's lives and especially the poor, access to information and communication, mobile phone operators have recorded a massive increase in the number of equipped persons, from 200 million 15 years ago to 5.5 billion today. Although 200 million people have access to microfinance and there are certainly several billion people waiting to get help, we still have far to go. So, although we should congratulate ourselves for the success of these past few years, we should put things back into their context and be aware of the enormous work that remains to be accomplished and I think this is certainly why the G20 must take an interest in the subject.

I would like to make two remarks regarding the lessons that the Northern countries can learn from what has happened in the South in recent years. The first point I would like to make, and this is highlighted by the figures that I have just mentioned, is that if the number of people who have access to microfinance has increased from 7 to 20 million, it is because clients pay back what they owe, 98% of them do. Secondly, it is also because clients need to have access to a wide range of financial services. This morning we talked about microcredit, at the end of the session we started talking about savings, we briefly talked about insurance, we hardly touched upon means of

payment, but a poor client has more or less the same needs as you and I. We need financial services in the broad sense of the term and financial institutions and microfinance institutions (MFIs) who offer these services must diversify them.

I believe that the first lesson that Northern countries, but also companies and banks, may draw from the experience of Southern countries is that the poor must not be forgotten because they constitute a market. They constitute a viable market if products and services are designed for and suited to them. Considering them as a market will give them opportunities to develop. Be it by offering them financial services, which will help them develop their company or guard against shocks through insurance or savings, but also other services such as mobile phone services. The day telecom operators started taking an interest in the poor and offering pre-paid services to enable people to make phone calls, the number of mobile phones sold boomed. The day car vendors start producing cars that cost between EUR 1,000 and EUR 2,000 rather than EUR 5,000 to EUR 10,000, car sales will also explode. The day drugs become affordable, either generic drugs or affordable brand drugs, the health market will explode. Northern countries should therefore consider the poor as a market and not only as a potential charity opportunity. This is the first lesson to be drawn, and considering the poor as a market means developing products suited and specific to this market.

Another point I would like to insist on is that, for me, microfinance is nothing more than responsible finance. This is what Jacques Attali this morning referred to as a socially sustainable economy. Real microfinance is being able to deal in finance in a responsible manner, i.e. being able to do two things: be profitable, because the first responsibility of a company is to be profitable, because if one isn't profitable one dies, and a client will only expect one thing from the institution it deals with, that it be there the next day because he keeps his savings with this institution, so if it disappears his savings disappear also, and also because if he needs credit, he will need it on a regular basis. The second

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Arnaud Ventura

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responsibility of a MFI is to reach social objectives, to support the development of its clients. I believe that microfinance is one of the sectors where a company can be both profitable and socially responsible, where it can display a high performance in both areas. Americans call that the “double bottom line”, which consists in setting both social and financial objectives. This is an important lesson for Northern countries, the fact that it is possible to manage companies in an effective manner, both financially and socially. I strongly believe that microfinance is the forerunner of a new type of company, a company where social responsibility is no longer a simple excuse for writing a report or doing a bit of communication. This morning, Maria Nowak was talking of the fact that social responsibility can too often be brandished in communication campaigns, but it is at the heart of the company, its DNA, because if it is not responsible, it will simply disappear because it is not competitive, because clients will prefer working with a company that serves them well, that is responsible towards them rather than a company that will pull them into overindebtedness. If companies in Northern countries could model themselves on such companies, we would avoid such disasters as the subprime crisis. If financial institutions in Northern countries could act in a more responsible manner – this morning some talked of “ethical” – we would avoid many crises.

I strongly believe that this is the company of the future; it interests not only clients but also investors, one can see that by looking at MFIs. As someone said this morning, microfinance has considerably developed over the past ten years, in particular because social investors were motivated to invest in socially sustainable companies, but also because the pressure exerted by the public – all of the people in this room, but also outside this room – means that companies will have less and less options and that their only option will be to take their responsibilities vis-à-vis an economy or a society where everything is transparent and where everyone knows about everything. I believe that microfinance at this level is the forerunner of what companies and institutions in the North could become, and I think it would have a positive impact, not only on the development of microfinance in the South, but also more generally on our economies.

These are two lessons that Northern countries could draw from microfinance and, actually, I suggest that the G20 take concrete measures in this direction.

After this brief introduction, I would like to invite my different colleagues to give us their views on microfinance and on the way in which Northern countries may draw lessons from what is happening in the South.

**Arnaud VENTURA**

*We will start with Chris De Noose, who heads the World Savings Banks Institute, an organisation that represents savings and socially committed retail banks and associations.*

**Chris DE NOOSE**

**Managing Director**

*World Savings Bank Institute (WSBI)*

Let me first make a preliminary comment because I heard Professor Yunus, who is a very wise man, telling us that you need a bank for the poor and a bank for the rich. Well, my answer to that is never say "bank" to a savings bank. How can you describe a savings bank? I always describe it not in a legalistic way, but by the three Rs. Savings banks are focusing on retail banking, which means providing financial services to families and to small and medium sized enterprises (SMEs), to small businesses. The second R is regional. We are not only a savings bank in the city. We have large networks and this also allows us to go to remote areas and to provide financial services in the most decentralised areas. The third R is responsible, so we try to have a double bottom line approach as far as Basel and the Fourth Capital Requirements Directive (CRD4) in Europe allows us.

The first savings bank was created in Scotland in 1776 by a priest. His motivation was that he wanted to provide a financial service to poor miners. He saw them at the end of the week when they received their salary and they'd go to the cafe to have a whisky. He had the idea to create a kind of cooperative, a savings bank in order to mobilise small savings from part of their salaries. Already you see there that poverty stops where savings starts, which has been mentioned already. What's the parallel between a MFI currently delivering microfinance and this first savings bank, also delivering financial services to poor people?

This being said, I think I should get into the subject because I only have five minutes left now and the question was what can the North learn from the South? First of all, I will give you four points that describe to some extent the different contexts between the North and the South, and then I will give you four other points that I think we can really learn as lessons.

The differences I see are in four points. My first point is that in developing countries, microfinance developed to serve financial needs of informal economic players. When I have to transpose microfinance to an economy which is based on formal structures, on formal administration, there is a risk that we lose efficiency and flexibility. Flexibility is one of the basic points for microfinance. My conclusion is that this shouldn't discourage us from introducing microfinance in developed countries, but nevertheless we have to take into account this element.

My second point, and it has already been mentioned by previous speakers, is that there is a clear separation and delineation between microfinance support services and public social security. In the North, microfinance should not replace public social security such as health, welfare, medical care, etc. In the South, microfinance should not prevent the authorities from developing social security.

My third point of the differentiated approach that we have taken into account is the group lending approach. There was positive pressure from the groups in developing countries on the individual behaviour of the credit takers. Unfortunately, I would say that in the North, you cannot speak anymore about a group approach. It's more individualistic.

Finally, my fourth point for the differentiating elements is according to the figures of the Consultative Group to Assist the Poor (CGAP) in the South, less than 16% of the population has access to financial services, where in developed countries it is more than 95%. When I speak about developed countries, it's France, Belgium, Slovenia, etc. This means that financial institutions and certain savings banks, and I have mentioned their market approach, have a role to play to give access to microfinance

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Chris De Noose

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services, and certainly already do. I can only give you some examples. We have Microbank in Spain. We have our colleague from Microbank here today, so I won't develop on that. We have France, of course, with the *Parcours Confiance*, which is a partnership between the *Caisses d'épargne*, NGOs and experts in the fields of health, welfare, housing, employment, small and medium enterprises management etc.,. It needs accompaniment for health, to find a job, to work to elaborate a business plan, so it's a kind of partnership. Another example is *Die Zweite Sparkasse* in Austria, which is very similar to the French example. It's an institution created apart from the *Erste Bank*, which is a big bank in Austria. *Die Zweite Sparkasse* is delivering microfinance and seeks to re-integrate excluded people in society and to bring clients to the conventional banking system again.

So what are the four main areas where we can usefully learn? First of all, this is the "client first" approach. We need the relation of proximity, and trust is very important. This should also remain at the heart of the microfinance model. Growth of the institution should be subordinated to this trust and to this proximity. This means also that an integral part is consumer policy, so the basis for that is efficiency, transparency and timely information. Also, of course, the central party is overindebtedness, but there I want to say as well that the client has the responsibility of providing the right information and the financial institution has the responsibility to follow up on the credit work assessment. It's in the interest of both parties.

My second point is that the social impact should remain a priority of the MFI. Some said they were already seeing some signs that some MFIs have moved away from their double bottom line objective of being socially driven and financially sustainable, often as a result of the involvement of players seeking short-term profits and the pressure of efficiency and financial sustainability over serving poor people. This should not be the case. There should be commonly agreed tools to recognise and value market players who truly play by the rules through a kind of social reporting and maybe there could also be a label.

My third point is that microfinance is a financial business, so it requires sound risk management policy. There is a need for risk control, we need training of agents and we need an elaborate accounting system. Governance is also a very important issue, but I cannot develop on that further. As far as the customer is concerned, there is also a big need there for financial education.

My fourth and last point is do not overdo microfinance. Microfinance is a tool, not an end in itself. It's a tool to bring people out of poverty. I think we all have a common objective, which is to alleviate poverty. To alleviate poverty, we need sustainable development; for sustainable development, we need a sustainable economy; for a sustainable economy, we need sustainable financial institutions.

**Arnaud VENTURA**

*Now we are asking Alfred Hannig to take the floor. Alfred is the boss of the AFI, the Alliance for Financial Inclusion, an organisation that promotes financial inclusion globally. I would ask Alfred to give us his view on the lessons that can be learned in microfinance emerging countries.*

**Alfred HANNIG**

**Executive Director**

*Alliance for Financial Inclusion (AFI)*

I think the title of this workshop and especially for this panel on how advanced economies can learn from developing countries is interesting for us. We don't want to be prescriptive here, so maybe let me just offer you a couple of lessons that we have collected from our network. Our network now comprises 76 policy-making and regulatory bodies from developing countries. What we found as a key learning is that countries cannot just adopt each other's solutions wholesale, but rather cherry pick what might work in the local context and adopt the right policies to bring it to life. That means adaptation and inspiration, rather than one to one replications seems to be the key. Therefore, it's actually up to you as to what you think you can use, we will definitely not tell you what the silver bullet solution might be.

Though the developed and developing country contexts are radically different when it comes to the extent of financial inclusion and the binding constraints, we feel that there is still a benefit from learning about the approach of other policy makers to this challenge as they innovate new solutions that could benefit developed country consumers and financial systems.

I have four trends to share with you from the dialogues and the activities of the AFI network of policy makers and regulators to bring an answer to the question of this very panel. So the first trend we see is really a journey in developing countries, a journey from microcredit to microfinance, to financial inclusion. I think this is a very important trend because it comes with a quite comprehensive approach. In fact, in developing countries the field of financial access has evolved from simply microcredit to financial inclusion in a way that has broadened the concept beyond credit to include a wide arrange of products such as payments and, of course, savings, insurance

and others to be offered to a diverse group, and this is important, by regulated or licensed financial service providers through innovative new channels, all within the overall financial sector framework.

The broadening of the concept also reflects that policy makers and regulators have felt a need to be involved and to safeguard the financial system. At the same time, barriers such as low levels of financial literacy, the absence of appropriate consumer protection mechanisms and of course the lack of formal identification systems have increasingly been addressed under the notion of financial inclusion. So the first trend is a broadening of the overall notion.

The second trend is leadership. Here I allow myself to disagree respectfully with Professor Yunus on only a small point. We have perceived an increasing realisation among policy makers and regulators in developing countries that financial inclusion is critical for poverty alleviation, balanced economic growth and economic stability. In fact the success of the AFI network with such enormous growth of membership of policymaking bodies, speaks for itself and actually portrays the enormous interest of policymakers in this area.

What we have seen is that the most successful countries have a very clear vision of the challenges and the opportunities posed by their financial system of what they want it to achieve in the future. Here I would like to refer to the countries that are, among others, represented here today, countries like Brazil. We heard the story of Brazil this morning. We have Indonesia here, we have Kenya, we have the Philippines and they all will speak to you on the fourth panel. I think there we can clearly see that strong leadership is the foundation of the development of a national vision and strategy for financial inclusion.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Alfred Hannig

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Although a regulator's main concern is usually the safety and soundness of a financial system, those who have made the most progress, in fact, have been willing to explore new routes or to use new tools to enhance traditional financial activities.

The third trend I can see is regulators' care for sound and safe microfinance. Despite a severe microfinance crisis in countries such as India, Bosnia and Morocco, most developing country policymakers and regulators have successfully made major strides to regulate and supervise traditional microfinance activities in a safe and sound manner. I don't want to anticipate what Deputy Governor Espenilla from the Central Bank of the Philippines is going to say, but I think the Philippines have really shown us how to forge a path in microfinance with a clear choice: to allow the market to operate and grow, but ensure that microfinance organisations adhere to sound practices, good governance, prudent risk management, outstanding business ethics and continual protection. Although peculiar situations may require corresponding unique interventions, good judgment dictates that the central bank keep the microfinance industry vibrant, sustainable and socially relevant, but also safe and sound. I think this is an interesting notion and perhaps we can hear more about this in the afternoon.

The fourth trend you all heard about is innovation. In innovation we refer to information and communication technology, as well as infrastructure innovations. Those show great potential to reduce transaction costs and expand and diversify financial

services for the non-rich. Just to give you an example, in the BCEAO countries, the countries of the West African Monetary Union, in eight countries only 10.4% of the population has access to formal financial services, while virtually every village in the region has access to mobile phone connectivity. I think that's a great potential and I want to explain what this potential really means. This opens up new options for non-bank players, such as mobile network operators and banking agents to play a significant role in the provision of financial services via mobile telephones or other devices. Some countries represented here today have shown us the way this can work in a safe and sound manner. We will hear more about this on panel four.

The challenge is to achieve meaningful scale on a global level and regulators have the difficult task of trying to find the appropriate balance between supporting growth and enhancing innovation while at the same time remaining prudent and focused on effective risk-based supervision. This is a challenge, but we feel the policy makers have recognised that peer learning and exchange is a powerful way to familiarise themselves with the potential risks of these innovations and many, in fact, show interest in learning from others.

This is basically what I wanted to share with you. The last word is on the principles of the G20 that I think now are going to be disseminated. Most of the principles, in fact, capture the learning from the developing countries, as you know, and I'm happy to share more on this with you later.

## **Arnaud VENTURA**

*We'll now be listening to Michael Schlein. Michael is the CEO of Accion, one of the leading microfinance network players, with a long history of building microfinance institutions worldwide.*

*In addition, Accion has operations not only in emerging countries, but also in the United States, and it will be very interesting to hear what you've learned from emerging countries to apply your lessons in developed countries.*

## **Michael SCHLEIN**

### **CEO**

#### *Accion*

For those who may not know us, Accion celebrates its fiftieth anniversary this year. Our roots lie in Latin American microfinance, but today we also work throughout Africa, India, China – and the United States. Over the years, we've helped build 62 MFIs in 31 countries, on four continents, and today those institutions serve millions of clients. Our work in the United States spans 20 years, and in that time we've become the largest microlending network in the nation.

Prior to joining Accion, I spent more than a decade at Citigroup – where I managed the network of Citi's chief country officers on the ground in a hundred countries. I also spent several years as a regulator helping to manage the US Securities and Exchange Commission. I would like to share some observations about what banking in the developed world may learn from microfinance in the developing world. Before that, I want to set the context and discuss the five key challenges that face microfinance today.

First, we have much more work to do. In a short amount of time, we have grown significantly, and today the industry reaches 150 million clients worldwide. This is impressive, but we have much more work to do if we are to reach the estimated two billion working poor who could benefit from financial services.

Second, we need to expand beyond the single product of credit. If we are to build a truly financial inclusive world, we need to expand our product offerings to include savings, insurance, payments, and more.

Third, we need to develop and harness new technologies and drive down costs in order to reach more people and better serve remote communities. Today, the industry remains highly labor-intensive.

Fourth, there remain vast, underserved markets throughout the world, where it is still too difficult, or too expensive, to reach needy clients. We need to keep pushing further.

Last, the industry has grown significantly, but is still very young in many respects and we need to face our growing pains directly. We need to mature as an industry and develop higher standards.

Many of the challenges I've just mentioned are true for most industries – growth, product diversification, reducing costs, expanding markets. But the issue of industry standards is of particular importance, especially because our clients are those struggling at the bottom of the pyramid.

As you know, there has been a lot of soul-searching in the microfinance industry, triggered by the Andhra Pradesh crisis last fall. But I think it goes much deeper. Over the last few years, a series of questions have been raised about industry practices and the efficacy of our work.

Four concerns are raised repeatedly. Overindebtedness, bad collection practices, high interest rates and fees, and fundamental questions about the impact of our work. These issues are compounded further by the entrance of new players who may have different, less mission-driven motives from those of the original, pioneer non-governmental organisations (NGOs).

If these are generally the right concerns, then the appropriate responses lie in strong consumer protection, meaningful transparency, and the development of an industry standard to measure social impact.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Michael Schlein

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Over the last several months, a group of a dozen Chief executive officers (CEOs) from various global MFIs networks has been working together to fashion an agenda that leverages the terrific work of three key industry initiatives. This group of CEOs is trying to lead by example and raise the standards of their own networks. In so doing, we may provide some critical mass and coordination to what until now have been disparate efforts.

First, strong consumer protection. The Smart Campaign, led by the Center for Financial Inclusion at Accion, under Beth Rhyne's leadership, is creating the first-ever industry-wide consumer protection effort. Built upon seven principles of client protection, the Campaign has already been endorsed by 2,000 networks, MFIs and individuals representing more than 130 countries. This industry-wide initiative is unprecedented.

Second, we need greater transparency. Microfinance Transparency, under Chuck Waterfield's direction, has had a great impact in a short amount of time. It is currently active in 29 countries. Over time, this transparency will put pressure on all players to compete and reduce rates. And their data allows investors, regulators and, eventually, clients to see at a glance who is pricing products competitively.

Third, we need an industry standard to measure social performance. Coordinated by Laura Foose, the Social Performance Task Force holds the prospect of giving us common tools to measure our impact. It took decades to develop tools like ROE (return on equity), ROA (return on assets) and ROI (return on investment), which we all use today to measure financial impact. We need to be patient, yet persistent, as we develop equally powerful tools to measure social impact.

It's still early days, but I hope you will pay attention to these developments and join us.

Against this backdrop, let me now share some observations on the similarities and differences between banking in the developed and developing world – and some lessons we can learn from one another.

First, all financial products and services – developed or developing – are very powerful tools. They can create enormous opportunity – but they also can do much damage. A loan can set an entrepreneur on

a very positive course – or drown the same person in debt – and often, it is hard to tell which outcome is likely until after the fact. Because of this nature, those who sell these products have a special duty to know their customers and to design and sell products that are suitable to their needs. That's even more important when your clients are at the bottom of the pyramid.

Here, microfinance wins hands down. Microfinance loan officers often meet with their clients weekly. In some markets in Africa, savings collectors see their clients daily! Our staff gets to know their clients very well.

One of the causes of the global subprime financial crisis was the disconnection between mortgage originators and borrowers. Banks were ever more clever in creating synthetic collateralised debt obligations to shed the risks associated with their loans. As of today, MFIs do not have any way to get rid of their risk. That is a strong incentive to make sound loans in the first place. In this sense, developed world banking can learn from microfinance and would benefit from a closer relationship to their clients and an obligation to hold some portion of the loans they originate.

Second, even the best products must be used wisely, so financial education is critical. The very same products may succeed or fail depending on the financial literacy of the client. Here, I think one of the main differences between the developed and the developing world is the original mission. So much of the microfinance industry has common roots as non-profit NGOs – and therefore they are anchored by mission-driven work. In the developed world, on the other hand, financial education is often tied to protecting companies from liability. In microfinance, financial education is far more sincere and mission-related – and more effective.

A third area for discussion is the broad brush – and this reflects the immature nature of the industry. Regardless of where or how we practice microfinance, we are painted by the same broad brush. If we work in microfinance, we have to defend the whole industry – in ways that Goldman Sachs does not have to defend JP Morgan. Over time, this will change and different brands will distinguish themselves – but for now, we are all in the same boat. Here I give the

edge to the developed world. The banking industry strikes a healthy and sophisticated balance between competing and collaborating where prudent. Too often, the microfinance world remains fragmented by differences in methodology and ideology – at the expense of broader collaboration for the greater good. I think this is beginning to change.

Another similarity is the shape of the industry. Banking in the developed world has thousands of small banks and a handful of global giants. Microfinance is similar in that there are an estimated 10,000 MFIs worldwide, but 85 percent of all clients are served by fewer than 100 MFIs. It is that small number that has truly reached scale and sustainability. Just like the big differences between a small neighborhood bank and JP Morgan, there are great differences between a small NGO and Grameen Bank. The big MFIs, like the big banks in the developed world, have special obligations to lead and set standards.

We also need to compare the clients we aim to serve. Microfinance serves people living in poverty – society's most vulnerable. Lacking a social safety net, they often remain one event away from destitution, deprivation or starvation.

Developed world banking generally caters to the affluent, and that leads to many differences. It is far easier to lend to the rich than to lend to the poor and it is far easier to lend against collateral. Perhaps, most important, is to recognise the value of financial services to our clients. For a person in poverty, access to financial services is almost like your access to medical care in its importance. It is vital. In the developed world, we can afford to be indifferent.

One similarity between the developed and developing world is the hidden subsidies implicit in each. Though we like to describe much of microfinance as largely commercially sustainable, the truth is that most MFIs require significant subsidies – philanthropy – especially in the early years. And, besides credit, most other products are not yet commercially viable. For the most part, banking in the developed world is, of course, commercially sustainable and profitable

– but there are deep subsidies nonetheless: deposit insurance, preferred access to low-cost funds from central banks and, of late, enormous bailouts in times of crisis. With these subsidies come certain responsibilities that other industries do not have.

Another observation reflects the young nature of the microfinance industry. Most MFIs lack deep benches of talent – particularly in risk management and governance. When you are operating in Manaus or Inner Mongolia – as we do – we struggle to find talent, much less experienced talent. That is not a challenge for banking in the developed world, which seems to have an endless supply of aspiring bankers.

Last, and it is appropriate here at the gathering of the G20, the microfinance industry lacks a well-developed group of international regulators. The industry has no international bodies, like the G20, or Basel, to oversee the industry from on high. And even at the national level, regulation remains highly uneven, with many regulators new to microfinance, or occasionally prone to political pressure. This will evolve over time and today's gathering is an important step. In the meantime, microfinance needs strong self-regulation. We need to establish and live up to our own high standards. And this is more important for microfinance than it is for the developed world, where regulation has evolved considerably. I am optimistic that some of these self-regulatory efforts are already making, and will continue to make, a real difference.

Financial systems in the developed world can learn a lot from this. In developed-world banking, I do not see meaningful, industry-led self-regulation. I think it would be very powerful if a group of banks aspired to set high standards. Today, it's far more likely that the banks will work together to thwart new consumer protection regulation rather than strengthen it.

So let me stop there. These are just a few observations on the similarities and differences between banking in the developed world and microfinance in the developing world – and some of the lessons we can learn from one another. I look forward to discussing these observations in the discussion to follow.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Robert Christen

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### Arnaud VENTURA

Now I will ask Bob Christen from the Bill and Melinda Gates Foundation to give us his views. Bob has been involved in microfinance for many, many years and he knows it not only through the Bill Gates Foundation, which is involved in many ways in microfinance, but also through the Boulder and other initiatives. I'm very eager to hear his views on this topic.

### Robert CHRISTEN

#### Director

Financial Services for the Poor Initiative, Bill and Melinda Gates Foundation

One of our program officers was in Kenya not too long ago and by now everyone has heard of M-Pesa, the mobile money operation there. He was talking to a young man named Nelson who was in M-Pesa dropping off the equivalent of about 1 dollar in Kenyan shillings. In the conversation it was revealed that this young man had been coming in every day to drop off 1 dollar. He works on a bus selling small things and he has a goal. His goal is to get a mechanic's education. Apparently, if he saves for 236 days in a row, he can pay the tuition to be trained as a mechanic. Because M-Pesa allows him to make that deposit, he may actually accomplish this goal. I don't know very many of the organisations here in the room that could take on a 1 dollar deposit every single day and not just go screaming out the back door at what a horrendous cost that would imply, yet it would be really important to help Nelson achieve that goal. It seems that's why a lot of us are in this room.

The panel is about what we can learn in the North from the South in this whole microfinance bit. I'm going to make four points. I think we were obviously on this panel not trained by McKenzie, who teaches the world how to do it in three, but in any case we've all figured out four. I've got my four points too. They are somewhat provocative and somewhat personal. As Arnaud Ventura was saying, we have certainly gained an awful lot of experience at the Gates Foundation. My next comment, however, comes from personal observation.

I wonder if the key contribution of Professor Yunus and many of the pioneers of the microcredit world looked back upon in another 20 or 30 years, won't be microcredit at all. I think microcredit probably will be a transitory product. I think the fundamental contribution may be to provide dignity and a sense that the poor can be economic actors and are the principal economic actors in lifting themselves out of poverty, and that there are ways in which we can be

helpful, but the fundamental dynamic is one where the poor work hard every day and struggle up and are beaten down by circumstances and finance and it may actually be one of those tools that helps them not get beat down so far. I think that may be the lasting contribution of microcredit. That's a personal observation, not a Foundation observation.

Second, I think the work of Stuart Rutherford and the work of many people that Stuart, Darrel Collins and others have brought to light in the portfolios for the poor, going back to Fritz Bauman 30 or 40 years ago, have been observations that the poor use a large variety of financial services that are fundamental to achieving their life goals in the same way we use finance to get our kids through college, pay for health, provide for old age and do all the things that are important to us. The poor do want the very same things we want and they use finance to achieve it.

I think that we need to be reminded of that in the rich world because what it leads you to is a far more robust understanding of the opportunity to be helpful in the lives of the poor by formalising their informal options. I think the number that struck me most out of the book, and I've been challenged to find which page it's on, so maybe Stuart can help me, is from 60% up to 100% of people's total income is pulled or pushed through financial arrangements of one sort or another. That's just striking, stunning – but maybe if we think about many of our colleagues, but not us, right, because we're so responsible, it might be true for us too, right – that at the end of a month our paycheck goes largely to pay a series of financial arrangements that we've made against our life goals. That's fundamental. It really helps you understand the opportunity of what we're talking about.

Helping Nelson is a pretty expensive proposition, right? We may have for the time an opportunity

to solve or address and dramatically change the opportunity to provide financial services at a less expensive cost. The M-Pesa experience in the South and the agent banking in Brazil and the work in the Philippines you'll hear more about and many other countries, Pakistan among others, to allow banks to move financial services and their transactions outside of core banking and infrastructure may be the most important revolution in solving the problem that we've always known: proximity. In the North we figured out that proximity drives financial service access. We've known that for a long time. But the interesting solution of doing it through agents is one that's coming out of the South and is one that I think we might pay heed to back up North again, getting financial services more available in poorer communities around the world through alternative infrastructure.

I think the fourth thing that we're learning in the South is really a new role for government. The future of financial access, it seems to me, will be driven by an ecosystem composed of client-facing institutions, whether they're deposit mobilised, microcredit or microinsurance organisations, the national transactional systems in the middle of the sort that M-Pesa represents or any of the other experiences around the globe, and then some sort of organisation of capital markets. I think Tilman Ehrbeck has been

the guy who's been saying this best lately. That's sort of a complex ecosystem, one that's very different from the sort of notion of a single service provider that does it all and goes to the capital markets to raise funds.

If all these players are going to work together to provide financial services, governments have to have a different role. They need to put in place appropriate KYC (know your customer) requirements for accounts that will allow accounts to be regulated appropriately to the kind of risks that they truly represent. Governments need to outsource or allow banks to outsource cash management to non banking agents. The governments need to put at the disposition of financial inclusion the infrastructure it owns or controls, like post offices and other retail presence it might have in villages and in poor urban slums. It needs to support those kinds of systems by channeling large government flows. This is the sort of thinking that would be really critical for the G20 as it goes forward, to figure out how governments can play a new role that is quite distinct from version 1.0 where governments thought they needed to provide financial services directly to the poor, to version 2.0 where they are the core builders of the sort of financial infrastructure and ecosystem that allows a far richer range of organisations to work together to ensure that access is provided because it solves the most fundamental problem of proximity, quality of service and ease of access.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Jean-Luc Perron

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### Arnaud VENTURA

We will now ask Jean-Luc Perron, who is one of the founders and now Delegate General of Grameen-Crédit Agricole, to give us his view on what lessons a major French bank – which is involved through this foundation in microfinance in emerging countries – thinks should be drawn by developed countries.

### Jean-Luc PERRON

#### Delegate General

Grameen-Crédit Agricole Microfinance Foundation

First of all, I would like to thank the Banque de France for this very welcome initiative. The starting point of the partnership between Crédit Agricole and Professor Yunus is a breakfast organised four years ago by Governor Noyer of the Banque de France for Paris financial market participants, during which I had the privilege of telling Professor Yunus about the Crédit Agricole and our projects. One year later, we set up together the foundation Grameen-Crédit Agricole. What I told him at the time – and this is still true today – is that microfinance and microcredit are, in a way, part of the genetic code of the Crédit Agricole, since we were born at the end of the 19th century – like many other cooperative banks, such as Raiffeisen banks – out of a local cooperative movement made up of local farm credit institutions aimed at loosening the hold of usurers over small farmers in France. That was in the 19th century. Cooperative banks were the European answer to this situation, which was keeping the majority of the population, in particular, rural communities, out of the system. It is therefore not surprising that today the Crédit Agricole is very involved in microfinance, in developing countries, but also in France.

In developing countries, through the Grameen-Crédit Agricole foundation, a non-profit making foundation but with a financial activity, we extend loans, issue guarantees, and invest in microfinance institutions or social businesses, by relaying the ideas of Professor Yunus on these issues. After three years in operation, we have partners in 17 countries, 27 microfinance institutions, three social businesses for close to EUR 25 million. The Crédit Agricole indeed took a strong initiative by giving EUR 50 million to the foundation in 2008. This is money definitely allocated to the foundation to fulfill its mandate. But the Crédit Agricole is also involved in France. This no doubt explains my presence today, to talk about South-North transfers. We have a highly decentralised system of cooperative

banks, with specific arrangements to accompany young entrepreneurs and very small businesses that do not necessarily meet all of the usual bank criteria. We have set up specific arrangements, such as springboard and trampoline loans. We have also signed agreements with major French organisations that encourage microcredit, either vis-à-vis highly vulnerable populations or vis-à-vis social categories such as youths in the suburbs or young entrepreneurs who do not have easy access to financing. I have in mind France Active, France Initiative and Adie. Lastly, we have set up a specific arrangement, *Passerelle*, entirely based on solidarity to help persons in difficulty, those who have experienced unforeseen events and are suffering from financial or social exclusion. Over 33,000 persons in France have benefited from this arrangement since its creation.

A lot has been said – and I will not discuss it any further – about microfinance in the South, I would simply like to reiterate the fact that microfinance is far from having reached its potential. Two examples: there are less than 3 million clients for microfinance in Ethiopia, which has a population of 80 million. There are 730,000 clients for microfinance in Madagascar, which counts 20 million inhabitants. It is true, it is more than the banking system in these countries, but we still have a long way to go because there is no alternative in these countries to microfinance if we intend to provide these populations with a minimum of financial services as developed by the Grameen Bank. The good news is that after 30 years of development, microcredit and microfinance have spread to over 80 countries and concern roughly 200 million borrowers. But the other good news is that if one looks at the MIX Market database, two thirds of institutions that report to the MIX Market have overstepped the 100% threshold of operational self-sufficiency and financial balance. We want institutions that are sustainable through time and that are capable of developing unaided without

any subsidies or grants, even if it is always very useful in the beginning. Starting from this situation, some institutions have developed very rapidly and sometimes too rapidly. I would like to point out that SKS in India recorded a 165% annual growth rate of its portfolio during 5 years and, beyond the controversy concerning the flotation of SKS, I believe there is a real problem because the relationship of proximity, of trust, that is established with borrowers is at the heart of the microfinance model. Is it compatible with unbridled development and a staff turnover of over 75% each year? We thus need to find the right rhythm in order to, on the one hand, meet clients' needs, avoid situations of excessive debt, prevent aggressive competition between MFIs and, on the other, ensure a sound development by diversifying and consolidating microfinance institutions. Faced with this situation generated by the well-known abuses, reported and sometimes amplified and distorted by the media, the main players on the Paris financial market, both banks (Crédit Coopératif, BNP, Crédit Agricole) and NGOs (PlaNet, ACTED, etc.), felt the need to draw up a text – which was mentioned by Dov Zerah this morning – the Appel de Paris pour une microfinance responsable. I unfortunately do not have the time to comment on this text, but I can provide a copy of it to those who are interested. This is not about recreating things that already exist. Many initiatives have indeed been mentioned, in particular by the CEO of Accion: initiatives for self-regulation, for promoting the principles of consumer protection, a label of excellence promoted by the summit on microcredit. On the contrary, this is all about completing these initiatives with regulations at the most appropriate

level to end up with a common base of principles and rules for a responsible and transparent microfinance serving development. I believe that the vast majority of players will adhere to these principles and rules.

Last point. Microfinance still has many needs to satisfy. I will mention three priorities and I will summarise them in three words: Africa, Agriculture, Insurance. Special mention for agriculture: the G20 agriculture met recently and adopted conclusions that are a real breakthrough. I take this opportunity to greet Luc Guyau, President of the Food and Agriculture Organisation (FAO), who is here with us today. I think remarkable efforts have been made towards achieving greater awareness. I have only one regret, not a criticism but a regret, the word microfinance does not appear in the ministerial statement. This is a pity because all the text is focused on the necessary development of small-sized farm agriculture to meet the world food challenges, in particular in Africa. How do we take up this challenge if there is no credit, no index-based farm insurance and no savings services?

I would simply like to end by saying that we are also fully engaged in discussions at the European level. We have taken part in meetings with the European Commission in the framework of Paris Europlace. The last one was two days ago. Despite what has been said this morning, Michel Barnier is intent on mentioning social business, solidarity, the social economy in general and social entrepreneurship in the Single Market Act. We are, of course, at the disposal of the Commission, whose representatives at this meeting we would like to thank.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

José Francisco de Conrado

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### Arnaud VENTURA

*I will now ask José Francisco de Conrado to tell us about his experience at MicroBank, a major microfinance player in Europe – albeit little known in France – with a portfolio of over EUR 100 million in this area.*

### José Francisco de CONRADO

#### Chairman

MicroBank – La Caixa

I am honoured to participate in this workshop and to have the opportunity of explaining to you our experience as a Spanish bank specialized in microfinance. The activity of MicroBank consists in serving a segment of the population with limited resources: Persons who have difficulties accessing the financial system, financially excluded entrepreneurs and households. Microcredit originates in developing countries and stems from the idea of helping families in extreme poverty. It is especially intended for women with no resources and aims at creating new jobs in income-generating activities. They are always small loans, of between USD 600 and USD 1,000. The interest rate is generally above the market rate.

What factors are common to developing countries? In the social environment poverty is severe. With regard to the cultural environment, it is the lack of education and professional specialisation. And the cooperative culture that facilitates collective credit. As regards the economic environment, self-employment is the main gateway to the labour market. There are few or no barriers to entry for setting up an activity. The determination and hard work of the entrepreneur are sufficient in most cases. Regarding the financial environment, the population has very little access to banking services. Interest rates are not legally capped. Interest rates can be applied without compromising the ability of repayment. And finally access to microcredit makes a difference between having or not having an opportunity in the future

What is the experience of developing countries? There is a very high degree of risk, but there is in general a co-responsibility between borrowers. Profitability is significant. High interest rates mean that projects are sustainable and the values of the activity consist in promoting financial inclusion and the dignity of individuals.

As regards microfinance in developed countries, the original idea of microcredit began to be applied in

developed countries along the same model as that which was originally used in developing countries. But after having been applied for a while, the result turned out to be different to what was expected, both in terms of the provision of social values and in the sustainability of initiatives. What factors are common to developed countries? With regard to the social environment, poverty is different in nature. It is a relative poverty which can lead to a lack of opportunity. There is a higher level of assistance and economic benefits, i.e. there is a state of social welfare. As regards the cultural environment, emigration has a strong impact. In the economic environment, there are barriers to entry for new businesses. Regarding the financial environment, there is a legal or market ceiling for the type of interest applied. The return on investment is low and the cost of managing high. Ability to pay depends on the success of the company so the risk is greater.

What is the experience of developed countries? Operations are of a larger amount. The repayment periods are longer. Risks of non-payment are high. Interest ceilings give a small margin. Operational costs are very high. Microcredit allows access to unsecured credit. There is normally a support service provided by the collaborating entities. Because of the difficulties to cover operational costs and the inability to cover the cost of risk, the sustainability of microfinance projects is not guaranteed.

What is the target audience in developed countries? Micro entrepreneurs, micro enterprises, self-employed, people at risk who are financially excluded. The objective is to encourage the creation and expansion of self employment projects, small businesses, micro enterprises capable of generating income and jobs. Loan amounts can reach up to EUR 25,000.

To conclude, it can be said that in developed countries, microcredit has two objectives, an economic objective and a social objective. Microenterprises are the backbone of the European economy. There

are 21 million small businesses, i.e. companies that have between zero and ten employees. They are a key factor for social, economic and regional growth.

I would now like to say a word about MicroBank. MicroBank was set up to consolidate the microcredit activities of La Caixa, whose watchwords are: specialisation, rigor and sustainability. MicroBank is recorded in the bank register of the Bank of Spain, and consequently subject to banking regulations. It started its activities in January 2008, with La Caixa contributing a capital of EUR 90 million. La Caixa will facilitate the financing necessary to cover the needs arising from the growth of the bank. MicroBank is a bank whose business is financial, we offer microcredit to businesses and families. As a bank with a

social purpose, it encourages productive activity, job creation, personal and family development. In sustainable business, we have provided over 110,000 loans for EUR 500 million and we have a default rate of 1.55%.

Our experience in a few conclusions. The first is that sustainability is an obligation and is not a choice. Carrying out a highly specialised activity, such as microfinance, improves efficiency. A vast network of agencies – in our case 5,400 agencies – and cooperation with European institutions is the key to our rapid development. And finally the provision of microcredit should be based on the viability of projects. It is necessary to apply models based on rigorous banking.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Bold Magvan

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### Arnaud VENTURA

*Our last speaker, Bold Magvan, will give us his views coming from Mongolia. Xac Bank is one of the leading microfinance institutions in Mongolia, if not the leading. It started as an NGO more than 15 years ago and has become now one of the leading banks in the country. It will be very interesting to get his views as a local player in the field and what lessons can be learned in our countries and what they do in Mongolia.*

### Bold MAGVAN

CEO

XacBank

I'm proud to represent XacBank, which is one of the 100 top global MFIs in the world, the Bank which is the leading not only in Mongolia. It was possible, thanks to the wonderful idea of microfinance, which has been spreading out all over the world in the last few years. I like this quote from a member of the European Parliament in panel one. She said that microfinance is not charity. That means that policy makers are convinced of microfinance and they deeply understand the nature of microfinance, so there's no need to talk about it more. There was a lot of discussion about inclusion. Inclusion is extremely important, but I must frustrate you. Inclusion is only the start. Inclusion is just the tip of the iceberg because Mongolia has solved the problem of access to finance due to its small population, 2.8 million people, and over banking. When we compare Mongolia with the world, we are second to Bangladesh in terms of penetration and yet the two countries are leading in poverty level. Although we have solved the problem of access to finance versus Bangladesh, we are still at the same poverty level. That means the solution of providing microcredit and microsavings to a population is not enough to solve the problem of poverty. This brings us to the issue of expectations. We should manage our expectations, what we are expecting from microfinance.

We know lots of investors, scholars, and scientists have had a debate about the impact of microfinance. A lot of times it's measured in numbers, in terms of income level for population per capita, but underneath the tip of the iceberg there is a huge amount of area which cannot be measured by numbers. We should take into account these qualitative factors, the qualitative impact of microfinance in the society. What I mean is that we are providing financial education lessons for young girls, including children who are excluded from schools. We are covering 10,000 young girls

and boys now and it's not measured anywhere by rating agencies. We are providing eco-friendly laws, helping to reduce air pollution and climate change by combining microfinance products and services with eco-friendly products, and that is not measured by any rating or other professional agencies. These are only two examples. We need to go deeper, qualitatively, not only quantitatively, and we need to conclude the first phase, which is inclusion. Inclusion is only the first phase. Although everyone has accounts, including children in Mongolia, we have an overindebtedness problem, but nevertheless poverty is not reduced. We need to conclude this first phase of inclusion by adding up more, like completing the system with more non-financial services which will complement financial services. What I mean by non-financial services is education, training for microentrepreneurs and empowerment because poverty is reproduced constantly. It's not solved one time, but it's reproduced constantly by existing wrong policies. So we have to deal with it and this is why we need continuous non-financial services.

We need to conclude this first phase of inclusion by completing it with these services, which means the work starts now. After we have everyone included into the financial sector, now we need to train these people, train young girls and boys from schools and those unemployed people who don't have knowledge about entrepreneurship.

Basically, poor people are those who are excluded from information. As you know, most of the chambers of commerce and associations who have broad networks serve only large companies, but the microentrepreneurs don't have such structure, which would help them on a continuous basis to advise them, to provide the necessary information and knowledge. So we need to work on these structures.

As for lessons for developed countries, I would just briefly mention the main points. Developed countries need to support and advice in their countries from the very beginning, primarily to cover upfront costs to design products and services for the poor. Next is a blue ocean strategy and many of us have already mentioned this. Innovation is extremely important. Innovation drives microfinance because MFIs are working in those hard to reach areas where no one from the main stream banks is working. We have natural genes to produce new products and services, and that's why we have mobile phone banking services, that's why we have eco-friendly loans, that's why we have financial education for girls and savings for girls, starting from 14 years old in Mongolia.

Another important strategy is the vision and mission of MFIs, including developed countries. Once you have the right vision and mission which embraces not only social and financial purposes, but also environmental concerns, I mean a triple bottom line

mission, then we will be on the right track and it's possible to achieve by microfinance institutions.

I already mentioned expectations and that is very important. Again, penetration is not enough. We need to do more. We need to have this conclusion, besides inclusion. Supervision, as was mentioned, is extremely important. We need to play according to the rules, but not to over regulate. I know some rating agencies are requiring from MFIs enormous amounts of standard data reporting, which cannot be completed even by mainstream large banks. So some are expecting MFIs to be like Jesus-Christ, Mohamed or Buddha, which is not possible even for larger capacity banks. We need to have a balanced approach.

Last, I would like to finish my short speech with a quote from one of our customers. He said, "I don't have relatives and I don't have anyone to rely on, but XacBank staff are like my brothers and sisters now." This is what microfinance is about.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Questions & Answers

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### QUESTIONS & ANSWERS

**Guy Rosa, BNP Paribas**

*We have heard stories told by members of the panel that all make sense. Given that the title of this panel is “What can we learn from the South” – for once, it is not the rich who are dealing out their knowledge but are instead asking to learn – I would just like to ask you one question. If you were locked up with the G20, for the length of the meeting, what would you ask them if you had the assurance that at least one question would get answered?*

**Bold Magvan**

I don't know the answer, but I can say the South is reminding the West what they have done 500 years ago and forgot about it. Because we are working with basics now, so we are reminding what was forgotten.

The second thing, we are not only reminding of old things, but we are bringing 21st Century innovations and solutions to work with real people.

**Robert Christen**

I think the spirit of innovation is pretty profound in the South right now, particularly with respect to business models, and I would ask the G20 ministers what they can do to help the global standard setting bodies and other global institutions to recognise these new business models that are really going to be formed of partnerships among retail outlets, banks and payment systems. What they can do to facilitate the development of those sorts of systems into the future, which I think probably is what's going to be required to get proximity to where the poor women work. Does it seem like we're going to have the ability to build banking infrastructure out, like we maybe did in the more advanced countries, soon enough to help people get financial services?

**Arnaud Ventura**

First, for the past 20 years, much has been expected of microfinance and everyone thinks it is the solution to combating poverty and solving the problem

of poverty. As Bold Magvan has just mentioned, it is just the beginning. The beginning is to have 3 billion people who have access to financial services and, with that, they might over time come out of poverty. But it is necessary to first set the record straight and I think it is important that Heads of State, government, and the G20 have a clear idea of what is and what is not microfinance.

Second, I indeed believe that States and governments have a major role to play both in terms of regulation and by facilitating access to innovative models to develop microfinance.

**Michael Schlein**

In speaking to the G20, I spent several years as a regulator and I'd say the nature of regulators is not particularly innovative. They generally like to just approve things that they've already seen before. So to push regulators to being innovative in this area, I think we have to point them to various specific models. One of the earlier speakers from the Inter-American Development Bank and Multilatéral Investment Fund spoke about the Microscope, which I think is an enormously valuable tool to look across the world at the best regulation and so I would use that to say those are the best practices and I would point the G20 in that direction.

Secondly, the theme of self-regulation, I think there is a lot that's coming out of the industry. I'd encourage the G20 to look at that and support that.

**Jean-Luc Perron**

Just some short comments. First of all, I believe that the objective of Northern countries is not to maintain MFIs in the South in a state of dependence. So if we finance them, it is like a channel for funding, but the objective is clearly to develop domestic markets, to facilitate microfinance institutions' access to bank liquidity, either by collecting savings, or by signing agreements with local banks.

Second, in terms of regulation, there is certainly a distinction to be made between MFIs that are refinanced on external resources or their capital and those that collect savings from the public, because we know that the reputational risk, the systemic risk, is not the same.

Third, when we talk of rules, of commitment, I do not think we should just tell the IMF, or microfinance institutions, do this, do that, apply such and such a principle, it is also important that investment funds, financial intermediaries, international organisations apply a certain number of rules to themselves. I would just like to mention one to which we are very attached, that is to finance MFIs only so far as they are not exposed to exchange rate risk.

### **Chris De Noose**

Perhaps a last word on the question raised by the representative of BNP Paribas earlier on. I think that especially in developed countries, there are more and more people who are excluded, not only from finance – I already gave you a few figures earlier on – but also, and above all, socially excluded. I think that microfinance is a tool that could help them. I am not only addressing governments, but especially the European Commission, because in Europe we are in favour of regulations possibly drawn up as a joint effort. Personally I do not believe much in self-regulation, I place much more hope in co-regulation. Regulators and users working together. As regards self-regulation, we have just carried out an exercise with the European Commission in this area and I must say that the experiences are not very positive.

### **Alfred Hannig**

Yes, I just wanted to come back to Michael Schlein's remark on the potential role of the G20 to push regulators to perhaps become more risk taking and innovative. Just let me share our experience that we have currently in the G20 and I think some of the co-chairs are even here.

I think the reality at present is slightly different. Our perception is that in fact the G20 is eagerly looking for concrete experiences of countries that have shown they've experimented with a risk-based approach that really takes into account the risks of the business, which would in fact allow for a proportionate regulatory approach. There are some

examples, I think, that are quite helpful and I think now the reality is that these examples come from especially the non-G20 countries and maybe the role of the G20 could be to leverage this with the political muscle behind and actually promote a more widespread adoption of these approaches.

I wouldn't say the initial push now needs to come from the G20 because I think the initial push actually comes from the developing countries. So maybe my world is a bit different than yours, but I just wanted to share this.

### **José Francisco de Conrado**

To answer Alfred Hannig, I believe that microfinance can be a solution to poverty both in developed and developing countries. But I think we need to talk less, act more, risk capital and be more rigorous.

### **George Flores, European Commission**

*Thank you, Mr. De Noose, for calling on the European Commission to act. I'd like to ask the panel the following question.*

*Right now the European Commission is designing financial instruments to address the infrastructure building of microfinance. What would be, in your opinion, the most appropriate financial instrument to be deployed in microfinance? Would it be, for example, to capitalise the MFIs' equity? Would it be funding to extend loans? Would it be giving partial guarantees on credit portfolios? Would it be the most appropriate tool for the European Union countries, the 27 member states?*

### **Bold Magvan**

As you mentioned, capital is vital in developing countries. There is an overall capital shortage in developing countries and that's why MFIs cannot be registered according to internal regulations in certain countries. So that will help MFIs to register.

Secondly, as you have mentioned, the guaranty is extremely important for new MFIs that want to have access to international funding.

## ROUND TABLE 2 HOW CAN ADVANCED ECONOMIES LEARN FROM THE DEVELOPMENT OF MICROFINANCE ACTIVITIES IN DEVELOPING COUNTRIES?

Questions & Answers

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### Chris De Noose

*It's a complicated question. I would return the question: what would you like to regulate, the product or the institution?*

### George Flores

But we don't want to regulate. As I said, we are designing financial instruments that are market based, no regulation, no grants and we would like to know which is the most appropriate for the European 27 member states and the microfinance environment. We don't want to regulate. We want to apply tomorrow morning financial instruments and I think, and I don't speak on behalf of the Commission, we are willing to put a lot of funds into this.

### Arnaud Ventura

My view with my little knowledge of microfinance in Europe is that the most appropriate at this stage is financing, so lines of credit and loans to support the development of existing microfinance operations and partial guarantee tools to guaranty existing MFIs. In many European countries banks are pushed towards financing microfinance, but obviously with guarantees it would facilitate the development of microfinance. Apart from a few countries, MFIs in Europe are currently non-profit companies, so you cannot invest in equity. If you take France, Adie is an association and you have no way to invest in the equity of Adie. In only a few countries like MicroBank in Spain you have for-profit companies. In most European countries I know that microfinance is operated through a non-profit scheme, so it's very difficult to invest equity.

### Jean-Luc Perron

I think the Commission can play a very important role in loosening the constraints that sometimes

exist to enable individual savings, in particular retail or institutional savings, to be channeled in clear and transparent conditions, i.e. with the assurance that they will go to responsible microfinance, into institutions to whom these resources will be useful. So we talked about investment funds to examine how an appropriate legal structure could be set up, and God knows there are many people who are willing to lend money even without interest and not only to give it or invest it, provided they have the guarantee that it will be diverted to worthy causes. And microfinance is of course a worthy cause. The Commission therefore has a very important role to play, which could also benefit microcredit institutions in Europe.

I would simply like to add that, although Europe is a union of 27 countries, in reality there are three very different business models.

There is the microfinance business model in the Southern countries, which has proven to be sustainable, to be capable of developing independently and even evolve into a banking model.

There is the model of microcredit organisations in the more developed countries, where the weight of support, counseling, and rehabilitation is such that the objective cannot be that agencies become quasi-banks; banks exist and when a client of the Adie manages to get back on track, it becomes a client for the banking system, it is no longer a client for the Adie, so we are not in the same context as in developing countries.

And then there is an intermediate situation, that of Central and Eastern European countries, Bulgaria, and Romania. In these cases, guarantee or equity instruments would enable these microcredit institutions, which fill a historical gap in the banking system, to evolve into quasi-banks or proper banks as history has shown. So the answer in terms of regulation cannot be unique and I think the Commission should really stick to the analysis of economic models specific to each country.

# ROUND TABLE 3

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## THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES, TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING

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## Tilman EHRBECK

*President*

*Consulting Group to Assist the Poor (CGAP)*

We have heard a lot of the key messages this morning already and I suspect that there is not that much disagreement in the room on the aspirations of where we should be going. I had a chance to talk to all the distinguished members of the panel and we will try to go a little deeper into three questions. I will tee those up and then I will introduce the speakers as we go. I will ask each of them to focus on one specific question in this context.

This is, of course, against the backdrop of the topic of our sessions. The first issue is if you think about microfinance as a development activity with the objective to create a self-sustained industry, it has been a great success. By supporting the early social entrepreneurs like Professor Yunus, an industry developed over 25 to 30 years that today is probably roughly 60 billion dollars big. If you consolidate the balance sheet of the microfinance situation that we were talking about in the first part of the session, roughly half of the funding is actually domestic resource mobilisation savings. Depending a bit on how you count it, one could argue that two thirds of the other half are commercial or quasi commercial sources of funding and only one third of that other half, or one-sixth of the total, is still public money. From a development perspective, this is great leverage. We supported the creation of a self-sustained industry. The question is, of course, as it grows and tries to reach more people, what more can be done in this leveraged fashion, and in particular what more can be done to mobilise domestic savings, which are a source of funding for the intermediaries, and savings and deposits as a financial service have an important value in and of their own right. So the first question is "What more can we do to mobilise domestic savings?"

In the case of credit, too much of a good thing can be a problem. We have had episodes of very fast growth in a few markets where microfinance institutions (MFIs) competed for the same customer segments and might not have quite realised that the underlying challenge changed from providing access to credit in this case, to responsible delivery of that service. That over supply led to overborrowing and overindebtedness and that was partially fueled by the relatively readily available debt funding and international debt funding. So the second question that I'm going to ask to the panel is "What can international funders in particular do to ensure that the MFIs that they are funding pursue, if you will, the operations in a responsible fashion? What are investor responsibilities for international capital flows?"

The topic of our session constrains us a little bit to the credit question because it's financing microfinance. We heard this morning very convincingly, and we know that both conceptually and empirically to be true, that poor families in the informal economy actually need access to a broad range of financial services. Not all need credit and many might actually need savings, insurance and other services instead. Even though it's not entirely part of our panel, I will ask if somebody has something to say on the third question, of what can we do to help bring about the provision of a broader range of financial services that would be highly appreciated.

So there are three questions: "What can we do to increase domestic savings, in particular, resource mobilisation?"; secondly, "What should international investors do to ensure a responsible delivery of credit and help avoid over indebtedness types of crises?"; thirdly, "What can we do to encourage or support the provision of a broader range of financial services?"

### ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES, TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING

Daniel Lebègue

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#### Tilman Ehrbeck

*We'll start with you, Mister Lebègue. You have a very distinguished career, first in the French Civil Service in the Treasury where you worked for 20 years, and then you were a CEO in the private sector with BNP and the Caisse des Dépôts et Consignations. Now you are Chairman to a number of institutions in civil society, including one that intrigues me a lot. It's called Épargne Sans Frontière and you might have to explain to the audience what that is, but I take it as a hint that I can ask you to focus your remarks on domestic resource mobilisation.*

#### Daniel LEBÈGUE

CEO

Épargne sans frontière

I will only talk about the mobilisation of domestic savings as a lever – and I believe, the main lever – in developing countries, both for ensuring the financing, the development of the economy but also for reducing poverty and precariousness. I will refer to a report, not yet been published, that was conducted by our association Epargne sans Frontière. In short, Épargne sans Frontière has the ambition of being a think-tank, a forum for exchanging ideas and best practices with respect to the financing of development and a place where public and private players from North and South can meet. Since the beginning of the year, one of our working groups, chaired by the former Chairman of Credit Mutuel, Etienne Pflimlin, has worked and made proposals on the topic “how to strengthen the mobilisation of local savings and insurance” and our report focuses primarily on the countries of North Africa and southern Sahara. For the poor individual entrepreneur, just like for the poor household, financial exclusion, i.e. that which prevents him from improving his situation, it is primarily the impossibility or extreme difficulty of access in sequence means of payment other than cash, savings, insurance, and I put in fourth, not to reduce its importance, but I think that in the order of priorities it is not the first, access to credit.

Providing access to simple, user-friendly, secure and cheap means of payment, savings instruments and insurance products, that is the priority. I will recall three figures you already know. In Africa, an average of 10% of the population has access to banking services. This means that one in ten Africans has access on a regular basis to means of payment, in the form of checks, credit cards, bank transfers offered by financial institutions. We do not have any precise figures, but it is estimated that one in ten Africans

has access to financial savings products. Savings in Africa are much greater than this figure would indicate because they are largely channeled into real property, livestock, goods, jewelry or traditional forms of savings, such as the tontine. Finally, an average of between 2.5% and 3% of the population in Africa has access to insurance against damage, fire, theft, business interruption, or against the major risks of life beyond, of course, the welfare system when there is one, health, death. Between 2.5% and 3% of the population are able to anticipate, reduce or hedge risks of this type, which are the risks of life for each one of us. How to explain this situation? There are multiple factors. First, of course, income levels: it is not easy to save or take out insurance when living below the subsistence minimum. But this is not the main factor and it is not absolutely critical. I recall that in France the majority of people living below the poverty line have access to at least one savings product, generally an A passbook. But, clearly, there are other explanatory factors. Cultural factors. In Africa, there is still, as has been the case in many regions throughout the world, a culture of cash. People prefer to have money in their pocket. There is also – but not only in Africa – a deficit in financial education. There are few schools in Africa – but it is the same thing in France – that teach children how to manage a budget. What is investment? What is the difference between investment and consumption? It is taught almost nowhere. There may also be religious factors. In Islam, insurance is a form of betting, a game. And, then, there are all the security issues for investors, insurance policy holders, and security does not only mean the solvency of institutions. For example, when investors deposit or withdraw money, they wish to do so in a very secure framework. There are of course, other explanatory factors, such as inadequate

**ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES,  
TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING**

*Daniel Lebègue*

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supply, poor distribution networks and, finally – I will not go into detail, others will – sometimes very inadequate regulations. In Egypt, Morocco, MFIs are not authorised to offer savings products. There are whole regions where micro-insurance is not regulated. Having identified where the problems lie, it is now quite easy to infer what the answers are and they are actually quite simple. Increasing confidence, financial education, accessibility, for example by combining new technologies and points of contact, the post office or local stores. Just to remind you, in Africa, 40% of Africans have a mobile phone. Offering a range of specific products and services, for

example in the areas of education or insurance against natural disasters for farmers. And finally, of course, adapting regulations and government policies. A last point. There are central bankers in this room, maybe from African central banks, the BCEAO, the BEAC. How can we admit – we understand why – that the banking system in these countries and in other areas have excess liquidity and invest this excess liquidity in central bank deposits and treasury bills. It is clear that, by relatively simple and well-honed monetary and financial policy measures, we must be able to direct, process, channel savings into more directly productive jobs.

### ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES, TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING

Arnaud Poissonnier

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#### Tilman Ehrbeck

*Arnaud Poissonnier is a leading social entrepreneur. He worked for 12 years in commercial banking, wealth management. He worked for the very included and then he decided that he should radically shift gears and he joined the microfinance working for OXUS at ACTED, and two years ago he founded Babyloan, which is an online microcredit platform.*

*I have two questions for Arnaud Poissonnier. The first one is “Can something which is definitely innovative and even sexy, such as an online platform, ever be big enough to really make a difference from a funding resource mobilisation, either domestically or internationally?” Secondly, “For your international funding do you have a socially responsible investor mindset and how do you ensure that it doesn’t lead to over indebtedness or some of the problems that we heard about earlier?”*

#### Arnaud POISSONNIER

CEO

Babyloan

I am very happy to be here with you. So, on this subject, we have talked about regulation, but we are not in the sphere of regulation, although sometimes we are in the sphere of revolution. Ben Hamida Essma spoke this morning of the citizens' revolution in Tunisia. What is meant by peer to peer microcredit? Basically, it is a kind of revolution in the world of microfinance because, curiously or at least historically, microfinance has always been financed in the institutional sphere by international institutions, international investors, specialised funds, local international banks. And, curiously, although Professor Yunus and others have talked a lot to the general public about microfinance, the public has not been involved in the development of microcredit. And then the Kiva initiative was launched. Today, I have a father, Professor Yunus, and I have a God, it is not Shiva but Kiva. Kiva is about trying to involve the general public in the development of microcredit through the Internet. It is a kind of citizens' bank. The idea was simply to create a website that would bring together Internet users in peer to peer mode and enable them to establish partnerships with MFIs, choose online profiles, the beneficiaries of microloans that they would be able to refinance using their credit card. On the site, take for example Mrs A in Cambodia who is seeking to obtain refinancing for her sweet trolley outside schools. I can pay all or part of the amount required to refinance the project with my credit card. This quite ingenious idea, sponsoring through lending, has not only spun new initiatives but has also grown very quickly as Kiva, which was set up six years ago, has become a huge platform with close to 900,000 members and, gradually, a number of other initiatives have been launched.

Today, there are ten platforms of this type across the world. For the moment, they have succeeded in bringing together only about one million peer to peer sponsors of microcredit projects. But it all goes very fast. This is a new innovative form of financing, but it is growing very fast. To give you some figures, Jacques Attali said this morning that microfinance was nothing in finance, now peer to peer microcredit is nothing in microcredit since all these platforms combined have collected just over 100 million dollars. These are still relatively small sums. These 100 million dollars compared to the 65 billion dollars represent 0.15% of the global outstanding amount of microcredit. So when you look at it you ask yourself “but what are they doing out there? It's a gimmick”. That has been said by many institutional investors. At first, when Kiva was launched, when Babyloan was launched, a number of major fund managers said “this thing is a gimmick”. So, yes, it is still very anecdotal, but what is now happening – and that is very interesting – is that the world growth rate of microcredit today is about 10% to 15% per year. The growth rate of peer to peer microcredit platforms is between 200% and 400%. If you are a good mathematician – which I am not – by making a quick calculation you can very well imagine that in ten years – here again, we have only six years – peer to peer will represent 5% to 10% of microcredit outstandings worldwide. That would be quite significant, with the weight that these platforms could represent in terms of social value added. Because what is peer to peer if not the contribution of a joint resource to MFIs? Indeed, Internet users make so-called solidarity loans, i.e. they provide resources free of charge – as opposed to the resources

supplied by major investment funds – and thereby enable MFIs to lower their costs and ultimately to lower their interest rates.

We created Babyloan almost three years ago – it will be three years in September – and in three years, we have brought together close to 12,000 users from 137 countries – all over the world, even if 90% are Europeans – who have refinanced a little over 6,000 recipients of microcredit with a dozen partners, including MFIs in Southern countries, but also in France since Babyloan was connected to microcredit in France. So, that is our universe.

To come back to today's subject, there is something very interesting in this world of peer to peer: it is based on technological innovation, web innovation. And these web innovations can very easily be transposed, without having to set up NGOs or large development teams. And what we are starting to realise is that it is very easy nowadays – now that these platforms have shown their reliability and ability – it very easy to draw them out of their context – Kiva in the United States, Babyloan in France – and duplicate them, for example in developing countries. But what is interesting is that these are almost open source technologies. For example, we have one of our partners who can say to us “we are in Ecuador, there are many wealthy families in Ecuador”. It would be very easy and highly feasible to set up a Kiva or Babyloan Ecuador that would enable us to not only be in a North-South solidarity dimension, but also in a South-South solidarity dimension for mobilising savings from wealthy people in developing countries to finance local microcredit projects. We are starting to become aware – and we had no idea about this at first – that we can also use these peer to peer platforms to mobilise local savings. We are in fact – and this is betraying secrets that are now open secrets – thinking of setting up a Babyloan Tunisia that would – and this is a good illustration of what can be done in terms of multidimensional mobilisation

of these savings – enable Tunisians to sponsor the beneficiaries of microcredit with their credit card. It would also enable Tunisians across the world, as well as holidaymakers in Tunisia, to enter into a North-South relationship of solidarity by sponsoring local projects via this platform. It is a very interesting approach and I will end on this point.

Beyond this lending-based approach, these peer to peer platforms – which are part of the world of crowd-funding – may be used to offer donations or complementary support to microcredit. For example, why not enable Internet users on Babyloan to pay for a medical consultation for the person they are sponsoring? There is a wealth of possibilities.

Just a small anecdote to conclude. I was in Manila last December and on my way to our partner microfinance institution I saw a house, a very poor house, with a Babyloan sticker above the door and I asked myself what this was all about. I continued down the road and 100 meters further I came across another house with a Babyloan sticker above the door. I then asked the Director why there were Babyloan stickers everywhere across Manila – a slight exaggeration – and the Director told me “it's very simple, we have raised awareness among our microcredit beneficiaries about the fact that they were not funded by a standard investor, they were funded by someone like them at the other end of the world, an Internet user in France, Germany, Belgium, Canada or the United States”. And I can tell you that this is an extremely strong message in the financial education of our beneficiaries than to tell them “Be careful, if you do not repay, it is Mr. Smith or Mr. So-and-so in France or in Europe that you are not paying back” and, all of a sudden, this money acquires an even greater value because it comes from someone like them. And so stickers have been distributed to everyone and people are proud to show that they are sponsored by an Internet user at the other end of the world and this is a strong message conveyed by crowd-funding and peer to peer.

### ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES, TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING

Plutarchos Sakellaris

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#### Tilman Ehrbeck

*There is a lot of passion, no doubt, and hope for peer-to-peer credit lending. We have regulators in the room and I'm curious to hear their reactions later. We'll have our third speaker and distinguished panelist, Plutarchos Sakellaris. Plutarchos is Vice-President at the European Investment Bank, where he is in charge of a number of regional operations and risk management in the Economics Department. He has been an advisor to governments and an economics professor.*

*Plutarchos, you have a number of vantage points that you can choose from to comment, but as a public finance institution, maybe the question in the context of our topic would be "How do you think about leveraging other people's money in the private sector down the road?" Also, "What do you think about the notion of responsible finance when you extend equity, credit or other instruments?"*

#### Plutarchos SAKELLARIS

**Vice-President**

European Investment Bank

Indeed, since I'm the representative of the European Union's long term lending bank, I have to talk a lot about the public sector and its role in financing microfinance, not just around the world, but also inside the European Union because that's very important.

I want to go back to the trilemma that you brought up at the beginning, which was the source of finance being one-half local, two-sixths international private, one-sixth public. There was the question about what can we do to mobilise more domestic savings. The answer that an economist can give there is very simple, but putting it into practice is extremely hard and it's actually the work of development and the work of building institutions, which is growth, employment, productivity, building institutions, good governance, good government, regulations and good high quality financial services. We were told that only 10% of Africans are banked. You put all of these elements together and there's your recipe in twenty seconds. Seriously though, this is really a very important subject.

From the point of view of local versus international funding, indeed economists and theorists say that it's best if the source of finance is local, but there are many market imperfections that basically prevent local financial intermediaries, especially in the microfinance sector, to get these funds, and in fact that prevent even the MFIs to get the funds that banks have themselves gotten in the domestic market. So I definitely want, given the shortness of the time that I have, to focus on the fact that the role of international public institutions, international financial institutions, development finance institutions, bilaterals and so on

in this process is a really important one. I think it goes beyond only the one-sixth because if you look at how the financing is done of MFIs, it's done in different layers and it's done in different organisations. I say in different layers because you have different layers of risk involved in the instruments that are used to finance the MFIs. You have higher risk equity, you have lower risk senior debt and you have in between a mezzanine. You generally see that the public international institutions concentrate in those risk segments where the private sector does not find it either worthwhile or possible to go into, which is the higher risk sectors. We also have to see how the whole organisation of microfinance is structured. It's not just the MFIs who are basically dealing with the clients and who are giving the credit. On top of that, many times you have holding companies that are basically generating these in a greenfield way, or you have microfinance investment vehicles that finance these MFIs. Well, even if you see that the majority of the local funding goes towards the MFIs, you see that the international and especially public funding is preponderant in financing the holding companies and the microfinance investment vehicles which are so important in generating these MFIs like the ones we have seen here. So sometimes the one-sixth or one-half figures do not give the full story.

Beyond concentrating on the different segments of risk, I say one other important part of what is the role of public funding has to do also with responsibility, whether you call that social responsibility or not. We in the European Investment Bank and elsewhere in recent days call it good client protection principles

and your organisation has worked towards that and other organisations have worked towards that. That means transparent and fair pricing, avoidance of over indebtedness, so good description of your products and ethical behaviour. How do you promulgate that? By basically imposing this as a condition on the institutions and on the vehicles that you finance.

Also, I have to say another initiative that we are a part of is the Smart Aid Index, which tests our effectiveness. This is an initiative of the Consultative Group to Assist the Poor (CGAP), as you know, but maybe our audience doesn't know. It's another very important element in keeping us honest, in making sure that what we do is done in the most effective way possible.

The third thing, which I think is extremely important in terms of what public international institutions such as the one that I serve are doing in this field, is

technical assistance. Technical assistance is paramount in setting up greenfield MFIs, but not only. Also in the MFIs that are already in operation, it involves training the staff in the greenfield. That could involve software purchases, sometimes it could involve helping to hire good professionals and topping up their salaries, product development, market studies and many different things. This is really something where you have to have some concessional finance and this concessional finance of course can only come from a public institution such as ours.

I think that I spoke a little bit fast so that I could stick to the time limit, but I wanted to put down these things for discussion. I'm very happy, if challenged by the audience, to come back and speak in more detail. I also claim that, indeed, we need to take very seriously the mandate that we have, which is not to crowd out private investment, not to crowd out local sources of savings and it's through these instruments that I mentioned.

### ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES, TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING

Marc Bichler

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#### Tilman Ehrbeck

*Our next panelist is Marc Bichler. Marc is a career diplomat and in his day job, he is the Director of Development of the Development Corporation in Luxembourg's Ministry of Foreign Affairs.*

*I was thinking about your real role, which is that of being a bit of an "éminence grise" in the European microfinance world. You are very active in Luxembourg, the Chairman of the Board of several institutions, including LuxFlag. You are very active at the global level. You were Chairperson of the United Nations advising group on inclusive financial sectors a few years ago and you were just elected chairman of the European Microfinance Platform, so in Luxembourg, in Europe and globally your influence is extensive.*

*The question for you is more along the lines of international finance to funding to microfinance, the notion of responsible finance and what you think about that.*

#### Marc BICHLER

**Chairman**

*European Microfinance Platform*

Let me quickly start off with three observations, if I may, before I try to show how grant funders and governments can be helpful to development in general, but also to microfinance.

The first observation, and it has been touched upon this morning already by Chris De Noose to some extent, there is no sustainable development without sustainable financing for development because there will be no real improvement on the economic, on the social and on the environmental front on the cheap. It implies a certain cost and that cost has to be carried by one or the other.

The second observation is, in order to cope with the huge needs for financing development, different and multiple sources of financing must be tapped into, and this we've known since at least 2002 at the international conference on financing for development in Monterrey. This has been affirmed and reaffirmed since. We need national resources of developed countries, we need proceeds from international trade, we need foreign direct investment remittances and we also need official development assistance, including grant funds. Of course, microfinance can be a very useful toolbox for development and it can be implemented as a compliment to the different sources of financing that I just quoted.

The third observation is in regard to grant funders, and here I include governments, the multilaterals and of course also the foundations and philanthropy in general. They can play a very important and

positive role when it comes to influencing the access to the above-mentioned sources of financing for development. How can that happen, how can grant funders and governments first and foremost do that? I see at least three useful ways to do it that have only maybe indirectly to do with microfinance, but still have to do with microfinance.

Grant funders and governments can help in establishing an equitable national fiscal system where such a system does not exist, including promoting the fight against tax evasion, of course. Governments and grant funders can help negotiate fair trade liberalisation at the World Trade Organisation. Let's not forget that this round is called the Doha Development Round. Then they can also help in providing transparent and stable legal safety for investment and there again including also helping in the fight against corruption.

My fourth observation is that governments and grant funders should be able to also support the harnessing of the power of remittances, of course for individual private use, but, why not, also for the collective public good. We have to do some thinking about that.

Finally, grant funders and governments can work through official development assistance in a smart way. How does this more specifically relate to microfinance? Let me try to explain. For microfinance to deploy its full potential of economic viability on the one side, social impact on the other side, and also be an effective toolbox for development, at least

two conditions are required. The first condition is we need, of course, sufficient financial resources for microfinance. This doesn't seem to be the problem any longer because the traditional financial sector has developed internationally all over the planet its own dynamic for microfinance. At least in my country this has been the result of an interaction and a steadfast advocacy by, on the one side, government and civil society, and then on the other side by innovative thinking and acting by the private financial sector. Nowadays we have to be honest when we speak about the leverage and the means that the private sector can muster. We have to be honest that microfinance investment vehicles are nowadays over liquid and there are complaints a little bit about the lack of absorption capacities of MFIs in developing countries.

This brings me to the second condition that we need in order for microfinance to deploy its potential. It needs, apart from the financial means, an enabling environment in which to prosper, and there is really a lot to do for grant funders and governments. I see two levels where they could be active first at the level of the MFIs. Here, of course, their contribution would consist in improving management capacities for increased transparency and accountability in the MFIs. Then I see also a role at the level of the State, as Professor Yunus said today, where it would be helpful to put in place adapted legislation, regulations and supervision and I would be happy to develop on these issues if so wished.

Those actions need to be taken at the level of the state and at the level of the MFIs and they need considerable financing. They come at a cost, as I mentioned at the beginning, and the financing to cover that cost will not come from the private sector. Why? Because it's not financial or economically viable. Grant funders and governments can have a field day there if they so wish. They can be very useful and complimentary to financial means that are nowadays available on the private side. I would also like to insist on the importance of grant funders and governments being ready to commit at the side of developing country authorities and also at the side of national and regional central banks in order to work with them hand in hand with the MFIs to open the access to excluded populations.

I would like to give a list of other useful interventions that could be addressed by grant funders or governments, and we might come back to those later on. It is certainly useful to keep funding research, to reward the best practices, to promote innovation, to provide seed money for smart private public partnerships and encourage the exchange of information, like we tried to do on the European Microfinance Platform where we also think about further promoting the training.

As a conclusion, I plead for useful division of labor between private and public actors in order to help microfinance to deploy its full potential.

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Sébastien Duquet

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#### Tilman Ehrbeck

*Sébastien Duquet, you are the Managing Director of PlaNIS responsAbility, where you oversee 285 million portfolios in 82 institutions, so you have a lot of experience across the globe. You have ten years of experience in the commercial formal traditional banking sector and now almost ten years in this phase. Maybe as you quickly lay out your thoughts, if you could build in this notion of what we could do to increase the product range of services to poor families in the informal economy. We haven't had a chance to hear from the others yet, so it would be good.*

#### Sébastien DUQUET

*Managing Director*

*PlaNIS responsAbility*

ResponsAbility is today one of the largest investors in microfinance, if not the largest. We have a portfolio of approximately 1.1 billion dollars of investment. We have just completed the closing of a new 150 million-dollar fund that we will launch this coming August. To answer your questions about deposit savings. What should be done to encourage deposit savings? Precisely what we have been doing for the past 10 years, what ResponsAbility has been doing from the start, what PlaNIS has been doing from the start, and this sometimes makes us come across as a very commercial investor, not at all social, and finally as a rather heartless investor. Let me explain. Giving priority to deposit taking organisations necessarily means going to the banks, which are microfinance banks, but can sometimes have a small microfinance portfolio and small business portfolio, small enterprise financing, which are generally large organisations, Aceda, which is here at this conference, is as you will understand, an institution with a portfolio of 1.2 billion dollars and we have always considered it very important to massively support this organisation like all organisations that are classified under tier 1. In our jargon we classify organisations in tier 1, tier 2, tier 3, and it is true that many other investors prefer to position themselves on tier 3, small organisations, rural NGOs, explaining that it is where microfinance will develop, where social performance will be achieved. Look at these big bad investment funds, they finance for 95% a very small number – fifteen, twenty, thirty – microfinance institutions. We have always considered it normal to have a large portfolio on ProCredit. We have always considered it normal that ACBA be our first exposure in Armenia. We believe that Aceda in Cambodia, XAC Bank (which is also present in this room) and Khan Bank do a fantastic job in Mongolia and it is normal

that we have tens of million dollars worth of liabilities to each of them because focusing on “deposit taking” means investing heavily in these microfinance banks, being prepared to take risks, lending them up to 40 to 50 million dollars each. For eight years, we have not ceased to explain to the public, to the whole financial community, to CGAP that it is by supporting these microfinance banks, which collect savings, that we will help them stay on this segment of microfinance and that we will have a huge and long-term impact on microentrepreneurs. So what we have always felt is that we should largely focus on these organisations, while continuing to invest in tier 2 and tier 3 institutions – which sometimes do not collect savings – and help them, if they so wish, to change and to collect savings. And we strongly feel that the funding we provide is in addition to the funding raised locally through savings or by local commercial banks. It is the whole message from the financial community, the microfinance community, that needs to change if one really wants to develop savings at different levels. It is time to stop communicating only on smaller organisations that do not collect savings, it is also important to communicate on the major microfinance banks, and I am delighted that today's conference organisers have invited large microfinance banks that collect savings. They are too often ignored.

It is the same thing for money transfers. Some of our competitors have stopped funding some organisations because the share of their income derived from money transfers has increased too much and, as a result, the share of their microcredit activity is very small. Take for example Bank Eskhata in Tadjikistan. Today, half of its income is derived from commissions on money transfers. Some investors, who claim to

be social, say that they cannot fund a microfinance institution which carries out two-thirds of its activity in money transfers and only one third in the financing of productive portfolios. We say the opposite. Eskhata should be encouraged to further develop its money transfer activity, it should be encouraged to become the first money transfer institution in Tajikistan and it should continue to receive massive funding. Because the Tajik microentrepreneurs need effective, secure and inexpensive money transfer solutions (Tajikistan depends heavily on migrant remittances, especially in Russia). But again, the idea remains that the institution should have the bulk of its portfolio in microfinance, in productive lending, and all that is around, consumer lending, housing savings, housing loans, money transfers, is frowned upon. We should put this logic aside and not hesitate to invest in institutions whose sole activity is money transfers or consumer lending provided they do it well and they meet the needs of microentrepreneurs. It is important that this message gets sent around.

As regards responsible investment, my philosophy has always been to not be very focused on tools but on principles. What are our principles? We are an investment fund. We must offer interest (financial performance) to our investors and we also owe them a social performance. From there, the field measurement of an impact in the MFI and the complexity that it involves is not our responsibility. It is up to development agencies to finance it and NGOs to do it. But we (investors) must ensure, through a certain number of principles, that the investment we make in MFIs enables the sector to develop in a sustainable manner.

What principles have we chosen? There are eight. We only finance sustainable institutions. We only finance institutions that have responsible lending policies, transparent prices for entrepreneurs, a reasonable interest rate and three or four ethical principles. These ethical principles are the following. First, an adequate remuneration of management and shareholders. It should not be extravagant, it should pay for time spent, for risk-taking, but not beyond. We also monitor very closely the integrity of management, we make sure that the MFI has efficient recovery practices and uses such tools as the credit bureau. It sounds very simple, almost banal, but some principles may in reality be sometimes difficult to apply. In Kazakhstan, in our portfolio, we

have one institution in the credit bureau and four others that are very social, very rural, but not in the credit bureau. What do we do? Do we finance them or not? We have decided to finance them but it is the last time. Either they join the credit bureau and in this case, they will participate in the effective fight against over-indebtedness in Kazakhstan and we will continue to support them, or they do not join the credit bureau, in which case we might decide to stop financing them. These four institutions are all in the MIX Market, everywhere they are referenced as having a strong social performance. Because they are present in rural areas and serve women, all those who believe that social performance is a question of whom one finances tend to rank them highly when measuring social performance. We believe, on the contrary, that what matters is not just the category of people that one finances, but also how they are financed. And so when there is a risk of over-indebtedness, it is necessary to include credit bureaus in the analysis and the MFIs that do not do so are not fighting over-indebtedness and cannot therefore display a good social performance. For us, being a responsible investor means having some basic principles and applying them, measuring them, following through on our thought, and this led ResponsAbility to close its funds last year when we were in a situation of excess liquidity, as there was a risk of the microfinance market overheating. ResponsAbility was the only one to do that and so these principles are already in themselves difficult to apply.

As regards the products offered by MFIs, we are very interested in what they are doing in the area of mobile banking. We encourage them continue down that road, but I personally think that three or four simple products have been relatively neglected. XAC in Mongolia has just developed a leasing company, we have helped to fund this because we believe that it is a good thing to develop leasing. It is a simple product within the reach of any MFI, which has not been sufficiently developed. Factoring is very underdeveloped in emerging markets; although it is very simple to implement and authorised by the law, very few MFIs practice it. Small enterprise funding is also insufficiently developed. So before you start thinking about very complicated things, there are simple tools that can be implemented. A final word on fund collection since we are in France, since we are an investor which is heavily funded by retail,

**ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES,  
TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING**

*Sébastien Duquet*

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the general public, especially in Switzerland and the Netherlands. We would like French pension funds to show an interest in microfinance investment, we would like the Senate pension fund (since we are now in the Senate) to be interested, following the example of Swiss, Dutch and German pension funds. If the Treasury, the Banque de France, and the Ministry of Finance would maybe one day acknowledge that it would not be stupid if a very small share of French public savings were channeled through banks or

investment funds like us into microfinance, that would be a big step in the right direction. Today, almost no French pension funds are in microfinance, almost no commercial banks have the right to market microfinance products. BNP in Switzerland has the right to do it, but not BNP in France. Before considering the savings in developing countries, it may be more appropriate to start thinking about savings in France, how they could be channeled more substantially into microfinance.

### **Tilman Ehrbeck**

*Cyril Rousseau is a rising star in the French Treasury and he is actually the French co-chair under the French presidency of the G20 of the Global Partnership for Financial Inclusion (GPII), which is the G20 vehicle for financial inclusion. You have pushed us well over the last six months on our role to the Cannes summit.*

*Cyril, I know that you don't work exactly on these topics, but perhaps a perspective on how the broader G20 thinking and the GPII thinking can help in these questions of resource mobilisations and others, as you see fit.*

### **Cyril ROUSSEAU**

**Head of Official Development Assistance and Multilateral Development Institution**

French Treasury

Microfinance is one of the components of financial inclusion, which has been on the agenda of the G20 since 2009. It was very rapidly put on the G20 agenda when G20 member countries decided, in the face of financial excesses, to use the power of finance to improve the situation of the poorest.

What might be the role of the G20, the role of public authorities, governments and central banks in favour of financial inclusion? Their first role is the traditional role of investors. It involves coordinating and steering development assistance. This role exists, it is perhaps not crucial, but there nonetheless, and, as Ramon Fernandez said earlier on, it consists in attempting to focus our help on those areas where it can make a real difference. We are fully aware that development aid is a fraction of microfinance, which is itself a fraction of finance and so on, but our task is to avoid rushing into the easiest projects and instead look for projects that do not find any financing. From this point of view, a competition was launched by the G20 with 14 winning projects relating to the financing of small and medium enterprises, especially the financing of companies that are now in the field of microfinance, to help them scale up and support their development.

At the French level, this is what the AFD (Agence française de développement) does. It offers a range of products that may accompany microfinance associations in different ways, through equity financing, loans or grants.

In order to develop financial inclusion, it is essential to first build the framework for the deployment of services. What one observes and which is interesting is that the key player is probably the central bank.

The central bank, the regulator, may block innovation, because it has an obligation to ensure security and if it complies with this obligation and if it does not have an objective of developing the sphere of finance, it may limit initiatives. The countries where financial inclusion has developed are those where the central bank has set itself an objective of increasing its scope of regulation. And that is how we succeed, as Daniel Lebegue mentioned, in unleashing the potential of local savings in productive uses.

What can the G20 do? As part of the partnership for financial inclusion, we have set up a dialogue between the standardisation bodies, the Basel Committee, the Financial Action Task Force, the various institutions in charge of regulation and the G20, to ensure that the objective of financial inclusion is taken on board by these entities. Because, in the end, it also serves their interests. If we focus on – and only regulate – a small amount of transactions and thereby leave a whole unregulated area, we do not fulfill our regulatory mission. This is the first vector through which we act. In the G20 agenda, it is therefore not just what is done specifically for financial inclusion that contributes to financial inclusion.

To give another example, mobilising local savings also requires the capacity to develop local capital markets. For instance, it is much harder to build trust in a country where there is no yield curve. So the G20, in the framework of its agenda on the reform of the international monetary system, also seeks to develop local capital markets and set up financial instruments that foster confidence in local financial markets, allow these markets to develop, and will ultimately be useful for financing MFIs.

### **ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES, TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING**

*Cyril Rousseau*

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We also have an important objective, which is food security. And for that, the capacity offered to farmers to raise funds on the basis of their stock and future harvest is critical. The instruments to do that are microfinance instruments or related instruments. In addition, we have one objective, in the framework of the G20 development group, which is to extend the commitments that were made by the G8 on migrant remittances. The G8 has committed itself to reducing the cost of remittances, which not only lowers costs and facilitates their passage through formal channels, but also makes them more available for local productive uses. One of our goals is to extend this agenda at the level of the G20, which is not necessarily easy.

I have the feeling that what we are doing in the area of financial inclusion echoes a general concern on our agenda at the G20, which is to reduce global imbalances, to ensure that finance develops in a

sustainable manner and does not move on to unstable paths. The risk we face, including in the financing of MFIs, is, at one end, investors seeking extremely safe investments, at the other, risks and, somewhere in the middle, someone who seeks to conceal these risks. What we must seek to do, both for MFIs and finance in general, is to build the system with the proper allocation of risks. I liked the example of Babyloan and Kiva, where one makes sure that, from the issuer of savings to the final lender, the information on the risks of the project is complete.

Finally, the great opportunity we have today is that technological innovation will enable us to meet a certain number of these challenges, both in terms of our capacity to collect savings and distribute them to the last mile and in terms of information management, which thus enables us to meet some of the objectives of regulators with technical resources that were not previously available.

## QUESTIONS & ANSWERS

### Question No. 1

*I have a question on technology – to pick up on what Cyril has just said – and on the regulation of technology – to make the link with what will be said later on. Most Internet players, such as Babyloan, Kiva or MicroWorld, are regulated and supervised by the central bank, at least in France, but we also observe the development in emerging countries of a number of players that are not at all regulated. I learned yesterday, for example, that a Kenyan had just launched a real peer to peer platform, i.e. with no intermediation of MFIs.*

*My question is twofold. First, how to achieve an adequate regulation that will protect these supposedly virtuous players in countries which are trying to get things moving. Second, how to enable these players, which are now in France but which might be interested in expanding into Europe, to obtain a pan-European legislation.*

### Question No. 2

*You mentioned the different ways of financing MFIs, that is savings, public funds, peer to peer but what about IPO? Has microfinance reached such a point of maturity to have recourse to IPO and what would be the conditions for success of this type of financing?*

### Question No. 3

*My question is more on regulations, but it would be nice to have an opinion from somebody on why it is that in so many countries MFIs are not allowed to take deposits when we see that there is a big demand and that many successful institutions do have large savings portfolios, sometimes larger than their loan portfolios.*

### Tilman Ehrbeck

Why don't we start with these three questions? We had one on regulation of innovative virtual players, how to regulate and how to do it a pan-European fashion. I'd look for volunteers, but I will certainly ask you whether you'd like to be regulated.

On the initial public offering (IPO) question, is it market ready? Well, we obviously have seen some, so it has happened, but maybe it was premature. First, let's quickly organise ourselves for the third question.

It might be for the next panel, but is anybody here who has a point of view?

Let's go down the road here. We'll start with Arnaud on Babyloan and regulations.

### Arnaud Poissonnier

Thank you, I am going to surprise you with my answer, because, personally, I am quite keen to be regulated. However, I come from the web, I had the honor of attending the e-G8, not long ago when all of the web actors were saying, "please, no control, let us be free." One of our problems is that we are a fundraising tool geared towards the general public and highly dependent on the reputation and image that we project. We have a huge reputational risk as soon as one or two of us start doing stupid things.

It has happened with standard peer to peer lending, like in the case of major consumer lending sites such as Prosper and Zopa. In a certain number of countries, these direct lending sites, which are totally unregulated, have found themselves in a situation where they had 20%, 30% or 40% of unpaid debts. Because, personally, when I have no access to my bank to buy my car, I will go on a direct peer to peer site, I will borrow EUR 5,000 from Mr. or Mrs. X, and then, of course, if I am not very honest, I will not pay them back. Thus, if crowdfunding expands massively worldwide and we start getting platforms, which, in a completely unregulated environment, start doing as they please, giving rise to payment defaults, etc., it is all this new industry that will collapse only for a question of reputation. So I am rather in favour of relatively soft regulation. What is happening in Europe is interesting. The discussions that we have had with regulators have allowed us to build a model, which is not regulated, not controlled by supervisors or the Banque de France, but is nevertheless overseen because it needs to meet the rules on initial public offerings. These platforms should not lead users to take too many risks or to conduct illicit banking activities. There is a site in France that has just been rapped over the knuckles because it was carrying out lending activities. So I am quite in favour of a soft regulation that would set boundaries in order to avoid unpleasant surprises, because there has already been some and there will be others, we must be careful.

### ROUND TABLE 3 THE FUNDING OF MICROFINANCE: USING LOCAL RESOURCES, TRANSFERS OF SAVINGS FROM THE NORTH TO THE SOUTH, INTERNATIONAL FINANCING

#### Questions & Answers

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#### Tilman Ehrbeck

*A clear commitment to the right regulation.*

*Marc, would you speak on IPO's?*

#### Marc Bichler

Yes, thank you. Certainly not in an exhaustive mode, but let's recall that the basis is that microfinance, as it has been said today, is part of finance, so it's money business. Money business works on the understanding that you work on trust. If the trust is betrayed, there goes the money business. That's one important assumption.

Where does the trust come from or what substantiates the trust when it comes to microfinance? It is, I think, the shared understanding that microfinance needs to sit on two pillars; the economic and financial viability on the one side with a reasonable financial return if possible, and on the other side the social impact that we want to pursue.

IPO or not, it all depends on the interest that is stressed the strongest. If the financial return completely takes over the poverty alleviation, then it might work, but then it's not microfinance anymore.

#### Tilman Ehrbeck

*Sébastien, why aren't more MFIs allowed to take deposits?*

#### Sébastien Duquet

Indeed, there is a great difference between countries. Take for example Ethiopia, where only organisations that collect savings are authorised to do microfinance. If you go to Morocco, it is exactly the opposite. To work in microfinance today – the law is changing, though – you have to be an NGO and you therefore have no right to collect savings.

In my view, it reflects the country's history and the level of development of its banking system. In general, in those countries where the banking system was relatively developed, in Morocco for example but also in many other countries, MFIs have not been considered by regulators as tools for collecting savings from the general public. In countries where the banking sector was nascent or almost non-existent, such as post communist Europe, Central Asia, Cambodia, part of South East Asia, MFIs immediately had a place to take in the sphere of popular savings and therefore positioned themselves on the collection of savings. And central banks and regulators authorised them to do so.

It is true that there are a certain number of laws that are completely ill-suited, in particular throughout the Mediterranean basin, because they do not authorise private MFIs. Will we reach a situation where it is private microfinance institutions, in other words banks, which collect savings? And is it desirable everywhere? I do not think so. I think there are countries where local commercial banks do a good job at collecting popular savings and recycling it to finance the economy and all MFIs do not necessarily need to become banks that collect savings. I think it varies from one country to another. Conversely, there are countries where there is still a large market to be taken in popular savings and in these cases, pressure is put on the regulator to change the law to allow MFIs to collect savings

One area is a bit special, it is West Africa, where savings are easily collected through the network of cooperatives under a very lax, too lax, regime. There are 900 institutions in Senegal, close to a thousand in Cameroon, it is really too much, and all or almost all these institutions are mutual institutions. The setting up of institutions that collect savings should be much more regulated. There have been many scandals in all these countries, with institutions, with fraud etc. So, there are areas where we are pushing for MFIs to be authorised to collect savings and there are other areas where, on the contrary, there is much to be done to sift out the reliable institutions and shut down the rest.

# ROUND TABLE 4

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## THE REGULATION OF MICROFINANCE

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## **Paul LORIDANT**

*Secretary-general*

*Observatory of Microfinance*

May I ask you to take your places for the final round table. If the organisers and the small team at my side will pardon the expression, round table number 4 was the mother of all battles. What I mean by this is, all those who advised us about the organisation of this day, told us that a certain amount of regulation is needed but not too much, do not nip initiatives in the bud, and while regulation is not really the subject of microfinance, almost everybody talked about regulation as I pointed out before. So we'll see in this last round table whether regulation is really the important issue.

I also wanted to add that this seminar was jointly organised by the Banque de France and the Treasury Department of the Ministry of Finance with the assistance of the Ministry of Foreign Affairs and the support of the Caisse des dépôts et consignations. In the light of the crises that have affected different countries (the latest being India, but there have also been others in the past, i.e. Morocco, Bosnia, Mexico) we have long questioned the appropriateness of introducing specific regulations for microfinance.

We asked Professor Ndung'u, who is Governor of the Central Bank of Kenya, to chair this round

table. I have to say that we had originally asked Governor Carstens and Ms Lagarde to perform this task. But this was before certain events that affected the International Monetary Fund (IMF). So we made the right choice for this workshop and professor Ndung'u, whose teaching skills are widely known, agreed to chair this panel and I wish to sincerely thank him.

At his side, there will be a representative of the Basel Committee, Keng Heng Tan, Abderrahim Bouazza, who is the Head of Banking Supervision at the Central Bank of Morocco, Jean-Michel Severino, who was longtime head of the Agence Française de Développement (AFD), Muliaman Hadad who is deputy governor of the Central Bank of Indonesia, Armand Badiel, who is the Director of financial stability of the BCEAO, Deputy Governor Espenilla of the Central Bank of the Philippines, Eric Duflos, a leading expert from the Consultative Group to Assist the Poor (CGAP) who provided valuable advice for organising today's events, Chuck Waterfield, who I should warn you is the most talkative of all – he is the President of an NGO that advocates transparency – and Vijay Mahajan, Chairman of Basix, which is a very important organisation.

## **Njuguna NDUNG’U**

**Governor**

*Central Bank of Kenya*

The questions that were asked were relating to regulations, so it means that you have regulators sitting here. We will try to answer those questions, but of course it's also the last session of the day, so it means that all the bad questions and the good questions will come to them and they have to answer somehow.

Of course the most important thing is having some regulators in the panel, perhaps to look at what is the way forward in terms of what we want to inform the G20. Secondly, what is the way forward for us in terms of developing the microfinance industry? In fact, the regulators may want to dwell on that.

In any case, I would like to do three things, myself. First, because I had trouble at night to come to this meeting, and then I thought I would say two or three points on the Kenyan case. Of course I will summarise what are the main questions that the panelists need to look at. I don't want to restrict them to those questions, but at least to form the basis of this session, as has been summarised by the organisers and has been done so well. Perhaps finally, I just want to sit back and be a good agency of restraint in terms of those who have been pointed out as being talkative, just to make sure that they don't override the time. That is what I think we'll do.

Let me first of all give four points about the Kenyan situation. We have provided notes in terms of this so it is easy for us to follow. I see the organisers have also produced very nice photographs and bios for everyone to read. Essentially, you can now pinpoint who said what and then you can go to the bios and you can be sure. That is our assignment today.

The four points I want to talk about regarding Kenya and microfinance are that first, I am a member of the Alliance for Financial Inclusion and I do believe that financial inclusion is critical, so the debate about whether financial access or financial inclusion is important is suddenly now overtaken by events.

The next thing is to ask if that is the case, what are the instruments of providing financial access or financial inclusion? We then have to go back to

specific countries. For example, if I go to the specific countries, I have to ask what the economic set up in those countries is. If you have a country with segmented markets, then it means that you have to come up with instruments that serve specific segments. If those segmented markets follow specific income levels, then obviously you have to debate what kind of instruments or vehicles for financial inclusion you need to follow.

In terms of the set up of the economy, if you have an economy with missing institutions and missing markets, obviously then it is up to the regulator to say and the regulator develops those markets and those institutions. That is very critical and that's why we have the regulators here. They will give us some specific country characteristics from where they come from or how they see things. Those who are also talking about setting standards at the international level can tell us, especially when you have missing markets and missing institutions, how you are supposed to operate.

The third point is the other inhibitions we have to look at. Most of the time in my summary of the Kenyan situation, I look at financial access and financial inclusion and look at what is happening to the supply side. That is where transactions costs are so inhibiting and they prevent everyone from accessing markets. On the demand side, let's look at how those people in those growth segments of the economy behave in terms of discontinuous or uncertain income flows. What are they supposed to be? Suppose you are going to have a big chunk of the population that are target savers. What should you provide to them?

The fourth point and the final point is "After we have provided those answers, what kind of structure of financial services do I present?" The Kenyan case presents banks, microfinance institutions (MFIs) and we are now debating with the costs. They already have a regulator. Then on top of that, don't forget we are living in countries where you find people walking into formal financial institutions and contracting loans, and then in the afternoon you find them walking into the informal financial institutions

and debating with the shylocks. I call it multiple personality disorder, but essentially it's because it's a joke to me. How can you actually go and negotiate a loan with a formal bank, then in the afternoon you go to a MFI and the following morning you are debating with a shylock? We live with this kind of thing. The question is "Where should we be going?" I do believe the MFI is very critical. The genesis of the G20 is the global financial crisis. We all wanted competitive banks, but we mistook strong banks with big banks. Now we would like to go back and ask ourselves how to do that.

In the morning when I came in there was a session and I wanted to ask a question. This "too big to fail" we coined some years back has turned out to be "too big to save," but also nowadays a moral hazard problem of "too big to fail." What do you do, because you cannot let it fail? This may be an issue we may want to come back to. It is so important in terms of deciding or discussing country specific characteristics which are going to be very critical.

Let me come to the four issues that I would like to summarise for the panelists. The first is we are regulators and we have regulators' questions. We would like to ask if regulations and guidelines can be generalised across countries. Let's not make the same mistake. The IMF in the eighties and nineties always had a similar policy outlook for everyone and it turned out that there were no institutions to support that kind of policy framework. We will ask the regulators "Can we generalise them?"

The second one, is to what extent do country specific characteristics carry? I've talked about even income and even segmented markets. To what extent can we say that these regulations can be generalised – but there are some that we have to go down – and be specific?

The third one is, I'm sure, the Basel Committee. The standard setting bodies are well represented here, but I don't want to impose on what they need

to say. I've seen the report of the Basel Committee on microfinance and I know about the work on standard setting bodies. We would like to see what can we pick up and generalise from what they have done. How can we improve in terms of our guidelines and the way we understand microfinance, so that we can actually provide a way forward in terms of not only answering the questions that were laid out in the previous panels, but also trying to provide a way forward in terms of the characteristics we want to draw? In this way, everyone can go into those documents and try to draw them and, as regulators, try to improve the market.

Finally, imagine technological platforms that are helping microfinance to work cost effectively, but also those platforms are providing and creating an environment where you can deliver services cheaply. That is very good for microfinance, but we have to ask what the regulators' preparedness for these platforms is. More importantly, can we try to show how they change the policy framework, the mandatory policy framework or mandatory policy and even financial sector policies? It's very critical.

I heard a question that was asked about Kenya, but I didn't understand it very well and I'll follow it up. When I look at the Kenyan case in terms of M-Pesa, which everybody talks about, we have M-Pesa agents, but when microfinance comes in to enter into that space of agency, they become super agents because they are not inhibited by, for example, ceilings of how much you can transact in a day or how much you can keep. You can see they have raised the platform much higher, but it's a question of asking how ready the regulators are or how much they understand in terms of the platforms that come to them? I do not want to impose what we will discuss on the panel, but these are very important issues that we'd like to pick up and also to find a way forward. You are free to answer these questions. I'll summarise them from what the organisers have brought in, but you're also free to bring up other issues that have been mentioned.

**Abderrahim BOUAZZA***Head of the Banking Supervision Unit**Bank Al-Maghrib*

Thank you Mr Chairman. It is a pleasure to share with you Morocco's experience in microfinance. It offers a number of insights in terms of both the policy of its players as well as regulation and the industry's future development.

First of all, I should recall that microcredit emerged in the mid-1990s. It is therefore a fairly new activity. However, it grew rapidly in the following decade thanks to external and internal public funding and abundant bank liquidity. The dozen or so institutions that operate in this area have lent hundreds of thousands in microcredit each year and activity reached a peak in 2007, with 1.4 million in microcredit, which is huge compared with the number of loans granted by banks but nevertheless rather low in volume terms, i.e. less than 1% of the total credit portfolio of the banking system. This growth unfortunately came to a halt in 2008, with the sector entering into a crisis for several reasons: a less favourable economic environment as well as very high levels of cross debt that resulted in significant defaults. In addition, MFIs made numerous loans to finance households' consumption needs. Previously, the industry had a default rate of 1% and now it averages 7-8% depending on the institutions.

To return to the issue of regulation, which is the topic of our panel, a specific framework was introduced in the 1990s and microcredit institutions were given a non-profit status under law. It was the NGOs that took the initiative for microcredit in the mid-1990s and they were therefore awarded this status. Under banking law, microcredit is only intended to fund income-generating activities up to a maximum of EUR 5,000 and with no usury rate constraints. Interest rates ceilings were removed. It was only a number of years later that microcredit institutions were legally authorised to conduct other activities such as micro-insurance lending and residential housing loans.

After a decade of experience and given the role that the government wanted microfinance to play in its social

policy, we realised that effective supervision of the sector was required. In this respect, the Banking Act of 2006 places MFIs under the supervision of the central bank. However, the licensing of this activity remains within the remit of the Ministry of Finance.

Central bank supervision first focused on improving the financial transparency of MFIs by implementing accounting standards and specific reporting procedures. At the same time, cross-departmental controls were carried out at MFIs to assess credit risk, risk management practices and levels of household debt.

This sector entered into crisis in 2008 and at this juncture the central bank took a series of measures to restructure it as part of an overall and integrated scheme to develop the Moroccan financial sector. It drew up this plan together with all public and private partners. As part of this scheme, banks proactively committed to continue to extend banking services to the population in collaboration with the MFIs. Thus, the policy to restructure the microfinance sector led to the bank backing of MFIs. Two of the country's large institutions merged under the control of a major banking group and eight other smaller institutions were also brought together under the control of a banking group to achieve economies of scale and reduce operating costs.

Other institutions are planning to become specialised finance institutions and, to this end, the authorities are currently discussing the most appropriate legislative framework for transferring the funds of non-profit organisations and the accumulated reserves of MFIs with a view to creating new legal structures.

These institutional developments establish new conditions for MFIs in order to revive their activity and sustain their income. For instance, in addition to providing microcredit loans and marketing micro-insurance products, MFIs may also, as intermediary service providers for banks, take deposits. In Morocco, as previously stated, MFIs cannot take deposits since that are non-profit

institutions, but may do so on behalf of banks. They may also invest in new technologies such as mobile banking to reduce transaction costs.

In the light of these changes, the central bank issued new guidelines on governance and transparency of MFIs vis-à-vis their customers. Lastly, the central bank requires MFIs to subscribe to the credit bureau,

whose credit risk data base has been operational in Morocco since the end of 2009.

In conclusion, I would say that the prudent regulation of microfinance is essential to maintain the balance between social development goals that are assigned to MFIs and those of ensuring the sustainability of these institutions.

**Njuguna NDUNG’U**

*Thank you very much. Because you have started us with the whole idea of the regulators, maybe we will continue with the regulators themselves responding.*

*Let’s go to Nestor Espanilla. Nestor acts also as the vice chair in the steering committee of the Alliance for Financial Inclusion. Nestor, perhaps you can show how the network is sharing knowledge in this area.*

**Nestor ESPENILLA**

**Deputy-Governor**

*Central Bank of the Philippines*

The Central Bank of the Philippines is about the monetary authority and the banking supervisory. The Philippines is a middle income country. Inflation is under control and it's growing very well. The banking system is quite modern and effective, but here is the problem. We are a country of 90 million people on 7,000 islands, more or less, and about 37% of our municipalities have no banking access, with something like one quarter of our adult population having bank accounts. Large segments of the population are unbanked or under-banked and many of the banking services are really just concentrated in the urban areas.

Now, in such a context, what is a central bank to do? I think it's important that the central bank recognises that the challenge of financial access is an important one, one that if we do not address, makes us potentially irrelevant to the whole context. In that regard, let me sum up some guiding principles in addressing this challenge of being more responsive.

First of all, it's important for financial inclusion to be recognised as a worthy policy objective and something that should be pursued alongside the promotion of stability and efficiency of financial markets. Without this recognition, there cannot really be any strong commitment by regulators to make the regulatory space. Also, financial inclusion and financial stability, as was discussed this morning are actually mutually reinforcing activities.

We have also come to recognise that financial stability and financial inclusion are not inevitable. Both require attention to make it happen. It doesn't just happen without some form of leadership. In addressing financial access issues, we have come to recognise that market-based solutions have an important role to play. Public funds are ultimately limited and governments

tend to be distortionary providers of financial services, and therefore we have the position to basically promote a supportive, regulatory environment where market-based solutions work.

Of course, market-based solutions have their own problems, but we believe this is controllable through appropriate regulation. In 2000, in the spirit of creating the space for microfinance to happen we amended our general banking law to recognise microfinance as a legitimate banking activity. We didn't have a special law. We only put in a few paragraphs that basically enabled the Central Bank to be a little bit more creative in allowing microfinance to happen in the Philippines. What did we do, given our flexibility? I think the first order of business was really to understand the business models of microfinance. It's very difficult to regulate if you do not understand what is actually going on.

We have also instituted risk-based regulations. We have mainstream microfinance in the provision of financial services, not just a corporate, social responsibility activity. We have actually provided avenues for formalisation of non-governmental organisations to become banks, so that they can come into properly regulated territory and therefore legitimise the collection of savings. We have been sportive of continuous innovation in products and delivery channels. Our initial regulations narrowly focused on microcredit, but this has evolved to now cover microdeposits, fund transfers and microinsurance. We have recognised a range of products that have been innovated, including things like housing microfinance and microagri loans. Microdeposits and microinsurance have also been clearly defined to provide the regulatory certainty in these products. More recently we have allowed product innovations, particularly the use of mobile banking to be used for purposes of making microfinance more efficient.

Our general approach is really promoting and enabling a regulatory environment. We are not really inventing new regulations. Basically what we're trying to do is we are building on existing principles of the Basel Committee, including anti-money laundering principles. What we are working on is the principle of being risk based. If risk base is truly what international standard setters claim it to be, then there is enough space for a regulator to be creative. For example, in the licensing requirements we have allowed banks to establish what we call Branch Lite. These are branches that are just very basic branches that can reach out to frontier areas. We have allowed mobile phones to be used for the provision of financial services. It's not enough to create a regulatory framework that enables. I think it's also important for the supervisor to be confident by having the supervisory capability to actually enforce the regulations that it creates. Enforcement of our risk-based regulations is not easy and to be able to address that, we have trained specific personnel to be able to handle this kind of approach.

So far there this has been quite good for the Philippines. Today there are more than 200 community banks practicing microfinance, providing a whole range of services and the outstanding portfolio today is about 170 million dollars, but since these are very short term loans, if they turn over in a year, that's close to one billion dollars in loans that are being provided regularly to the previously un-banked and the under-banked.

Now we are seeing commercial banks getting into this space by setting up their own retail financial institutions or partnering with existing MFIs or partnering with Delco to create new business models. This morning there was discussion about ecosystems. We are looking into this and these are also being placed under a proper regulatory framework. Now our focus has shifted towards providing better consumer protection to the users of microfinance and very recently we have enhanced our regulations on microfinance transparency. It's a journey that we have pursued, but it's also a specific focus of creating space for microfinance to happen.

**Njuguna NDUNG’U**

*Thank you, Nestor. Of course, I think the point you have emphasized is that there are several characteristics that are peculiar to the Philippines and obviously the products that are being developed actually are serving specific areas. Essentially it’s very good, but it’s also good that what we know about risk supervision counts in terms of the general guidelines.*

*I think we’ll go to Muliaman Hadad, the Deputy-Governor of the Bank of Indonesia.*

**Muliaman D. HADAD**

**Deputy-Governor**

*Bank Indonesia*

The Bank of Indonesia is responsible for monetary policy and banking supervision, as I think is similar to the Central Bank of the Philippines. The financial system in Indonesia is dominated 80% by banks, so microfinance relies very much on the role of the banking system in the economy. The close relationship between the central bank and the microfinance is really clear in our case. Our own experience has been that for the last 20 years, the role of the central bank is quite significant in handling these matters and commercial banks also have a very significant role in supporting microfinance. However, recently there has been significant development for non-bank microfinance. It seems to me it is also part of the important topic to be discussed in the future because there are a lot of issues related to this, including the protection of the customers and so on.

Despite the encouraging economic development of Indonesia for the last ten years after the crisis, I think the problem still remains. Around 40 million people still don’t have access to the banking system. This is a very real challenge at the moment. I would like to mention a kind of shifting because for the last five years, I think the word “micro” still has very limited use in our world. For the last five years we quite often used small and medium enterprises. We never used micro as a kind of very basic, significant development. Micro is much smaller than small in our case because micro is around one-tenth of small on average in Indonesia. It’s really a new experience for banks, in particular, dealing with this micro, because Indonesian banks commonly worked with small for the last 20 years. Now micro is growing and the need to handle these has created a really very significant

environment for the Indonesian banking industry. Most banks are ready for small, but only a few banks are ready for micro, so it’s really an important topic to be discussed further. I tried to differentiate between micro and small because it seems to me that how to handle this is very significant.

We have BRI, Bank Rakyat Indonesia, who are very popular for handling the small sector, but I think this bank will face difficulties if they have to deal with the micro because it really needs capacity building to handle the micro issues. This is a very important development. How do we regulate the industry? I would like to divide it into two sides because I believe the scope of regulations should cover not only the supply side, but also the demand side.

The supply side is very important because the micro is new and we have to increase the capacity of our banks to handle these micros properly in the future. That’s why the capacity building for our financial institutions in building micro is very much the issue. Of course we have good experience and some success stories, but also some unsuccessful stories in dealing with the micro. In general I do believe that since a lot of banks are coming to the micro because the opportunity is quite significant and the margin is huge. A lot of people are coming over to micro and capacity building is becoming an important topic.

On the supply side, I think how we provide regulatory support for the central banks is also an important topic. What I mean by regulatory support is we have to find out if there is any particular regulatory regime that supports microfinance in, let’s say, how much capital is provided to support this activity and so on.

This regulatory point of view is one of the topics that is being discussed quite intensely at the central bank as well. The three points we are discussing are first, the capacity building, second, finding out the appropriate regulatory support for these microbusinesses and then third, the infrastructure. It is very important to determine how to deliver the financial services from one point to the other point. I think the central bank has also come into this area of how we are dealing with our payment system, which is also the responsibility of the central bank. The infrastructure is very important.

How then do we need to introduce the IT into this important topic, in particular the infrastructure and how we have to deal with that. We are now preparing and finalising our rules and regulations on this. On the supply side it basically relates to how we can create a business model that can help banks to support the activities.

On the demand side it's basically an issue of education. Financial education is very much an issue across the board, but we promote a segmented approach. Recently we approached our overseas labor, for example, women, fishermen, teachers and people like that in a different approach.

My second issue deals with credit insurance because the government provides a kind of credit insurance for those who are dealing with the microfinance and the small credit. Still on the demand side, we are talking about technical assistance, in particular for the ultimate debtor who is not really formal yet. That's why we have to introduce some kind of technical assistance. Last but not least, it's about behaviour changes, in particular for those who are in the informal sector. For these purposes very recently the government launched a national campaign on financial inclusion, which introduces the role of the MFI and we call it National Strategy for Financial Inclusion.

**Njuguna NDUNG’U**

*Thank you very much. Let’s go to the final regulator so that we can listen to the other side of the market. We’ll now hear from Armand Badiel, the Director of Financial Stability in BCEAO.*

**Armand BADIEL****Director of Financial Stability**

Central Bank of West African States (BCEAO)

Thank you Mr Chairman, I am particularly glad that you are chairing this session. Today, we are looking at what the North can learn from the experience of the South, but your presence at this forum is a symbol for us since we have already forged cooperative ties between Southern countries notably in the area of regulation. I will have the opportunity to return to this point since we hosted a delegation from Kenya in West Africa to assess the progress we have made.

In answer to the questions you raised, I would like to make a few remarks. Since this morning we have talked about the success of microfinance and it has been extraordinarily successful in the zone whose experience I will be sharing.

Just to give you some information, I heard someone in the hall saying that there were 900 MFIs in the West African Economic and Monetary Union (WAEMU). This was presented as a weakness for the area, but I personally see it as a strength, and I will come back to this point later. In 1993 there were only 103 institutions and today we have 900 and this meets a real need.

The second point I want to underscore is that microfinance has been a factor for financial inclusion in our zone. Today, there are 11 million people and I stress this figure, 11 million who benefit from financial services through microfinance, that is to say 15% of the workforce. When we started to regulate, there were just 300,000 people benefiting from these services. We welcome the significant progress that has been made in this area.

We also talked this morning about the issue of deposit taking by MFIs or at least the means to continue to support microfinance in order to boost its contribution to meeting the needs of people. It should be noted that, for our area, savings exceed loans and this is extremely important. That means that today

economic agents place such trust in MFIs that they increasingly deposit their savings with them. This is an extremely important aspect for us since it will determine the ability to use internal resources for development financing.

This success is due to several factors, in particular regulation. I will not dwell on the other factors. We have understood that, in our zone, a trade-off should not be made between regulation and self regulation. We heard this point earlier this morning but, in our zone, it is very clear. Why? Because it is a financial intermediation activity, i.e. deposit taking and loan making, which is maturity transformation. Not being able to regulate this sector would be unacceptable. Our regulation is clear in this respect.

From the very outset in the early 1990s, we decided to regulate the sector and this was a very wise choice that we do not regret today.

The regulator's role is not to prevent a sector from developing. The regulator has three roles. First, protecting depositors, since it is a deposit taking industry. Protecting investors who give their resources to this sector so that it can invest. Second, ensuring sound risk management. No one but the regulator can do this work. And, third, ensuring secure use of innovations to lever the capacity of the players. This is how we understand our role, at least in our zone. At one point we had thought we needed a flexible and incentive regulation. This choice initially paid off. But later, we realised that a number of risks began to emerge in the sector and were likely to increase its vulnerability. This led us to review the principles underlying regulation.

Our experience shows that regulation needs to gradually adapt in line with the development of the sector that is supposed to be regulated.

I just want to illustrate some of the risks we faced in our zone, where we have a problem of viability and sustainability of financial institutions. Many institutions have been authorised to conduct business, but we realised that there was a wide variety of players: out of the 900 institutions, there were NGOs, private companies, cooperatives, etc. In other words, as some of you know, we were faced with a situation where many big players were about the same size as banks. But there are also a multitude of small players who fail to ensure their financial sustainability. We found that there was deterioration in portfolio quality with all the risks involved. A number of institutions structurally generate negative financial results, subsequently resulting in negative equity.

Another weakness that we have observed in our zone stems from the disparity between financial institutions' positions, i.e. between large institutions that are relatively strong and many small institutions struggling to survive. We must tackle governance issues because it is a new sector in which the entry of players was not adequately filtered through strict criteria to ensure the capacity of managers. Furthermore, the problems associated with developing reliable and efficient information systems remain a major challenge.

Because we initially wanted institutions to regulate themselves, in other words, put in place internal control systems. But we realised they were not capable of doing so.

In order to meet these challenges we initiated a reform of regulation. This second generation of regulation seeks to address these concerns. The first aim was to ensure that new entrants were filtered. Since microfinance is a sector that is an integral

part of the financial sector, this activity cannot be conducted outside it. I would like to disagree with a remark that was made this morning. We cannot place banks on one side and microfinance on the other. In our zone we consider that MFIs and banks should work together and this is the case in reality. There are partnerships that develop that enable banks to provide funding in the most remote areas where they would not usually be able to reach. I think it is extremely important to keep in mind that microfinance is part of the financial sector.

In our zone, in addition to strengthening the conditions for entry into the sector, we have given priority to improving the structuring of information systems to allow for the development of more effective internal control. We went even further. Some large institutions are now required to have their accounts certified by auditors. These are changes that we have introduced in this area. Finally, significant advances have been made on the supervision front. Today, our biggest challenge is supervision and we are implementing the means to ensure that supervision plays its full role and to consolidate the sector.

Finally, Mr. Chairman, as we were requested to give a brief outline for the G20 this morning, in our zone today we believe that the big challenge is how to enhance supervision capacity. All the countries that are members of our zone are here today. The support that we can expect from our partners is notably in the area of training, capacity building, and the development of appropriate information systems. In this regard, we have been assisted by partners such as the Alliance for Financial Inclusion (AFI), who have helped us to implement a number of guidelines for better financial inclusion.

## **Njuguna NDUNG’U**

*I'm very happy that you have brought out some very interesting points, particularly the last point about if the regulator does not keep up with development he will be lost by the market. I think it's time to look into that and perhaps we should ask the other side of the market to make some comments. I always know that when the market is working very well and is vibrant, of course that is the market's success, not the regulator's success. However, if things are not working, of course the regulator has failed.*

*Let's start with Jean-Michel Severino. Maybe you can bash the regulators, but you can also give us some good status in terms of where we are going.*

## **Jean-Michel SEVERINO**

### **CEO**

*Investisseurs & Partenaires Conseil*

I was CEO of the Agence française de développement (AFD) for 10 years. For decades the AFD was one of the largest international funders of microfinance in developing countries. More recently I have headed a fund management team, which is an investor and a partner for development, devoted to SMEs in Sub-Saharan Africa.

In the context of this activity, we have funded a significant number (around 15) of finance companies and microfinance banks across the African continent. This has given us experience of a wide range of situations of countries and regulators across the continent. I cannot claim to speak for the entire microfinance sector and all microfinance players, as that would obviously make no sense, and I cannot speak on behalf of others, but I will share my personal experience and feelings that I know at least a number of microfinance institutions share.

First, I do not think this is the place for central bank bashing. There are very few people who would not recognise microfinance as being part of the financial sector and, as such, it needs a clear and rigorous regulatory framework. There are significant risks involved in microfinance: the risks of a traditional financial institutions, credit risk, liquidity risk, profitability risk, etc. Furthermore, many customers are overindebted and these risks have materialised in the last decade. This sector is also subject to reputational risk, the risk of fraud and money laundering. In fact, the microfinance sector is not really specific in terms of its risk exposure. Even though it is rare that microfinance represents a significant portion of national savings and national GDP in terms of assets and liabilities; there are now

some countries where microfinance beneficiaries account for a significant enough proportion of the population to be able to say that there is a macroeconomic and political risk associated with the failure of the sector. It is not simply a question of regulating a single player but of matters that can affect the stability of a country.

Having said that, the question is what kind of regulation should there be, what constitutes good and bad practices? What strikes us today is the incredible variety of national practices. They range from the most total laxity to hyper-regulation. The nature of regulation varies significantly across countries and I would also add that political interest in the subject also differs greatly; this is reflected in both the nature of the legislation and regulations in place and in the nature of relations with the regulator which is often the central bank, including in the most common management activities of MFIs. Naturally, I will not cite particular cases, but in Africa, in the same continent, the time it takes to obtain a licence for an institution many vary from a few weeks to two or three years of incomprehensible administrative procedures within the central bank. Above all, this reveals both the limited attention to public policy but also in some cases a great technical difficulty in understanding the subject itself, i.e. the institution in question. We currently have an excellent project that, for two years, has been seeking authorisation and we do not know why we cannot manage to obtain it.

Given the very wide variety of situations, naturally we cannot talk of averages. We cannot even speak of

general practices or specific cases since the regulatory problems involved in such cases differ so greatly from one country to another. In this context, the only thing that we can say is that in the microfinance sector we require regulations that are adapted to the nature of instruments, their size, specific activities and costs: many regulations that may seem appropriate for the microfinance sector and come from the formal banking sector have the major drawback of increasing management costs for these small institutions as well as the cost of credit that is already high. This is one of the features, as we know in our sector.

In conclusion, I would say that if there is a lesson to be learned from this experience, it is the need for much closer ties between microfinance players and central banks. I think even if there have been laudable, significant and positive attempts at dialogue between these players, they have not been comprehensive or systematic. Perhaps we have reached the stage where there is need for good practices at the international level. I believe that a multinational regulation or legislation of microfinance does not make much sense, as here too countries' situations are extremely different. Nevertheless, good practices can be shared, and principles can be implemented in a common manner between central banks. Moreover, this is particularly true in regions where there is a great proximity between countries, as is the case in Sub-Saharan Africa. I'm not talking of course about regional areas such as the WAEMU where regulation is de facto regional, but it is evident that

Kenya, Tanzania, Uganda, Rwanda, etc. constitute an ensemble that calls for harmonisation given the interdependencies that exist between the economies, the peoples, etc. of the East African economic area.

At both the regional and international level, it would be extremely useful to move towards common international best practices with established principles or "best practices" principles for capitalisation requirements, prudential ratio requirements, information system and reporting requirements and debtor situation monitoring, particularly in relation to the problem of overindebtedness. Therefore, international rules or international best practices in these areas would be extremely useful.

It matters little whether this discussion is held in the context of the Basel Committee, financial stability forums or the G20: several forums are suitable for such dialogue. But best practices must be established with the MFIs themselves because, and this will be my last point, what is also striking is the great difference in the sensitivity of central banks to this problem and in their ability to deal with the subject. In some of them we find both managers and technical staff who are very dynamic and have in-depth knowledge of this area, and in others capacity is greatly lacking. We will only address the problem of capacity if there is a significant commitment by the players, the regulated parties themselves, who have a contribution to make and experience to lend in establishing a framework that is credible.

### **Njuguna NDUNG’U**

*I think the reference to the East African region is very important because we are working very hard on harmonising the framework. We have all come up with guidelines to regulate the MFIs and everybody has MFIs. Of course we have difficulties with the credit only MFIs, but we are regulating deposit taking microfinance. Harmonising the framework for the whole East African region is very important and we're working towards that.*

*I think the other point is that if you have to come up with guidelines to regulate microfinance, let's also understand them. We have participated in doing this for the last four years. For every new guideline or every amendment to the guidelines, we sit with them and discuss it from their side.*

*We'll continue with this perhaps from the market again.*

### **Vijay MAHAJAN**

**CEO**

Basix

I come from a place where there has been a major earthquake recently, Andhra Pradesh. The earthquake was a financial earthquake in terms of dollar value of course, since in the world of mainstream finance 1.5 billion dollars is not such a large amount, but in the world of microfinance I think it has been the single largest default that has happened. It represented roughly double the total net worth of all the MFIs in India. The interesting thing was that default has caused the reaction of one state government, the Pradesh government, to curb what they saw as excessive practices of certain MFIs, both in terms of causing first multiple lending, then over indebtedness and then coercive practices of recovery, some of which led to suicides. That became a political issue and the government had to act. The government acted very severely and virtually shut down the entire sector. The opposition didn't want the government to get credit for this, so they went to the people and said that this law wasn't good enough and that the loans should be waived, so people basically interpreted that the best that they could, which is they stopped repaying. As a result, for the last ten years as the microfinance sector in India and in Andhra Pradesh was being built up, and slowly as the interest rates were coming down to roughly 2% per month, 24% per annum, it's now gone back to an informal interest rate of 10% per month, or 120% per annum. This is an example of exactly what you were saying, that if regulation does not create the scope for growth of microfinance for responsible microfinance and for ensuring that institutions uniformly work for

financial inclusion, then politics will take over and it can create all kinds of random results.

Interestingly, two years before that I was a member of the Indian National Committee for the Financial Sector of Farms, chaired by Raghuram Rajan, who was earlier the chief economist of the IMF. We felt that for developing countries it's not enough to judge the financial sector on the two traditional bases on which it is judged. All of the regulators are trained to judge your financial systems either on whether they promote growth and whether simultaneously they promote price stability. We feel that in developing countries you also have to ask the third question: What percentage of the population is actually included in the financial systems that you worry about morning, noon and night? If the answer is 20 to 25%, don't worry because the majority of the population doesn't really live in the financial system that you think you are regulating. Therefore, if you want to be truly the national regulators of the financial systems of your respective countries, then you have to be asked the question by your parliamentarians, year after year: "Mister Governor, what percentage of the country's population is actually being served by the financial system?" If the number is small and the same as the year before, the question is why hasn't it moved?

So the primary task is actually financial inclusion and while indeed a lot of progress has been made in the last few years thanks to the work of the Consultative Group to Assist the poor (CGAP), the AFI and several

others, the progress is slow, halting and non-uniform. As the previous speaker said, there are in neighboring countries completely contrary examples, and even within the same country there are completely contrary examples. In one place there are innovations and growth and in other places there is complete stagnation. One is not able to understand what is holding it back. So I think before we start celebrating that the world has becoming financially included, we should continue to look at the numbers that come up from the annual Access to Finance report that has now come out for the second year.

The problem is that for a large number of regulators, microfinance is, instead of being too big to fail, too small to worry. It's 1% or less of the total assets of the banking system. Therefore, let's get serious, you don't really worry about it. You worry about it only when there is a parliamentary committee, or when the senate asks some question, or when there is an occasional World Bank loan related to that, but it has not yet become the dream of the financial regulators. Had it been so, the Basel committee sitting next to me would have been much more engaged with this issue, but the Basel committee got into this issue only about two or three years ago. When it did, it basically brought in every single element of mainstream finance and mainstream banking into microfinance. As a result, we have the problem which Professor Yunus referred to this morning. The fact is microfinance is very different from mainstream finance. It's as different as quantum physics is from Newtonian physics. What is different? The basic differences are two. One is the transaction cost as a percentage of the average transaction size is very high in microfinance, and by microfinance I don't mean only microcredit. It's equally true for microsavings, it's true for microinsurance and it's true for micropensions or anything micro, and transaction costs as a percentage of the underlying transaction are high. Therefore, applying the rules of mainstream finance does not work. The second is the risks in microfinance are bi-model; that is under normal circumstances the risks are actually very low. This is the only part of the financial sector which continued to have repayment rates in the range of 99% plus throughout the world until all kinds of political things happened and then the risk level went up to 20%, 30%, 50% and in Andhra Pradesh it went up to 90%. So you have a situation of bi-model risk; either long periods of very low risk during which time the regulators give

you no credit, they don't reduce the capital adequacy requirements, there is no acknowledgment of the fact that this is indeed a great asset class, far better than anything that the financial sector had seen and then suddenly when some incidents happen, everybody says "Ah, we told you that it is risky. We should not put our money there."

So basically, the fact is that the regulatory system and the super regulatory system, which is Basel and the Financial Action Task Force (FATF) and so on, have barely come to understand the operating details of microfinance. They read newspaper headlines and they read the occasional negative story in the Wall Street Journal and they draw their conclusions from that. I think it's time that the entire regulatory system is held accountable.

Since we are here to talk about what are our messages to the G20, I would like to send three messages to the G20. First is, please make it mandatory for every central bank to issue on the front page of their annual report what percentage of their citizens are indeed covered by the formal financial sector. Second, ask the super regulators, such as the Basel Committee, the FATF and so on, that every time they make a regulation, they should certify that they have indeed considered its effect on financial inclusion and if there is an unintended or actual explainable effect on financial inclusion, what shall they do to mitigate it? For example, know your customer (KYC) guidelines, when they're applied mindlessly to rural poor people, they become extremely exclusive. So the FATF has no right to come to a place which has never even seen a terrorist and probably never will, to apply guidelines which rose out of 9/11 to some rural tribal area in India. These institutions must be held accountable for the damage they're doing to financial inclusion. The third is to create a space for financial innovation. Just as you have too big to fail, we should create a space which is too new to regulate. Because I am in Europe, when the European E-money regulations came out, I believe it said these regulations do not apply to any entity whose total annual turnover is less than 10,000 euros. That was an example of creating a space for innovation. When that happens, starting from all of those lessons, we can create regulations because the sector for financial services, for the majority, needs innovations that the sector for the mainstream will never ever think of. There you are talking of excess and we are talking of access.

**Njuguna NDUNG’U**

*I think you have picked some very good points in recording financial access and how do we interpret this data. In fact, we do have studies on financial access, but I don't know whether politicians even look at them. Maybe we have been providing it in a very friendly way. We actually need to show this is the percentage of the population that is excluded. The AFI has given itself a target to have 50 million people included by 2012 for the countries that have joined the network and maybe we'll be assessing whether that has come about. You're right, maybe this is going to be a very important aspect. We'll open up the debate and I'm sure you'll be asked many questions.*

*Let's go to Eric Duflos and then we'll also listen to the specialists. I want this microfinance transparency to pick up the debris at the very end.*

**Éric DUFLOS**

**Senior Microfinance Specialist**

*Consultative Group to Assist the Poor (CGAP)*

I hope I'm going to create a bit of a buffer between what Vijay Mahajan has just said and what Keng Heng Tan from the Basel Committee is going to say. Thank you, Vijay Mahajan, for raising the tough questions.

When it comes to our policy work at CGAP, our goal is really a policy and regulatory environment that balances increased access to diverse financial services, financial stability and protection of poor clients. As part of this work, we're one of the three implementing partners of the G20 global partnership for financial inclusion that Cyril Rousseau mentioned earlier on, together with the International Finance Corporation (IFC) and with the AFI, who is also in the room with Alfred Hannig. One of our tasks at CGAP is actually to support the standard setting bodies embedding financial inclusion into their work stream. Tim Lyman unfortunately is not here from our team and he's the person who is leading this work in CGAP.

First let me tell you what these five standard setting bodies are. The first one is the Basel committee on banking supervision, which is actually the main body for standards on how to supervise banks. The second one is the committee on payment and settlement systems, which develops standards for national and international transfers. The third one is the financial action task force that Vijay Mahajan also mentioned earlier on, which provides guidance on anti-money laundering (AML) and on combating financing of terrorism (CFT). The fourth one is the international association of deposit insurers, which establishes standards for national deposit insurance schemes. The fifth one is the international association of

insurance supervisors, which provides standards and guidance for insurance supervisors and providers.

While for a lot of us it can seem a little remote, in fact all these organisations at the global level can play a critical role to foster financial inclusion and they are already making changes to take into consideration financial inclusion in their work. For example, and several people have mentioned this paper, the Basel committee on banking supervision has issued an important paper on microfinance activities and the core principles for effective banking supervision. I highly recommend the reading of this paper. In a way, it really tries to translate your usual principle for banking supervision to microfinance, which is, as Vijay Mahajan mentioned, often very different in terms of risks and in terms of business models from the traditional banking that supervisors are used to supervising. Ken Heng Tan can probably expand on this paper, but for me it is the start of this international guidance Jean-Michel Severino was mentioning in terms of best practice for how to supervise microfinance. In fact, we also have some other documents by Bob Christen, who was here this morning, who has also written together with other colleagues some guidance on regulation and supervision of microfinance, so there are some efforts which are worth recognising.

As part of our work with Global Partnership for Financial Inclusion (GPFI) at CGAP we're working on what we call a white paper in collaboration with the World Bank and the standard setting bodies themselves, and this white paper is examining standards and principles of these five standard

setting bodies that I have mentioned in relationship with financial inclusion. I will not define financial inclusion. I think many people have done it, but of course it's about this very significant diversity of financial services way beyond credits, through formal financial institutions, and for a variety of clients.

The white paper actually looks at how standard setting bodies can influence financial inclusion, but also how financial inclusion is influencing and is going to influence standards and guidance of these standard setting bodies. It raises three key issues that I will very shortly mention. First, financial exclusion, therefore the opposite of inclusion, carries risks that are actually relevant for each of these standard setting bodies, spheres of interest and also respective mandates. For example, there are risks that are related when you have a lot of financial exclusion with financial integrity, but also with social and political stability and also for international security. Just as one example, one can easily imagine that money laundering is way easier to conduct in the informal sector that plays a significant role in countries where people are actually excluded from the formal sector. Financial Action Task Force (FATF), which we mentioned earlier on, who is responsible for this AML/CFT, has recently recognised the important risk at its annual meeting just last month in Mexico. It doesn't mean it has solved the issue that Vijay Mahajan was mentioning, but we're seeing some progress here.

Second, the process of increasing financial inclusion this time will actually change the nature and sometimes also the level of the risks. These changes can actually carry potential implications for the standard setting bodies. Just to give you an example, for depositary microfinance, with the expansion of depositary microfinance through the growth of financial cooperatives, more people's deposits will be at risk, which will call for an expansion of prudential regulation and supervision, at least in the case of larger institutions. We heard the situation in Africa in the testimony from Armand Badiel from the BCEAO earlier on and that is the price of success, in a way.

In other markets, the level of competition in some areas is also going to bring new challenges and justify other types of consumer regulation. For example, we heard from Abderrahim Bouazza from Morocco and we heard about the example of Vijay Mahajan for India. These are new challenges appearing with financial inclusion.

In addition to these two themes, what is important is that the country context in which the standard setting bodies and guidance are being used matter a lot. There are two parameters that we can think of. The first one is the actual level and nature of financial inclusion in the country in question, so country context matters. You're not going to require the same kind of regulation in Singapore as you will require in Laos, where I've lived for seven years and which I know pretty well, and it will be a very different picture in terms of regulatory requirements.

Secondly, and this is something that several of you have raised on this panel, the capacity of policymakers, of the regulators and the supervisors is also something that needs to be taken into account, not to mention the customers themselves. The level of financial literacy is something that was raised earlier on. This needs to be taken into account.

More differentiated guidance may be needed, associated with standards, to take into account these variations when it comes to financial inclusion. It is therefore crucial to use the proportionality principles, weighing risks and benefits in addressing regulation and supervision of microfinance across all the financial products and services that poor people need. At CGAP we are very happy that there is a strong interest among all the global standard setting bodies to consider financial inclusion in the agenda, and we expect that the progress that is made by these standard setting bodies will actually hopefully lead to better regulation and supervision and ultimately to much more formal financial service choices for the 2.7 billion people who are currently excluded from the sector.

**Njuguna NDUNG’U**

Maybe to consolidate that we'll go to Keng Heng Tan to tell us about the Basel Committee and perhaps maybe respond to some of the issues that are bridging the two views of Eric Duflos and Vijay Mahajan.

**Keng Heng TAN**

**Member of the Secretariat**

Basel Committee on Banking Supervision

Thank you very much for the chance to be here today. This afternoon I would like to briefly share with you some of the recent initiatives of the Basel Committee as they relate to microfinance activities.

I think it is appropriate to begin by stepping back and recalling that the link between microfinance and the Basel Committee actually dates back to its October 2006 paper, the *Core principles for effective banking supervision* where there was a reference to microfinance, allowing non-banking financial institutions that mobilise deposits from the public to be subject to regulation and supervision that is commensurate to the type and size of their transactions.

Now let's fast forward to 2011. Over the last few years we have witnessed remarkable growth of microfinance activities. This provided the impetus for further work by the Basel Committee to explore regulatory and supervisory issues associated with microfinance and resulted in the issuance of the Basel Committee paper *Microfinance activities and the core principles for effective banking supervision* that Eric Duflos just mentioned in August 2010. The paper was a collective effort involving supervisory authorities from both Basel Committee member and non-member countries, as well as other international bodies, such as the International Monetary Fund, World Bank and the Consultative Group to Assist the Poor, which co-chair the work stream that developed the microfinance paper. It was a major step forward by the Basel Committee in recognising the unique characteristics of microfinance and the range of practices on regulating and supervising this line of business in countries from different regions and with different income levels.

In a nutshell, given the distinct regulatory challenges and broader policy goals faced by supervisors engaged in overseeing microfinance activities, the paper

provides some degree of flexibility in areas where it's appropriate for supervisors to implement the *Core principles to microfinance supervision*. Through the application of the principle of proportionality, the paper helps supervisors to find the delicate balance between the risks and supervisory costs posed by microfinance and the role of microfinance in fostering financial inclusion in their jurisdictions.

Our experience with the microfinance paper reinforced the need to leverage on the wealth of expertise and resources both within and outside the Basel Committee in order to continue to assist the supervisors responsible for microfinance activities. For example, with its expanded membership from 13 to 27 jurisdictions, the Committee now includes members with significant microfinance activities such as Argentina, Brazil, India, Indonesia, Mexico and South Africa, just to name a few. Hence, the Basel Committee is well placed to learn from the actual experience of policymakers and supervisors in these member companies in microfinance regulation and supervision.

This spirit of cooperation and partnership goes well beyond the Basel Committee, as evident more recently in the recent International Conference of Banking Supervisors held in Singapore in September 2010. Specifically, the conference program included a workshop on the theme *Regulatory frameworks and models to support financing for real economic needs (eg microfinance and infrastructure finance)*, and a panel discussion on the theme *A stable financial environment for sustained economic growth*. Similar to the workshop today, it was an excellent opportunity for conference participants to discuss and exchange views on the impact of regulatory and supervisory changes on microfinance and the broader issue of access to financial services by the poor. More importantly, the conference provided another platform to gather feedback that could be considered in the Basel Committee's future policy work in

promoting the development of sound supervisory practices in the area of microfinance.

Talking about financial access by the poor, I should note at this point that these initiatives of the Basel Committee are also relevant to its broader efforts to advance financial inclusion policy development and implementation. While financial inclusion extends beyond microfinance, both areas go naturally hand in hand and the Basel Committee will continue to explore the concept of microfinance as a tool for reducing financial exclusion. In this light, momentum in these two areas of work was kept up earlier in January of this year when various standard setting bodies joined the Basel Committee at a meeting in Basel to exchange views on financial inclusion and consider opportunities to cooperate in advancing the broader policy goals for financial inclusion in their supervisory mandates and future work. The meeting was co-chaired by H.R.H. Princess Máxima of the Netherlands, who is the United Nations Secretary General's Special Advocate for Inclusive Finance for Development, and Nout Wellink, the former Chairman of the Basel Committee. Notably the meeting was a success and there was broad consensus that financial

inclusion was compatible with the standard setting bodies' broader supervisory mandates. The growth of institutional and product innovation, associated with inclusive finance such as in the field of microfinance, should be effectively regulated in a way that does not unnecessarily hinder financial access by the poor.

I would like to conclude by acknowledging the difficulties in tailoring regulation and supervision in the microfinance domain. While much has been done by the Basel Committee to develop supervisory guidance on microfinance activities, more work remains ahead. In this regard we face several key challenges, such as keeping pace with innovation, translating the proportionality principle into practice without compromising the safety and soundness of the overall financial system and providing support and technical assistance to promote more consistent implementation of supervisory guidance at the country level. As I said earlier, cooperation and dialogue are fundamental to the Basel Committee's work on microfinance. Therefore, we appreciate opportunities like this where we can openly discuss issues of mutual interest and learn from one another's experience as the Basel Committee strives to tackle the challenges mentioned.

**Njuguna NDUNG’U**

Thank you very much for these issues coming from the Basel Committee.

Now we have listened to the regulators and we have listened to the market participants, to perhaps set the standards. Let’s listen to what we need to do for microfinance transparency. Perhaps the best thing is to summarise what you think should be done. Because most of the points perhaps have been said, you need to tell us what we need in order to improve the transparency in this area.

**Chuck WATERFIELD**

**CEO**

Microfinance Transparency

There are eight pictures and three points I would like to convey. First, our prices in microfinance are not transparent. They never really have been. Second, there is no real average price for microcredit. There is a price curve and I’ll explain why. Third, and relevant to this discussion, is that good regulation requires understanding the realities of how microfinance is different from the regulations that we are very good at applying to larger commercial finance.

First of all, we are businesses, we sell products to the poor, we more than cover our costs and some of us make quite impressive profits, but this is all done in most cases without communicating the true price to the clients. That means choices are made without adequate information and we are often trapped into some market imperfection. All of us in the industry can be pulled down into this. You’ll see in the first figure four different loans. A client can walk down the street and see these four loans and the true prices are very different from what is said. Vijay Mahajan gave some examples, but it’s very common that a loan can be two, three and four times higher than the interest

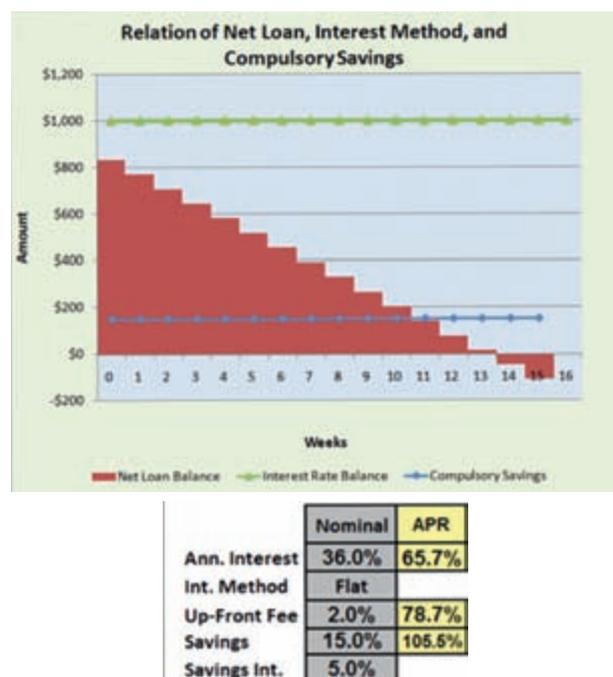
rate offered. We can see loans at 1% a month and the true price is 4% a month. That makes it hard to make decisions and to compare products. Figure 2 shows how these prices are so much higher than what we advertise and why. You can see some examples. Flat interest is something that is very common in the smaller of the microfinance loans. Cambodia made ten years ago a very good legal change. They outlawed flat interest. That helped the Cambodian market, I believe, to become more competitive on prices. It became harder to hide and to mask the true price. We regulators and we in the industry need to understand the techniques, the mechanisms that we

**Figure 1**

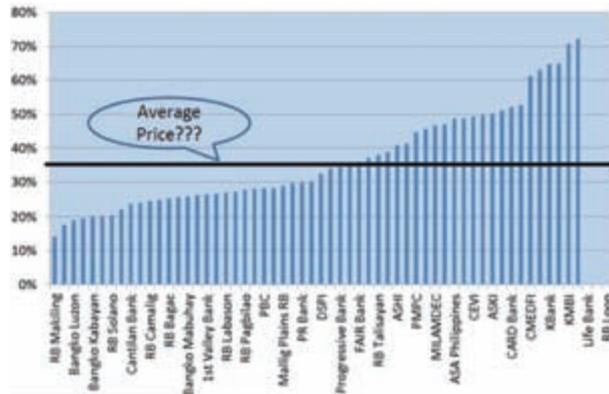
Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	R1,000	R1,000	R1,000	R1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate:	0%	15% "flat"	12% "flat"	40% decl
Upfront fee:	5%	2%	1%	0%
Security deposit:	0%	0%	20%	0%
<b>APR</b>	<b>49%</b>	<b>47%</b>	<b>49%</b>	<b>40%</b>
<b>Transparency Index</b>	<b>0</b>	<b>32</b>	<b>25</b>	<b>100</b>

**Figure 2**  
Calculation of APR based on Loan Conditions and Pricing



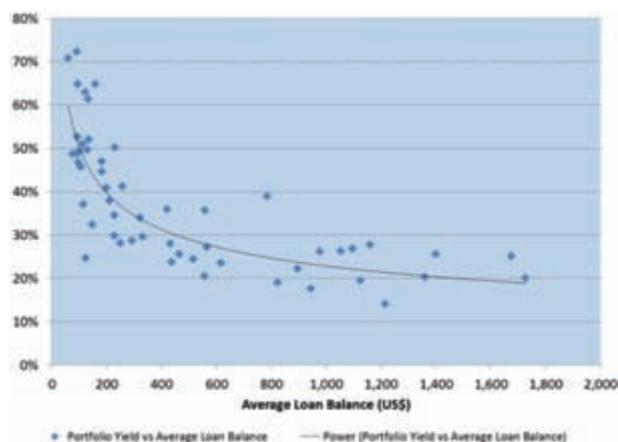
**Figure 3**  
Portfolio Yield by MFI – Philippines, 59 MFIs



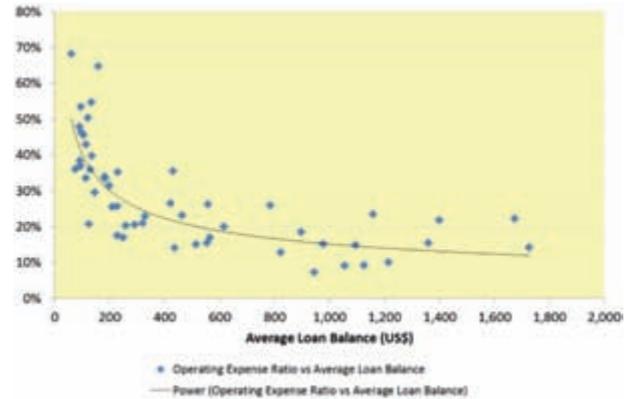
are using or trapped into using to make the price look cheaper than it is, and to work at passing laws that communicate a much more accurate price so that all of us can compare prices.

Now, I'm going to talk about what is the average price. We all fall in the mistake or the trap of looking at prices in a country and saying. For example "What's the average price?" Figure 3 shows the prices in the Philippines of 59 institutions. They range in portfolio yield from 15% to 72%. Why in the world would microfinance in a developed market like the Philippines have such a broad range of prices? Well, the next chart, figure 4, breaks that exact same data down. The X axis now shows the average loan balance. Those 59 dots show you that the institutions giving the larger microloans have a portfolio yield of 15 or 20% and those institutions focusing on the

**Figure 4**  
Portfolio Yield vs Average Loan Balance – Philippines, 59 MFIs

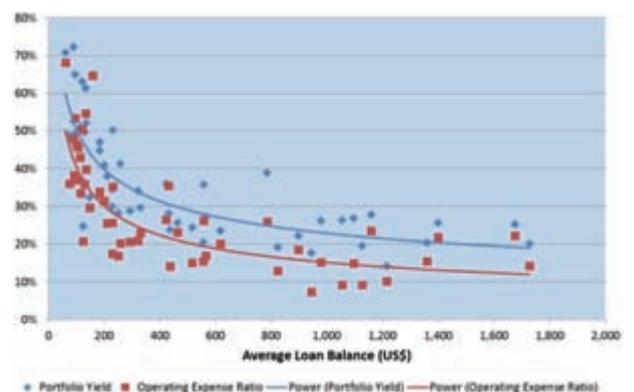


**Figure 5**  
Operating Expense Ratio vs Average Loan Balance Philippines, 59 MFIs

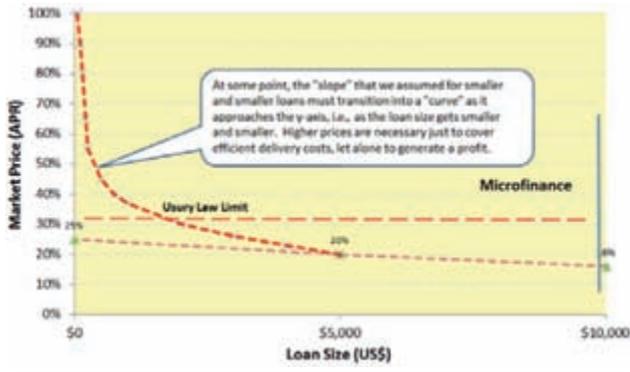


smaller and smaller loans generate a higher portfolio yield, i.e., have something like a higher price. Why do we charge higher prices to the poorer people? That's a curious question for microfinance, given why we were created. Figure 5 and 6 help us to see why. There's not only a price curve, the price we charge, there is a cost curve of what it takes to deliver those products. I'll walk you through a simple example since I don't have graphics up there. Let's say it costs you 100 dollars a year to work with a client. That's 8 dollars per month. If the loan balance of that client over the year is 1,000 dollars, that's 10%. If a client only gets 500 dollars instead of 1,000 dollars, it jumps up to 20%. If you're spending 100 dollars to keep a 200 dollars balance, that's an operating cost ratio of 50%. So you go from 10%, to 20%, to 50% and the smaller and smaller the loan size, the harder it is to get those loans out under what we call efficiency. We end up with a price curve. Why is that? It's because

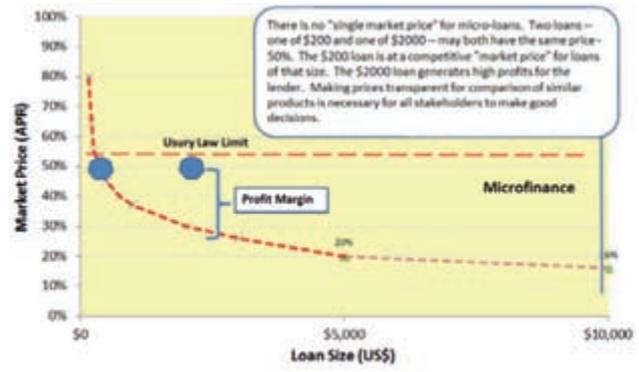
**Figure 6**  
Portfolio Yield & OER vs Average Loan Balance – Philippines, 59 MFIs



**Figure 7**  
Market Price by Size of Loan



**Figure 8**  
Market Price by Size of Loan



there's a cost curve. Figure 6 for the Philippines shows two lines. The first is what price we're charging and the line below is what is the cost of delivering that loan. It's very interesting to see that the market in the Philippines is actually, I would argue, fairly competitive. The prices are correlated to the costs.

Now the last point is to talk about how regulation needs to take into understanding that transparent pricing can help all to see what the true prices of those loans are. The 2,000 dollars loan, the 200 dollars and the 100 dollars loan all have real prices, but we don't know what they are. We can and should communicate transparent, accurate prices. One of the mistakes that we often make is price caps and those last two graphs show that we have communicated with regulators and regulators assume that prices have to just get a little

bit higher for smaller amounts, so there's something of a sloped line. Then we set a cap somewhere above that sloped line so that we can let services be provided, but to protect the clients from very high prices. Well, the reality is that we don't have a sloped line, we have a curve. It's a cost curve. A price cap means that the very smallest loans cannot be provided sustainably. We're not making profits off those very high prices and we're not even, in most cases, even covering our costs off those so-called very high prices. That's one problem with the cost price cap. The second is that a price cap still allows those larger loans, the 2,000 dollars loan, to be charged at a much higher prices than the market rate. Transparent pricing obligates us to compete on prices instead of to continue to work more easily through hidden prices. Price competition ends up driving down prices, getting profits down to a market level.

## QUESTIONS & ANSWERS

### Njuguna Ndung'u

We have managed to cover everybody in the panel without significant time over run. I just wanted to relay one question, because when I look at this, I ask myself: "Are we talking about the same thing?" When I look at microfinance as a central banker, the role tells me that I am only regulated to do deposit taking. I don't know whether it's the same for other countries. Those that are not deposit taking should be regulated by the Ministry of Finance, but the Ministry of Finance is not very good at regulating institutions. Maybe that is the one that you're talking about, the credit only. We don't even know how much they charge actually. I'm a regulator and even I don't know. For deposit taking microfinance, I don't know whether that is a difference in your countries. That's a question we can answer.

### Question No. 1

*My name is Arvind Ashta. I am from the Burgundy School of Business in Dijon. My question is for Chuck Waterfield. I just want to ask, when you did this kind of curve and you found the small things, if you take out subsidies, which are probably given only for institutions leading to very small loan sizes, would this curve become more flat?*

### Chuck Waterfield

That data comes from the mix, which is an incredibly wonderful source of data and we're looking only at operating costs ratios. We're not looking at profit in there. We don't know if those yields are generating profits for the institution or if the institution is intentionally subsidising. So I don't have an answer to your question. The most important thing to me is understanding what is the real price we're charging. Consumer protection and truth in lending focuses more on the price charge rather than the profit the institution is making.

### Question No. 1 (following)

*You didn't answer my question. Are they deposit taking or they're just credit only because it depends on where they get their credit. Do you want to answer that?*

### Chuck Waterfield

From the data that I showed? Yes, it's a mix. Some of those are actually mobilising savings, but not very many. A small percentage are mobilising savings.

### Question No. 2

*Sébastien Duquet from responsAbility. During the discussion there has been plenty of comparisons between what regulations should be put in place for banks towards MFIs. Almost nobody has mentioned the post office, that in many countries are now offering financial services, which we believe is a tremendous success and a great potential for micro entrepreneurs. My question to Mr. Bouazza and the other colleagues from the central bank, whether they foresee a specific regulation to put in place for postal offices transforming into a classic bank offering micro on a savings opportunity for micro entrepreneurs. Do they foresee that this will be something specific or should it be in microfinance or should it be in the banking sector?*

### Abderrahim Bouazza

To answer the question about the Banque Postale it is fairly recent in Morocco and began operations just two years ago, but falls under the Banking Act. It is considered to be a bank. It is true that it has the largest network and therefore at some point it will certainly deliver microcredit, but what is authorised under the banking law today. Banks in Morocco can provide microcredit if they wish, except they cannot benefit from tax arrangements and there is the usury rate constraint.

### Nestor Espenilla

I think it really has to depend on the nature of how strong the post office is. To begin with, post offices are not always necessarily the most efficient institutions.

Actually, nothing stops a post office from establishing a postal bank. In the Philippines we have such institutions, except that they're not very well run. In that context, competition has basically made it difficult for postal banks to operate. If they are going to step up and become more efficient, then they can compete, following the same rules.

**Question No. 3**

*My question is to the central bankers. I know it's not an easy question; it's a whole program. If you are a MFI, how can you convince a central bank to become interested in microfinance and to regulate microfinance? I have been trying for the past 16 years and I was not successful. Can I count on you to come to my country and help me?*

**Njuguna Ndung'u**

That's an interesting question because let me put it this way, we have been encouraging credit only microfinance to turn into deposit taking microfinance to solve the supply side problem. They can raise deposits and then they can also provide loans. Let me say that since 2006 when we had this microfinance act, we only have about six MFIs that have converted. The others want to remain, and I believe they are the majority in terms of Chuck Waterfield's data, credit only. Obviously, you can tell the difference. But I think I may have to ask the panelists exactly what are we really talking about? Do we have this distinction between the microfinance that wants to be regulated and microfinance that are perhaps informal in a sense? Do we have regulations that allow us to do that?

I think the second question that is still not answered is Vijay Mahajan's question. Should we publish data on financial inclusion and enforce central banks to actually raise financial inclusion? I don't know whether the central bank should answer that or the markets should respond to it and say that central banks should have an indicator of financial inclusion. It's a national development agenda anyway, but the institution that should take it up should always be the central bank, but we want to ask ourselves how much do we understand in terms of financial inclusion.

Who wants to take up this issue about microfinance? There are country specific characteristics and that's why we said we need to really rely on this and we ask ourselves why do central banks license microfinance? Why do others not want to be licensed? Why in some countries do they want to remain informal? In countries like Kenya they want to remain in credit only because they know there is no supervision or guidelines. Now, what I have seen is that the deposit taking microfinance have developed guidelines for credit only microfinance. The thing is they would like them to do what they don't do and obviously that's not going to work very well.

**Muliaman D. Hadad**

It's a very difficult question. In our case (Indonesia) the central bank still is silent, but then after it is becoming a political issue and the central banks are very keen to learn more about the MFIs and things like that. I think it should be clear from the point of view of the central bank that the objective of regulation, if it is related to the main function of the central bank, I think sooner or later the central banks will also deal with this. In our case, political pressure accelerated the issue.

**Armand Badiel**

Thank you Mr Chairman. I think that the Tunisian case is specific, if I understand correctly. The law is very clear in our country. Where there is a very clear definition of banking transactions, in the area of deposit taking, and in the case of bank lending, the central bank is empowered to regulate since these are regulated areas. Maybe in your situation in view of the current developments, the central bank will probably increasingly need to regulate in this area since lending is not the only microfinance activity.

I would also like to address the subject of the post office. In our country, we use the same approach as Morocco. In the case of financial services, in general, the post office is also regulated. The only case that we have observed that escapes this rule is that of services provided by those who have not chosen to conduct transactions that come within the remit of central bank regulation.

**Nestor Espenilla**

For the Philippines we have been very open about acknowledging that financial inclusion is an important issue. That's why in my presentation I mentioned the statistics. The central bank itself is saying that something has to be done about this particular issue. I think that's an important part of changing the rules of the game.

Now, there are many kinds of microfinance players in the Philippines. The interest of the central bank becomes triggered when there is deposit taking activity involved, so that's the key line, but there are MFIs that do not take deposits and therefore they do not warrant prudential regulations. It is very calibrated in the sense of how we engage microfinance players. We are quite happy within the AFI framework to engage other regulators to explain how risks can be managed and how they can be controlled from a supervisory perspective.

**Jean-Michel Severino**

Thank you, Mr Chairman. I am not a central banker, but I would make a small contribution to this discussion based mainly on the exciting figures mentioned by Chuck Waterfield.

Central banks are not particularly enthusiastic about regulating MFIs because the sector is very fragmented and for all sorts of other reasons, economic, psychological, practical, etc. Hence, it is not an industry that is either easy or interesting to regulate. In this respect, I think that the microfinance sector should be careful of its choices or be ready to deal with the consequences. For example, as an investor in MFIs, I fully agree with the aim of embracing financial inclusion as a public financial policy objective, particularly for central banks. Now if we accept this, we cannot be satisfied with the high interest rates that are characteristic of the microfinance sector at present; they may allow loans to be granted but they also limit access to credit. If we accept an idea that I absolutely subscribe to and that was raised several times during this round table, the microfinance industry is a fixed-cost industry, as is almost the whole finance sector, then these costs must be reduced and there are three ways to do so.

The first is to change the technology, and there are a number of innovations that are currently underway. The second is to raise lending rates but runs counter to the objectives of microfinance. The third is to reduce fixed costs through integration. It is likely that the best solution for financial inclusion and regulation is a consolidation of the microfinance industry, which is now too fragmented in most countries and conducted by non-viable institutions. Unfortunately this idea is very unpopular in the world of microfinance which is made up of a large number of NGOs and institutions that have enormous good will but only really have the capacity to provide social assistance rather than deliver an overall economic project.

The question I would like to put to central banks as a summary of these comments is, can central banks play a role in terms of the financial inclusion of low-income populations, which would imply implementing regulation to consolidate the system? Could this be included in their objectives or in their role as regulator?

**Éric Duflos**

Just one word actually, following up on your question. I'm not a regulator either, but obviously if you've not managed to convince the central bank about the interests, I would be tempted to say that it's a lost cause. Still, I'm an optimist so I will say that may be joining AFI, which I hope Tunisia will do at some stage, will help in gaining from the lessons learned in different institutions that are represented in AFI and maybe that having central bankers talk with central bankers might help the central bank get more interested in the topic.

**Njuguna Ndung'u**

We might perhaps renew our credibility, having done so well in the very beginning. Let me say that as a central banker, I would like to license more microfinance, which are deposit taking. I have seen the difference myself. We have about six MFIs licensed so far in the last 15 months. We have seen deposit accounts rise by 1.5 million accounts and even their own accounts themselves increased by one

half million and over 1.3 billion schillings in terms of deposits. We have seen a difference, so we do know that and we know they are rich. We have defined the problem here is that when it comes to regulation and you have credit only, the first definition is core capital and they like running away from that.

The second thing is that these are the rules of the game and they like running away from that. For me I'm bringing in the market, but we want to join the AFI network and we can tell you more. Alfred Hannig is there, I'm here and I chair the steering committee and Nestor A. Espenilla is the Vice-Chair. Even developing the guidelines, we can do that. The AFI network can help do that very fast

and then you take those guidelines to the market. I don't think central banks are fast for that. I think we've got about to saying we accept, we would like to. Mandatory policy works best when you have an efficient, financially included population. The transmission mechanism works when the financial sector is also developed and functioning. So we do know the benefits of financial inclusion and we would like to work with them.

I don't want to go beyond that. I do hope that the four issues that we started with have been answered. If they haven't, perhaps we will look for more information to try and beef up what we need to tell the G20.

# CONCLUDING REMARKS

**Jean-Pierre LANDAU**

*Deputy Governor*

*Banque de France*

I think that this has been a very productive day and the first thing that I would like to do is thank all the participants in these discussions as well as the organisers. Of course, I thank Muhammad Yunus, who has honoured us with his prestige and his presence, Maria Nowak, without whom microcredit in France would not be what it is, Jacques Attali, who has inspired us with his views, Jean-Michel Severino, who has just shared with us his experience and wisdom, Governor Ndung'u, who has just given me his advice and opinions on the role of central banks in microfinance, all those who actively participated in the discussions, and lastly Paul Loridant, who organised today's events. Paul Loridant was the idea and inspiration behind this round table. With his team, whom I also thank, he has spent five months working tirelessly to make today a great success. Finally, I wish to thank the Senate for hosting this event in a place that is extremely prestigious and comfortable, enabling us to combine business with pleasure.

I was not able to participate your preparatory work, but what struck me when reading it, when listening to the last panels, and when speaking a little with some participants, is both how interesting the subject is and the enthusiasm it arouses.

Why is there so much interest in microfinance today? I would tend to think there are three major causes. The first one is that we are dealing with a major market imperfection. Financial exclusion is of course a social phenomenon, but it's first and foremost a market failure, the impossibility of finance and credit to get two people who have profitable projects with high returns to invest into and which cannot get the finance they need.

Of course I listened very careful to the latest intervention. There is a lot to be done in terms of transparency, in terms of pricing, but overall the existence of microfinance itself is a major response to a major market failure, and that's why it triggers so much interest and rightly so, in my view.

I think the discussion you just had about costs, the importance of fixed costs and the importance of structures shows that it is a very sophisticated financial technique and we see it in the results. We see it in the

low default trends and we see it in the ability to reach people and projects which would not be reached by traditional finance networks. It's a financial innovation, so we have a financial innovation to deal with market failure. This is exactly what modern finance is about and it's perfectly legitimate that it triggers so much interest. The first cause of course is that it has social utility that nobody would challenge. Dealing with a market failure with sophisticated financial techniques and proven social positive impact, which nobody would challenge, that's what finance is about. It's very important that we can do that, we can work on that and we can develop that. Coming out of the worst financial crisis in the last 50 years at a moment when a lot of the financial innovations that we have seen in the world have not proved their usefulness, we can have doubts as to whether they have proven they help growth and economic welfare. We don't have that in microfinance and that's very important. This is human and financial ingenuity directly applied to increasing welfare for a lot of people and, by the way, having a positive effect on economic growth because an immense number of projects can be financed, developed and invested which wouldn't have been otherwise. It's extremely important and in my view, it fully deserves the attention, the work and the intensity of resources which are behind all this.

Now, it also triggers passion and I was very stricken by the fact that when we discuss microfinance, you may hear a lot of different views, different approaches and different philosophies and that's very interesting. I won't elaborate much because all of you know more than I do about this, but it seems to me that there are at least four basic questions. The first one is whether it is a profitable, long term, self-supporting activity or whether it will need public support. The logic of fixed costs, as Jean-Michel Severino developed a few minutes ago, leads us to ask this question. I have no answer for that question. Anyway, I have no answer to any of the questions I'm going to ask.

The second is how does it relate to the traditional banking sector and the traditional banking activity? How is it going to interact with it? Governor Ndung'u just said that he wants to have microfinance which is both deposit taking and credit making, so he wants to have microfinance to look more like ordinary banking

and that's very important. Maybe we've neglected the resource side and getting people to get access to a bank even if they have small amounts to deposit may be just as important as getting access to credit and that allows them to manage their wealth, their household and their balance sheet in a better way.

The third question is how does it change as the economy matures? Jean-Michel Severino asked that question, whether we have a consolidation movement going on or not, whether we can live with a small institution and what is the co-existence between small and big institutions? In a previous life I was dealing with transition in central and eastern European economies and the co-existence of big institutions and small institutions is a major one and I think Jean-Michel Severino was very right to raise it.

Of course, how do we regulate microfinance and who is going to regulate microfinance if it needs regulation. I was very interested by the question about whether the central banks are interested or not in microfinance. This conference is organised by a central bank and that's the best answer I can give. During the last panel the central bankers were the majority on the panel, so that's another answer I can give. Obviously, even for those of us who have supervisory powers, this is not the kind of regulation supervision we are best equipped with, so we will have to learn. I think we are all in a learning process, those who do microfinance and those who will have to supervise it and regulate it. But I don't think, for the very reasons that I just mentioned, one can doubt the importance it has in the good working of the worldwide capital markets and I don't think we can doubt the fact that central banks will get more and more involved. Of course, the Governor Ndung'u was absolutely right, it is very important for financial inclusion, it is very important for growth in the economy and it is very important

for the transmission mechanism of monetary policy. So you can expect central bankers to be more and more involved in this area.

Finally, two last points, which are of a more general nature. It seems to me when I discuss this that we have microfinance challenges in advanced economies and we have them in emerging economies. This is typically an issue on which we have to learn from each other. Maybe the learning process is going more from the emerging economy to the advanced economy, but the issue of getting small amounts of credit to the right project is a common challenge that we all have and I'm not sure it will change. So both advanced and emerging economies will have to work on that and to make progress on that. This is typically a G20 issue, because the G20 is there to allow advanced and emerging economies to dialogue and exchange experience.

My last point is that in such a situation with such sophistication, with such interesting and important questions, exchanges of view, exchanges of experience, exchange of best practices are extremely important. I hope and I wish that we come away from this day with better knowledge and with better comprehension of the problem. I'm very happy that we could do that and I'm very happy that you could participate. We will make sure that the results of your work and all the richness and content of your reflections and contributions will be forwarded at the right level to the G20 deputies, to the G20 finance and governors and to the leaders. This is an informal workshop, there is no conclusion. There will be a communiqué that Paul Loridant will read in a minute, but there is no formal conclusion, there is no formal result, but we will make sure that the output of this day will find its way into the Senate and into the Cannes communiqué and results.

## Press Release Ministry of Economy, Finance and Industry

In a workshop held in Paris in the Senate on 8 July 2011 in the framework of the French presidency of the G20, microfinance players reiterated the industry's role regarding social and financial inclusion. They request that the area have adequate and sustainable resources that ensure the safety of both borrowers and savers.

The discussions highlighted the social role of microfinance that contributes to the financial inclusion of people without access to traditional financial services by offering a wide range different and evolving services.

Drawing lessons from the crisis, the three major challenges identified for the development of microfinance are:

- The financial stability challenge: the financial security of microfinance could be strengthened by an appropriate supervision and regulation in order to ensure the financial soundness of microfinance institutions, develop the professionalisation of players, improve the quality of information available to lenders and, ultimately, the projects supported.
- The resources challenge: in order to develop microfinance needs to be largely funded by the private sector, and particularly by local resources. With this objective in mind, a number of financial support mechanisms could be developed to support experimental microfinance programmes, exchange rate hedging and technological, financial and regulatory support for migrants' money transfers.
- The challenge of social and financial inclusion: since the social purpose of microfinance is paramount, the sector should take greater account of the diversity of customer needs and give priority to poverty reduction, supporting the most vulnerable areas and entrepreneurship, while pursuing social and financial innovation.

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