International Year of **Microcredit** 2005

Final Report





UNCDF

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United Nations Capital Development Fund

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Foreword

The United Nations Capital Development Fund (UNCDF) is pleased to present its Final Report on the International Year of Microcredit.

In 1998, the General Assembly of the United Nations designated 2005 as the International Year of Microcredit. UNCDF and the United Nations Department of Economic and Social Affairs (UNDESA) were invited to jointly coordinate the activities of the United Nations system during the preparations for and the observance of the Year. The Year was established to assess and promote the contributions of microcredit and microfinance to the Millennium Development Goals; to increase public awareness and understanding of microcredit and microfinance; to support sustainable access to financial services; and to encourage and establish innovation and partnerships among the many institutions participating in microfinance activities.

This Report sets forth the accomplishments of the Year. In our view, it clearly establishes that the Year was a resounding success and accomplished its objectives in a compelling manner. The International Year of Microcredit significantly raised public awareness around the world regarding microcredit and microfinance. More than 100 countries participated in activities associated with the Year and more than 60 National Committees were established to promote microfinance and broader access to financial services for the poor. In addition, there were more than 350 conferences and events during the Year and more than 100 academic institutions hosted seminars, conducted research, or were otherwise involved in the activities of the Year. On 7-9 November, 2005, the Year culminated in a Forum at the United Nations in New York in which more than 700 people attended a highly focused series of discussions on microfinance and issues related to expanding financial services to more poor and low-income people and to more micro and small enterprises.

UNCDF was pleased and honored to host the Secretariat of the Year and to be a sponsor of its activities. We have prepared this Report as a summary of the Year's events and accomplishments as seen from UNCDF's perspective. We also have prepared it as a tool and resource for others who will write about and evaluate the Year of Microcredit or who will organize or manage other UN Years. Consequently, we have provided extensive documentation in the Annexes to the Report so that detailed information and source material will be readily available to others.

We believe, and the Report confirms, that the success of the Year was largely attributable to the collaborative and participatory environment that the United Nations was able to create and sustain around the world. We also believe, as again the Report confirms, that the creative and enthusiastic participation of institutions and individuals beyond our knowing or counting drove the Year's activities and provided it with the energy that was one of its most observable characteristics.

Within this context, we would clearly like to acknowledge the outstanding contributions that were made to the Year by UNDESA and the United Nations Development Programme (UNDP), our closest UN partners in the Year and our collaborators on the Coordinating Committee; the Bretton Woods institutions and other organizations from the UN system (including in particular the International Fund for Agricultural Development [IFAD] and the International Labour Organization [ILO]) who participated actively in many of the Year's normative and operational activities; the Advisors Group to the International Year of Microcredit, which provided excellent and essential guidance, advice, contacts, and perspective throughout the Year; the Emissaries and Spokespersons for the Year, each of whom utilized their unique circumstances to represent and advocate for microcredit and microfinance; the Consultative Group to Assist the Poor (CGAP) and other development agencies and donors who provided their expertise and experience to the many substantive issues that the Year addressed; the many participants in the National Committees that facilitated and sponsored the activities of the Year in more than 100 countries; the administrators, professors, and students from the Student and University Network for the Year of Microcredit who conducted events at universities around the world; the many private sector companies who provided numerous types of support to the Year (including in particular Citigroup, VISA International, and ING Group for their financial sponsorship); the United Nations Foundation (UNF) and the United Nations Fund for International Partnerships (UNFIP) for their financial and operational support; the many microfinance institutions, microfinance networks, alternative financial institutions, other financial services providers, and clients who provided invaluable and unique insight and experience "on the ground" with respect to microfinance and inclusive finance in their countries.

In addition, throughout the Report and in its Annexes, particular institutions and individuals are identified where they have made specific contributions to the Year. To each of these institutions and individuals, we extend our gratitude and appreciation. A special recognition must go to Christina Barrineau, the Chief Technical Advisor of the Year of Microcredit at UNCDF, and to the talented and dedicated staff that she assembled. Christina and her team worked with little and accomplished much, far beyond what was contemplated when the Year was designated by the General Assembly in 1998. Without her vision, creativity, persistence, passion, tenacity, knowledge, commitment, and social graces, the Year would not have been the success that it was. For this tremendous effort and contribution, we acknowledge and thank Ms. Barrineau and her talented team (including in particular Nina Blecker, Fe Juarez, Maggie Neilson, Carola Saba, Veronica Scifo, Emma Torres and Vanessa Ward).

Lastly, I wish to acknowledge and thank all my colleagues at UNCDF who provided significant support and made significant contributions to the substantive work and activities of the Year. In particular, Henriette Keijzers, my Deputy Executive Secretary; Peter Kooi, formerly our Director of Microfinance; John Tucker, our Microfinance Portfolio Advisor; Adam Rogers, our Communications Specialist; Kathryn Imboden, our Senior Policy Advisor who coordinated and managed the preparation of the Blue Book on

Building Inclusive Financial Sectors for Development; Heather Clark and Stephanie Narquin who worked extensively on the Blue Book; and Hyewon Jung for her contribution to the Blue Book and for her assistance in the preparation of this Report.

While the International Year of Microcredit significantly raised public awareness around the world regarding microfinance and access to financial services as an important development and social issue, much work remains to be done in these areas. The statement of the Secretary General at the outset of the Year remains as true today as it was when the Year began:

> "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector…Together, we can and must build inclusive financial sectors that help people improve their lives."

It is this challenge that the Year brought into full public view. It a challenge that still confronts us and to which our future efforts must be dedicated.

Richard Weingarten

Executive Secretary

United Nations Capital Development Fund

Photo: Adam Rogers / UNCDF

Executive Summary

In 1998, the General Assembly of the United Nations designated 2005 as the International Year of Microcredit (the "Year"). During the 58th session of the General Assembly in 2003, Member States invited the United Nations Capital Development Fund (UNCDF) and the United Nations Department of Economic and Social Affairs (UNDESA) to jointly coordinate the activities of the United Nations system during preparations for and the observance of the Year [A/58/488]. The resolution expanded the mandate for the Year stating that "people, living in poverty in rural and urban areas, need access to microcredit and microfinance that enhances their ability to increase income, build assets and mitigate vulnerability in times of hardship."

The Year was officially launched on 18 November 2004. The main goals of the Year were to assess and promote the contributions of microcredit and microfinance to the Millennium Development Goals (MDGs); increase public awareness and understanding of microcredit and microfinance; promote inclusive financial systems; support sustainable access to financial services; and encourage innovation and partnership.

A Coordinating Committee for the Year was established with UNCDF and UNDESA and a Secretariat was housed under UNCDF to support the Year's activities. Specific activities of the Year were clustered in four major areas: communications, partner engagement, special events, and production of substantive outcomes including recommendations on how to move microfinance forward to 2015. A small group of high-level individuals were invited to serve in the Patrons Group of the Year and to provide guidance and support to the Coordinating Committee. According to their specific role and responsibilities, the Patrons worked in one of three groups: Emissaries Group, Advisors Group, or Spokespersons Group.

The International Year of Microcredit 2005 met with an unprecedented global response and interest. Government officials, microfinance institutions, private sector financial institutions, regulators, development agencies, students and clients were actively engaged in a dialogue on how to best provide a broad range of financial services to poor and low income people and to micro and small enterprises. Throughout the world, 101 countries joined the global effort to build inclusive financial sectors, and Year of Microcredit National Committees were established in 61 countries. In addition, more than 100 universities around the world were involved in the Student and University Network for the Year of Microcredit. Over 300 meetings, conferences, forums and other events were organized to celebrate the Year and to promote discussions on how to improve financial services for people living in poverty. More than 4000 people attended these various events over the course of the Year. All the initiatives undertaken by the Year were designed to encourage innovation and strategic partnerships. Activities undertaken at the international level, national and local levels were designed to be mutually complementary and supplementary.

The United Nations International Forum to Build Inclusive Financial Sectors took place from 7-9 November 2005 at the UN Headquarters in New York, assembling more than 700 representatives from 90 countries. The Forum served as the culmination of the International Year of Microcredit and provided an opportunity for leaders in international finance and development to discuss and deliberate on how to increase access to financial services for poor people. The goal of the Forum was to create an action plan for building inclusive financial sectors and to help bring the world closer to achieving the Millennium Development Goals. As part of the Forum, the Federal Reserve Bank of New York joined Diana Taylor, New York Superintendent of Banks, UNCDF and the Advisors Group to the International Year of Microcredit in hosting a high-level seminar on regulatory and supervisory issues related to inclusive financial sectors. This seminar was the first of its kind, bringing global financial sectors leaders together under Wall Street's auspices to discuss increasing access to finance for poor and low-income people around the world.

Under the umbrella of the Year, a formal collaboration was established between Citigroup and UNCDF to implement the Global Microentrepreneurship Awards (GMA) Programme. The GMA initiative highlighted the achievements of poor and low-income entrepreneurs in 30 countries. The 2005 GMA Programme received over 3,698 nominations of microentrepreneurs from 425 microfinance institutions (MFIs). GMA Awards were given to microentrepreneurs from Afghanistan, Bangladesh, China, India, Liberia, Malawi, Peru, Sierra Leone and South Africa at the gala event which closed the International Forum on 8 November 2006.

Two major substantive initiatives began during the Year. First, UNCDF, in partnership with the Financing for Development Office of UNDESA, led an innovative consultation process to identify key constraints and opportunities for the promotion of inclusive financial sectors. The result of this year-long initiative is Building Inclusive Financial Sectors for Development, also known as "The Blue Book." The "Blue Book" was released on 17 January 2006. It addresses the challenges to building inclusive financial sectors and provides a compelling analysis of why so many people do not yet have access to sustainable financial services. The "Blue Book," available at www.uncdf.org/bluebook, provides an invaluable tool and guide for policy makers in developing countries who seek to build inclusive financial sectors. It is also a reference point for governments to collectively discuss strategies, share best practices and improve processes.

A second initiative was the "Data Project." This project, which included various United Nations agencies, the World Bank, the International Monetary Fund (IMF) and the UK Department for International Development (DFID), among other institutions, aimed to understand what type of access poor and low income people have to financial services. The working group sought to address current gaps in available data regarding who has access to financial services in developing countries, who provides those services and at what cost. Extensive work began over the last year to develop suitable indicators on access and techniques for gathering the necessary data. The World Bank, DFID and FinMark Trust of South Africa are currently working towards common approaches in survey work for financial access to the poor, particularly in Africa.

Many people and institutions associated with the Year advocated for and secured the inclusion of microfinance in important publications and events. These included the Millennium Development Goals (MDG) Report, the Africa Commission Report, the G8 Meeting Report, the IMF Meeting Report, the Human Development Report 2005, the World Economic Forum Agenda in 2004 and 2005, and the UN Summit Report. Furthermore, the Year published a summary setting forth information on "Microfinance and the MDGs." At the end of the Year, in its recommendation to adopt the draft resolution on the Follow-up and Implementation of the Outcome of the International Conference on Financing for Development, the Second Committee of the General Assembly noted the significance of the International Year of Microcredit in raising awareness, sharing best practices, and further enhancing pro-poor financial sectors. The General Assembly also urged member countries to "put best practices into action" and to build on the momentum created by the Year.[1]

Financial support and sponsorship for the Year came from many sources. Partnerships were established with several large, private sector financial institutions that provided significant financial and other support. The most significant of these institutions were Citigroup, ING Group, and VISA International. Additional financial support was provided by the UN Foundation, UNCDF and UNDP.

[1] A/60/487. p. 9.

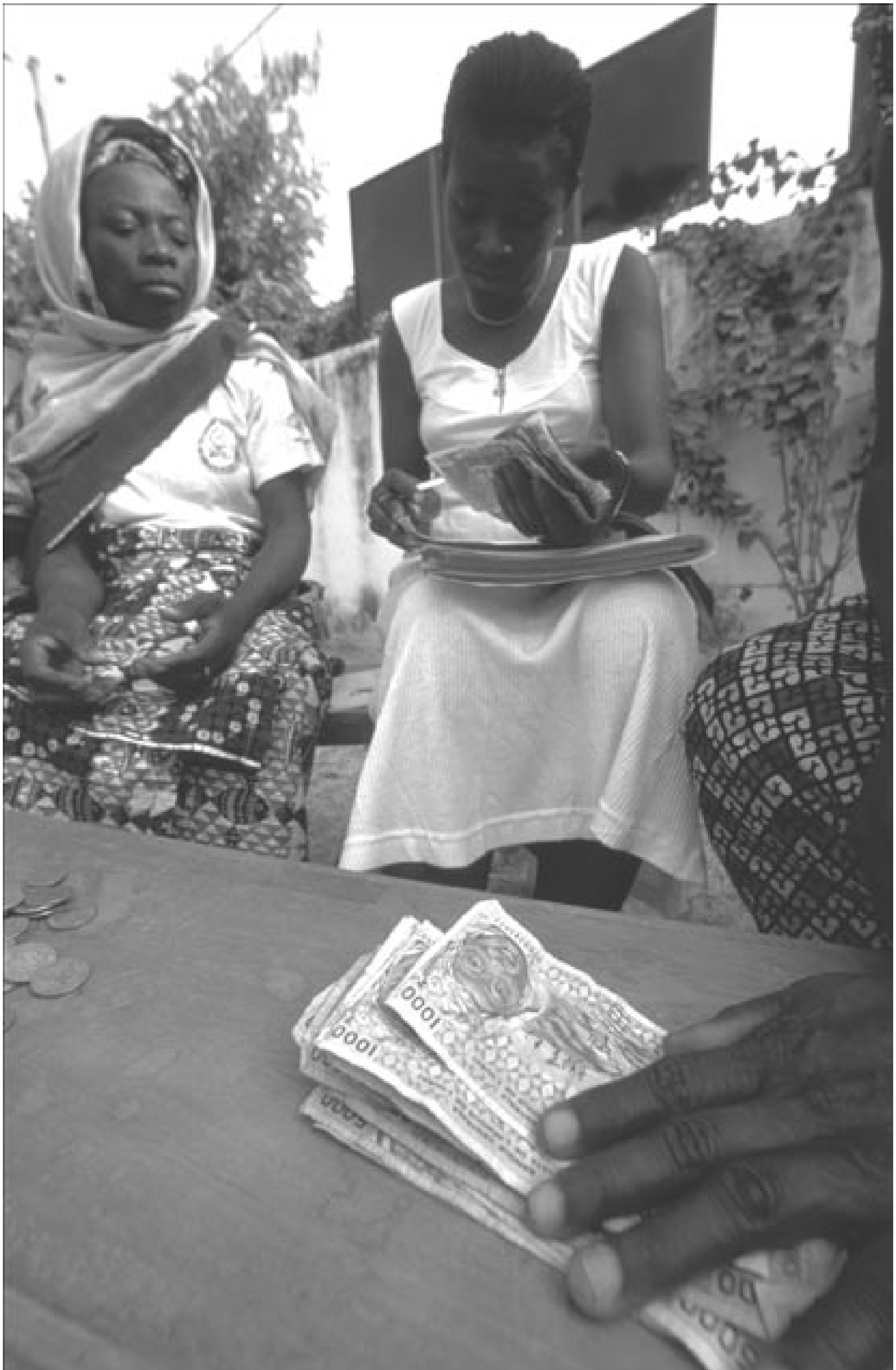

Photo: Adam Rogers / UNCDF

Introduction

In 1998, the General Assembly proclaimed the year 2005 as the International Year of Microcredit to recognize the contribution of microcredit to poverty alleviation.[2] During the 58th session of the United Nations General Assembly in 2003, Member States invited the United Nations Capital Development Fund (UNCDF) and the United Nations Department of Economic and Social Affairs (UNDESA) to jointly co-ordinate the activities of the United Nations system during the preparations for and the observance of the International Year of Microcredit. The resolution expanded the mandate for the Year "stressing that people, living in poverty in rural and urban areas, need access to microcredit and microfinance that enhances their ability to increase income, build assets and mitigate vulnerability in times of hardship." The resolution also invited "Member States, relevant organizations of the United Nations system, non-governmental organizations, the private sector and civil society to collaborate in the preparation and observance of the Year and to raise public awareness and knowledge about microcredit and microfinance." The Secretary General was requested to report to the General Assembly at its fifty-ninth session on the preparations undertaken in support of the Year of Microcredit. Annex 1 provides the General Assembly resolutions on the Year.

This document provides a final report on the International Year of Microcredit. The main goals of the Year were to assess and promote the contributions of microcredit and microfinance to the Millennium Development Goals (MDGs); increase public awareness and understanding of microcredit and microfinance; promote inclusive financial systems; support sustainable access; and encourage innovation and partnership. This report will set forth how each of these goals were achieved.

The International Year of Microcredit met with an unprecedented global response and interest. The Year sought to raise awareness of the financial needs of the world's poor and low-income people. Celebrities, government officials, bankers, students and current and potential clients have been actively engaged in a dialogue on how to best provide those financial services, and countries are taking action to try to meet this challenge. Throughout the world, 101 countries joined the global effort to build inclusive financial sectors, aiming to create financial opportunities for the world's low-income people. National Committees were established in 61 countries, comprising high-level government representatives, UN officials, and members of the private sector. All of the initiatives undertaken by the Year were designed to encourage innovation and strategic partnerships.

A Secretariat provided direct support to the Coordinating Committee for the Year established under the aegis of UNCDF and UNDESA. Specific activities of the Year were clustered in four major areas: communication activities, mobilization of maxi-

[2] A/58/488

mum partner engagement, special events, and production of substantive outcomes for the Year including recommendations on how to move microfinance forward to 2015. Activities undertaken at the international, national and local levels were designed to be mutually complementary and supplementary.

Financial support and sponsorship for the Year came from many sources. Partnerships were established with several large, private sector financial institutions that provided significant financial and other support. The most significant of these institutions were Citigroup, ING Group, and VISA International. Additional financial support was provided by UN Foundation, UNCDF and UNDP.

1. Institutional Arrangements

A Coordinating Committee for the Year was established and a Secretariat was housed under UNCDF to support its operations, with the advice and guidance from the Patrons Group. The Coordinating Committee for the Year comprised eight (8) members equally representing UNCDF and UNDESA. The Committee undertook communications activities focused on promoting the theme and objectives of the Year. In addition, the Coordinating Committe encouraged, promoted and lent support to the activities of National Committees and regional and international partners. The responsibilities of the Coordinating Committee are set forth in Annex 2.

UNCDF hosted a small secretariat to serve the Coordinating Committee. The Secretariat included a core team of four full time staff and was supported by technical advice from short-term consultants for specialized assignments and the Patrons Group (see section 1.1 below). The Secretariat was responsible for the operational management of the Year. The priorities and operational objectives of the Secretariat, as established in 2004, are set forth in Annex 3.

1.1. Patrons Group

The Coordinating Committee invited a small group of high-level individuals to advocate the goals and objectives of the Year. The key responsibilities of these Patrons were: providing guidance and support to the Coordinating Committee; encouraging meaningful Member State participation; encouraging the private and public sectors to contribute resources; and promoting and assuming an ambassadorial role.

The Patrons Group represented a wide range of people with a strong commitment to the ideals and principles of the United Nations and the potential of microfinance to build assets and foster social and economic opportunity.

According to their specific role and responsibilities, the Patrons worked in one of three groups: Emissaries Group, Advisors Group, or Spokespersons Group. The Emissaries group comprised dignitaries committed to the goals of the Year. The Advisors Group was composed of key figures from the world of microfinance, banking and the private sector. The Spokespersons Group included prominent personalities from the arts and entertainment industry.

A complete list of the Emissaries, Advisors and Spokespersons is included in Annex 4.

1.1.1. Emissaries Group

The Emissaries Group raised awareness about the importance of microfinance in the eradication of poverty and engaged broad constituencies in the goals and objectives of the Year. Emissaries attended events associated with the Year inside or outside their native country and publicly supported the Year through a variety of activities such as speaking engagements and participation in public service announcements. Queen Rania of Jordan and Princess Mathilde of Belgium served as Emissaries for the Year. Queen Rania participated in a Washington D.C. forum on microfinance in the Middle East.

Princess Mathilde participated in a wide array of activities and events, including visits to microfinance clients in China, Mali, and India and speaking engagements at universities in Europe, Asia and the United States.

1.1.2. Advisors Group

Prominent leaders in the fields of economic development, banking and finance served in the Advisors Group to the International Year of Microcredit 2005. The Advisors were committed to: promoting greater understanding and awareness of the potential of microfinance; securing the commitment of governments, multilaterals, donors, non-governmental institutions and the private sector; and contributing to the goal of more poor people gaining access to quality financial services. The Advisors Group provided crucial support and made substantial contributions to the success of the Year by lending their expertise to the major substantive products of the Year, using their visibility and experience to sponsor the Year's goals among decision-makers and facilitating the dissemination of key messages as part of the Year's communications campaign.

The 20 Advisors included a diverse range of industry, government, private sector, and civil society leaders. The Group was chaird by Dr. Stanley Fischer, Governor of the Bank of Israel. The Group included heads of microfinance institutions from Benin, Cambodia, Colombia, Morocco and Bangladesh, leading business people, social investment experts, donors, and the media. The group of financial sector representatives joined forces to forge a global commitment to build inclusive financial sectors. Although diverse, the Group shared a common belief in the power of microfinance clients to use financial tools to change their lives. See Annex 4 for a detailed list of the Advisors.

The Advisors issued a Statement at the closing of the Year on 8 November 2005. This Statement emphasized the importance of carrying out the commitment to building inclusive financial sectors by recommending that the following steps be taken to follow-up the Year:

1. Assuring that the Blue Book is broadly disseminated and used to inspire and guide national dialogues on building inclusive financial sectors;
2. Assuring that national governments and regulatory agencies adopt common indicators and methodologies for measuring access to financial services and then gather and analyze data and other information using these indicators and methodologies in a systematic and regular way;
3. Encouraging and supporting governments and their regulatory institutions to review their regulations to ensure that they encourage prudent and sound provision of financial services to poor and low-income people and to micro and small enterprises while at the same time minimizing or removing regulatory constraints that discourage financial inclusion;
4. Encouraging and supporting governments and policy makers who seek to adopt policies to develop and strengthen financial infrastructure at regional and local levels;

5. Collecting and disseminating learning and best practices with regard to financial inclusion and the policies related thereto;

6. Continuing and strengthening efforts to promote greater access to financial services as an important part of the international development and political agenda;

7. Assuring that access to financial services in general and microfinance in particular remain prominent issues in public forums and discourse; and

8. Continuing and strengthening efforts to assure that the private sector (and particularly private financial institutions) is actively engaged and remains an important partner in the movement to provide more and better financial services to poor communities and micro and small enterprises.

The complete Statement of the Advisors Group is attached in Annex 5.

1.1.3. Spokespersons Group

The key role of the Spokespersons Group was to reach a wider range of the public and raise awareness on the contribution of microfinance to poverty alleviation. Spokespersons publicly supported the Year and endorsed its key messages as part of their public appearances and participation in public service announcements. The Spokespersons Group was comprised of musicians Angelique Kidjo, Souad Massi, Anggun, Katrina, and Baaba Maal; and actors Natalie Portman, Michael Douglas, and Aishwarya Rai.

2. Communication

With the collaboration of the UN Department of Public Information (UNDPI), the Year communication strategy was developed with the following goals: to increase public awareness and understanding of microcredit and microfinance, their role in poverty eradication and how they empower people and contribute to communities; and, more specifically, to generate sufficient awareness of the effectiveness of microcredit and microfinance in poverty eradication to spur a significant scaling up of microfinance providers and resources.

The Year's communication strategy targeted a wide range of audiences around the world including: UN agencies, funds and programmes, as well as donors already involved in microcredit; policy makers, microfinance providers, private sector leaders and academics in developed and developing countries; and NGOs and civil society organizations in developed and developing countries. The global campaign reached the first two target audiences on a broad basis. National campaigns focused on deeper penetration at country level and were directed to specific national or local agencies or providers to improve access to microfinance products and services at the local level.

The Year's media outreach strategy included ongoing contacts with journalists (UN correspondents and major wire services, Wall Street reporters, economic journalists at major newspapers, news magazines, television and radio outlets) through press releases and media advisories with focus on both developed and developing countries. An Op-ed strategy was developed to involve senior UN officials, partners, and the Year's Patrons Group. A highlight of the media outreach efforts was the publication of a survey on microfinance in the November 2005 Issue of the Economist.

2.1. Year of Microcredit Website

The Year Secretariat launched the official website of the Year (www.yearofmicrocredit.org) in September 2004. The website provided extensive information about the Year, its objectives and activities, National Committee contact information and a calendar of national, regional and international events. The site served newcomers to microfinance, industry practitioners, UN country teams and agencies, and donors. The site was also translated into multiple languages for the international audiences. Key areas of the website included an events calendar, media resources, an interactive microfinance education area, an experts forum, international contact information for all Year country teams, and information about key sponsors and the Patrons Group.

The website hosted nearly 25,000 visitors on average per month from more that 144 countries, with 4074 people signing up for the newsletter and 317 events submitted to the Year web site. Nearly 40 microfinance organizations and 7 student organizations linked to the Year website.

2.2. International Year of Microcredit Newsletter, Microfinance MATTERS

Microfinance MATTERS was a monthly web publication. The newsletter was launched in January 2004. By the end of 2005, the newsletter reached nearly 8,000 direct subscribers. A steady stream of new subscribers were signing-up at a rate of 250 a month. In addition to the subscription list, the newsletter was also distributed through the various microfinance listserves reaching an estimated additional readership of well over 50,000 people worldwide. Microfinance MATTERS took advantage of the Year to promote innovative partnerships, raise public awareness, and share effective practices and expertise on building inclusive financial sectors. By inviting reader's opinions, the newsletter developed into a platform for discussion. Contributors ranged from Ambassadors to microfinance clients.

A concrete distribution plan for the newsletter was developed and implemented for the Year 2005. The long-term objective of the newsletter was to reach an audience beyond the microfinance industry. The newsletter, which was available at www.uncdf.org/mfmatters had eight to 12 articles per issue, of which seven to 10 were on substantive themes. Regular features included Q&A with featured Guest and Voices of Microfinance discussion. The newsletter also featured opinion pieces and news, editorial comment, and two to three updates on the Year per feature. Attached as Annex 6 is the summary of themes for the newsletter.

2.3. Film Projects and Public Service Announcements

The Year Secretariat helped coordinate and facilitate the filming of a documentary entitled, "Microfinance: In Their Own Voices." The film, a collection of client stories produced by Director Sterling Van Wagenen, was distributed to UN Information Centers and target broadcasters. The film became in demand from many parties, including National Committees, conference organizers, universities and others to promote microfinance messages. In addition, the Secretariat offered input into a number of documentary film and television productions on microfinance. Films on microfinance produced for the Year were made available on the Year website.

Celebrities supported the Year by recording public service announcements (PSAs) for worldwide distribution. Actor Michael Douglas filmed a PSA in August 2005, joining actress Aishwaria Rai and performers Souad Massi, Anggun, and Karina. Anggun's PSA aired at the Pavarotti and Friends Concert in Dubai, Paris and in Johannesburg on 2 April to an audience of 20,000. The PSAs were produced by Citigroup and are available in English, French, Spanish, Arabic, Hindi and Bahasa Indonesia. Citigroup and VISA International agreed to distribute the PSAs through their communication networks. The PSAs were also distributed through the Year website, microfinance providers, and National Committees throughout the world.

2.4. Logo and Slogan

In coordination with the UN Department of Public Information (UNDPI) a simple and memorable logo was developed for the Year (see below). The logo was approved by the

UN Secretariat and was available at the Year's website along with several promotional materials for the Year. Guidelines were developed for use of the logo by various partners around the world.

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"Building inclusive financial sectors to achieve the Millennium Development Goals" was the official slogan for the Year and was translated into six official UN languages.

2.5. Other Communication Tools

The following tools in print, broadcast, on-line and digital media were also developed:

- A brochure, "Understanding Microcredit", was produced in the six official UN languages. The brochure was educational in approach, including explanations of key microfinance terms and snapshots of client stories with photos. Templates were made available with local language adaptations, and UN system partners produced brochures about their own work on microfinance issues in the same format.

- A kit was produced including material for media, such as press releases, a backgrounder and fact sheets, success stories, and also some materials aimed at Government officials and potential private and public partners. All the materials of the kit, including the cover folders, were made available in English, Spanish and French.

- A CD-ROM tutorial was produced and made publicly available, providing an introduction to microfinance to potential clients.

3. Mobilize Maximum Partner Engagement

The Year Secretariat mobilized the following organizations as core sponsors of the International Year of Microcredit: Citigroup, ING Group, VISA International, and the United Nations Foundation. UNCDF and UNDP were also significant financial supporters. A Concept Paper was developed to provide guidelines for Year activities to a wide range of partners. The National Committees and the Global Microentrepreneurship Awards (GMA) Programme were important examples of operational partnerships mobilized by the Secretariat.

3.1. National Committees

Under the auspices of the International Year of Microcredit, member states were requested by the Secretary General to establish National Committees to facilitate activities and create a dialogue on best practices to build a more inclusive financial sector in their country.[3] Each National Committee assessed the challenges that poor people confront in accessing financial services and developed activities and initiatives to address these issues. Key factors that were stressed throughout this process included membership diversity and partnership, creativity, effectiveness in communication and outreach, level of governmental support, private sector engagement, and increased public awareness. National Committees were the core of the Year's activities. Supporting their work and bringing them together became the focus of the Secretariat's work. All communication tools and substantive projects and research were designed to support the National Committees in achieving the greatest impact.

Due to these efforts, over 100 countries in all levels of development actively participated in the Year. During the Year, 61 countries formally established National Committees or Focal Points comprising high-level representatives from over 215 government institutions, 43 United Nations local offices, 59 multinational agencies, 265 microfinance networks, 33 central banks as well as key members of the private sector and civil society.

In each country the National Committee had a high degree of flexibility with the activities and events that were coordinated. The Year Secretariat helped facilitate the establishment of these National Committees, monitored their activities, and coordinated the support needed. The Secretariat developed a sample strategy, key criteria of success, and reporting mechanism. The Secretariat also created a virtual community for the National Committees through the Year's website. A chat room was created for National Committee members to share their experiences, and an awards programme was jointly organized with CGAP to honor the best performing National Committees at the end of the Year.

Microfinance National Strategies were developed by 23 of these governments to reach beyond 2005. The creation of new – or improvement of existing - financial tools

[3] UN General Assembly Resolution #58/221

to increase financial access for their low-income citizens were supported by 26 governments. Approximately 31 countries began evaluating existing laws and/or developing new laws to create environments that will promote inclusive financial sectors. During the Year, Heads of State or representatives of 28 countries gave statements that recommended national strategies and promoted the development of microfinance. The Head of State or representatives of 20 of these countries pledged to develop inclusive financial sectors in the future. As many as 13 countries designated a public institution, or a new position within an existing institution, to be in charge of the microfinance sector.

Nearly 373 conferences, seminars and workshops were organized by 72 countries during the Year. Public awareness campaigns to promote the benefits of microfinance were developed by 71 countries. Such awareness raising activities focused on introducing quality financial services to the poor and low income people and were designed to reach a wide-ranging audience. Many governments realizing the benefits of microfinance initiated innovative ideas to promote the Year. Examples of creative efforts included issuing commemorative stamps and currencies with the Year logo and organizing major microfinance contests. BCEAO (Central Bank of West African States) convened a meeting of Ministers of Finance, Central banks Governors of 15 countries, including the 8 member countries of West Africa, Mauritania, Ghana, Guinea, Nigeria, D.R. Congo, Rwanda and Comoros to discuss how to build inclusive financial sectors in its member countries. Annex 7 includes a summary profile of the National Committees and highlights of their activities.

3.2. Global Microentrepreneurship Award (GMA) Programme

At the beginning of the year 2004, the Year Secretariat commissioned the design and implementation strategy of a worldwide competition to pay tribute to the microentrepeneurs. In November of 2004, the Global Microentrepreneurship Awards (GMA) highlighted the achievements of low-income entrepreneurs. This effort was carried on to the 2005 GMA Programme. The success of the 2004 pilot-event led to a formal collaboration between Citigroup, the United Nations, and student groups from universities across the globe known as the "GMA Student Alliance." Under the umbrella of the International Year of Microcredit, a formal collaboration was established between Citigroup and UNCDF to implement the GMA Programme during 2005.

The second annual GMA Programme highlighted the achievements of low-income entrepreneurs in 30 countries, bringing together thousands of microfinance clients, students, private and public sector professionals, senior government officials and UN agency staff. Core sponsors of the GMA Programme included the Citigroup Foundation, the UN Foundation and UNCDF.

The 2005 GMA Programme received over 3,698 nominations for microentrepreneurs from 425 microfinance institutions (MFIs). Criteria for the awards included innovation, social impact of the microenterprise, use of technology, quality of life improvement and creation of new employment opportunities. The winning contestants rang the opening bells at over 30 stock exchanges, sending a strong signal to the world that building inclusive financial sectors can play an important role in poverty alleviation.

The GMA 2005 received extensive media coverage, with over 100 different news stories featuring the Programme on the radio, TV and newspapers from all four major world regions.

In addition to inspiring and supporting events across the world, the Year brought nine GMA winners from Afghanistan, Bangladesh, China, India, Liberia, Malawi, Peru, Sierra Leone and South Africa to UN Headquarters in New York for the Global Microentrepreneur Awards Gala on 8 November 2005, as part of the International Forum on Building Inclusive Financial Sectors. The winners were honored guests for the evening at an event that also hosted celebrities like Jennifer Lopez, Tim Robbins, Walter Cronkite, Rory Kennedy and Chelsea Clinton, who joined over 400 dignitaries, business leaders and high-level government officials in presenting the awards to each GMA winner. The feature story by Microfinance MATTERS on the GMA Award at the Forum is provided in Annex 8.

3.3. Student and University Networks

More than 100 universities around the world were involved in the Student and University Network for the Year. Students organized microfinance clubs, conferences, lectures and fundraising events, supported activities of the Year, conducted research on country profiles, and contributed to the Microfinance MATTERS Newsletter. Student involvement, both from the United States and at the local level, was a critical factor in the successful implementation and expansion of the GMA Programme in 2005. More than 500 student volunteers from 100 universities dedicated their time and energy to ensure the success of the GMA in each country. Students assisted their country teams by doing research, writing reports and press releases, facilitating communication between different team members, and providing general administrative support. A list of participating country teams, along with student organizations and universities involved in the GMA Programme are provided in Annex 8.1 and Annex 8.2.

3.4. Private Sector Partnerships

The Coordinating Committee sought to establish private sector partnerships throughout the Year, predominantly with various private financial institutions. The relationships varied in depth, from direct sponsorship of the Year to support of various Year events. Companies that played an important role included Citigroup, Lehman Brothers, Credit Suisse Group, Goldman Sachs, Deutsche Bank, ING Group, and VISA International.

3.5. "Made by Microentrepreneur" Products

The Year Secretariat developed a collection of 25 products, labeled with the logo of the Year, to convey to the public the importance of microentrepreneurs. These products were provided through an "online boutique" on the website at www.shopmicro.org. The products represented various world regions, male and female entrepreneurs, young and older craftspeople, various media as well as different market segments. The story of the product and artisan was told in a pamphlet to illustrate the link to microfinance. National Committees and partner organizations were also invited to market these products. Some of the products were sold while others were utilized for a variety of promotional purposes.

Partnerships were established with various producers around the world and organizations that helped develop and market these products. The online store had products from Macedonia, Colombia, Rwanda and Bangladesh. The store engaged microfinance institutional leaders, corporate partners and celebrities who promoted the products.

4. Production of Substantive Outcomes

Two major substantive initiatives began during the Year. First, UNCDF, in partnership with the Financing for Development Office of UNDESA, led an innovative consultation process to identify key constraints and opportunities for the promotion of inclusive financial sectors. The initiative was guided by a multilateral Steering Committee comprising the World Bank, the IMF, the ILO and IFAD. Along with UNCDF, the Swiss Development Corporation (SDC) provided significant financial support. A second initiative led by Mr. Stanley Fischer of the Advisors Group and including various United Nations agencies, the World Bank, IMF and DFID, aimed to understand what type of access poor and low income people have to financial services.

4.1. The "Blue Book" Project

The "Blue Book" follows up on the Monterrey Consensus that Heads of State and Government adopted at the International Conference on Financing for Development in 2002, in which microfinance was explicitly recognized as "important for enhancing the social and economic impact of the financial sector." It was an important part of the activities initiated in association with the International Year of Microcredit that the United Nations General Assembly established to "address the constraints that exclude people from full participation in the financial sector."

During the Year 2005, the United Nations called together a large number of global decision makers and financial sector leaders to explore why the majority of the world's poor people are denied access to basic financial services. This global consultative process invited participation from governments, international organizations, financial institutions, the private sector and members of civil society from more than 100 countries. Regional consultations were held in Asia, Middle East, Africa and Latin America with the help and support of the African Development Bank (AfDB), the African Microfinance Network (AFMIN), the Asian Development Bank (ADB) and many other development and microfinance institutions around the world. A web-based questionnaire and an e-conference were also developed to invite inputs from participants who could not participate in these regional consultations. In May 2005, a Global Meeting was organized with the ILO in Geneva, culminating the consultation process.

The result of this year-long initiative is Building Inclusive Financial Sectors for Development, also known as "The Blue Book," so called because it reflects the inclusive approach of the United Nations in facilitating and sponsoring this important global dialogue and thus uses United Nations blue on its cover.

The "Blue Book" sets forth the results of the global consultations described above. It addresses the challenges to building inclusive financial sectors and provides a compelling analysis of why the vast majority of people do not yet have access to sound financial services. The report, which was released in January 2006 (www.uncdf.org/bluebook), also captures the emerging vision of an inclusive financial sector and suggests a variety of policy tools that national governments can use to extend the reach of the financial sector in their own national contexts. It emphasizes the importance of establishing a national vision of inclusive finance and the cooperation required of all relevant stakeholders. Further, it explores important policy, regulatory, and supervisory issues that all policy makers will need to consider.

The "Blue Book" provides an invaluable tool and guide for policy makers in developing countries who seek to build inclusive financial sectors. It is also a reference point for governments to collectively discuss strategies, share best practices and improve processes. The "Blue Book" will be published in hardcopies at the end of May 2006 in English, French and Spanish. The Executive Summary of the "Blue Book" is attached as Annex 9.

4.2. The Data Project

Although there are numerous case studies illustrating the poverty-reducing potential of direct access to financial services, very little adequate and comprehensive data exists to verify, quantify, and understand more fully the policy implications as well as the business opportunities in this complex area. The breadth and scope of microfinance makes collecting this information a difficult task – one that requires the combined efforts of governments, private financial institutions, consultancies and the major international public financial institutions. However, access to these services is critically important in enabling people to improve their standards of living. Thus, measuring the level of access to basic financial services is critical to understanding and defining the success of microfinance initiatives. This data is vital in determining the correlation between access to financial services and reduced poverty levels as well as providing information on what kinds of governmental policy interventions might strengthen access for microentrepreneurs.

In 2004, under the auspices of the International Year of Microcredit, UNCDF, the World Bank and the International Monetary Fund (IMF) initiated a working group to address current data gaps in who has access to financial services in developing countries, who provides those services and at what cost. A smaller working group comprised of the World Bank, the UK's Department for International Development (DFID) and South Africa's FinMark Trust went on to identify access indicators for gathering and evaluating data from existing surveys as well as defining core concepts for future collection efforts. Extensive work has been underway since last year to develop suitable indicators on access and techniques for gathering the necessary data. The data yielded by these indicators were compiled and published by Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria of the World Bank, providing the first ever cross-country look at depth of access.

First data results from this study showed interesting findings. The report, entitled "Reaching Out: Access to and Use of Banking Services across Countries," detailed the methods used and information gained from a World Bank survey that was conducted in 2003-2004. This initial study was an attempt to test the indicators and survey methodology for accuracy as well as to begin to gather information about access. As a focus, this survey measured household and institutional access to financial services across 99 countries based on information provided by bank regulatory authorities and compared it to firm and household survey data from the same countries. The range of countries chosen for the survey included developed economies as well as emerging markets and transition economies.

The survey results published by Beck, Demirguc-Kunt and Peria offered a first quantified glimpse into the financial sectors of developing countries and presented information about the correlation between banking sector penetration and levels of firm and household use of and access to financial services. The study found that the level of outreach by the financial sector correlated strongly with the level of financial, institutional and infrastructure development across countries, and concluded that greater levels of outreach are tied to higher levels in standard economic development indicators.

The World Bank, DFID and FinMark are currently working towards common approaches in survey work for financial access to the poor, particularly in Africa. Building on this initiative, efforts are under way to carry out a series of survey activities measuring access to financial services spanning seven or eight countries in West Africa, to take place over two phases in 2006 and 2007. Phase 1 will pilot the financial access survey instrument in three countries (Burkina Faso, Mali and Niger) and Phase 2 will extend the survey work to additional four and five countries in West Africa, possibly including Sierra Leone, Togo, Guinea Bissau, and Nigeria.[4]

A larger and more formal effort on data collection and analysis is being proposed with a time-bound mandate and additional resources. Specifically, a Trust fund for Data Work on Household Access to Financial Services in Developing Countries is being proposed with a total amount of $7 to $10 million.[5]

4.3. Inclusion of Microfinance in Various Reports and Agenda

Many people and institutions associated with the Year advocated for and secured the inclusion of microfinance in the Millennium Development Goals (MDG) Report, the Africa Commission Report, the G8 Meeting Report, the IMF Meeting Report, the Human Development Report 2005, the World Economic Forum agenda in 2004 and 2005, and the UN Summit Report. Furthermore, the Year published a summary setting forth information on "Microfinance and the MDGs." Along with the Millennium Project Office, the Year Secretariat sought to emphasize the importance of building financial sector infrastructure and of access to finance in achieving the MDGs.

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[4] Concept Note: Financial Services Network (FSE)/UNCDF, Access to Financial Services in West Africa

[5] World Bank, Proposal for Trustfund for Data Work on Household Access to Financial Services

5. Special Events

More than 300 microfinance meetings, conferences, forums and other events were organized to celebrate the Year and promote debate on how to improve financial services for people living in poverty. More than 4000 people attended these various events over the course of the Year. The Year Secretariat spent considerable time advising on conference agendas and speakers, and preparing talking points.

High level breakfasts and lunches were held in conjunction with key UN events, most notably the ECOSOC High Level segments. Receptions and panel events were organized with NGOs, private sector and a variety of other institutions including ACCION, Opportunity International Citigroup, the Economist, Credit Suisse First Boston (CSFB), the Financial Women's Association (FWA), the Federal Reserve Bank of New York and the Banking Superintendent of New York, BCEAO, CASINS, and UBS. Numerous conferences and panels were organized with universities and business schools including Colombia, Harvard, New York University, University of Chicago, Wharton, Georgetown, University of Southern California, Kellogg, and other organizations such as the World Bank and the IMF, the French Development Agency, DFID and numerous financial institutions. Annex 10 provides a summary list of events held throughout the world to celebrate the Year during 2005.

5.1. Launch of the Year

People all around the world celebrated the launch of the International Year of Microcredit with activities and programmes ranging from theater performance to panels on the future of microfinance to documentary films. Though many traveled to New York to spotlight the spirit of entrepreneurship, others stayed closer to home to plan events that reflected their own culture and microfinance in their own country. The launch of the Year was covered in the media worldwide with more than 50 articles being published in important newspapers and magazines.

The International Year of Microcredit 2005 was officially launched on 18 November 2004. Stock exchanges in fifteen different countries conducted opening ceremonies in a global effort to support the Year and signal the importance of microfinance both as an instrument to reduce poverty on a sustainable basis and as an investment opportunity for the financial sector. The coordination of these stock exchanges was largely due to the efforts of an international non-profit student entity, known as the GMA Student Alliance.

Stock Exchanges from the following countries participated in celebrating the launch of the Year: Indonesia; Pakistan; Philippine; Italy; Dominican Republic; UK; Kenya; Poland; New York; Switzerland; Mozambique; India; Spain; Netherlands; and Romania.

After a kick off gala on the night of the 17 November 2004 in New York, the official launch day at United Nations Headquarters began with a special performance by the UN International School children's choir with world-renowned musicians Anggun and

Souad Massi. The opening ceremony was organized to include participation from a variety of stakeholders including UN officials, VIP guests and performers, delegates, and civil society representatives. The conference hall was filled to capacity and nearly two hundred invited guests from NGOs and private sector also attended. UN Senior level officials, Mrs. Nane Annan, Princess Mathilde of Belgium, Princess Maxima of the Netherlands and the Year Advisors also participated in the ceremony.

A video message from Secretary General Kofi Annan was shown at launches all over the world. Mr. Annan urged those observing the Year to recognize that poor people should be viewed as part of the solution to economic development and not as part of the problem. He reminded us that, "microfinance is not charity but a way to extend the same rights and services to low-income households that are available to everyone else."

Princess Mathilde of Belgium, Emissary of the Year, focused attention on the spirit of entrepreneurship and the importance of the international community's commitment to eradicating poverty to give poor people a better stake in the fabric of society's economic and financial life.

Recounting her personal experiences, Titiek Winarti, the Indonesian winner of the 2004 Global Microentrepreneurship Awards, articulated the need for services catering to women business owners. She had used $50 in savings to start a textiles business employing handicapped people to make and export clothes.

During the afternoon, high-level roundtables looked ahead to the future of the microfinance sector and examined the constraints to inclusive financial sectors. A final plenary session offered the Year Advisors Group the opportunity to summarize the discussions of the day and to present a vision of how to move forward.

5.2. Closing of the Year: International Forum to Build Inclusive Financial Sectors to Achieve the Millennium Development Goals

The United Nations International Forum to Build Inclusive Financial Sectors took place from 7-9 November 2005 at the UN Headquarters in New York, assembling more than 700 representatives from 90 countries. The participants included dignitaries, high-level government officials, corporate CEOs, celebrities and microfinance clients. Panelists and speakers included: Princess Maxima of the Netherlands; Paul Wolfowitz, President of the World Bank; Kemal Dervis, UNDP Administrator; José Antonio Ocampo, Under-Secretary-General of UN DESA; Richard Weingarten, Executive Secretary of UNCDF; Stanley Fischer, Governor of the Bank of Israel; Sir Nicholas Stern, Head of the U.K. Government Economic Service; Sir Ronald Cohen, Chairman of the Social Investment Task Force; and Diana Taylor, Banking Superintendent of New York.

The Forum served as the culmination of the International Year of Microcredit 2005 and provided an opportunity for leaders in international finance and development to discuss and deliberate on how to increase access to financial services for poor people. The goal of the Forum was to create an action plan for building inclusive financial sectors and help bring the world closer to achieving the Millennium Development Goals.

A Panel on 7 November addresses some of the many challenges confronting the delivering of inclusive finance.

The three-day event included nine panels that generated debate on diverse topics such as the potential role of microfinance in post-disaster countries, the role of the private sector, the impact of technology on microfinance, the commercialization of microfinance, Africa's unique microfinance sector, and the regulation of the microfinance sector. Through these panels involving multinational and domestic financial institutions, the World Bank, IMF, Central Banks, private sector representatives, UN agencies and microentrepreneurs, participants deliberated on concrete next steps to increase access to financial services for the estimated four billion people whose demands are currently unmet. Annex 11 provides the agenda, list of participants, along with summaries of the panel sessions.

A major highlight of the three-day forum was the honouring of nine microentrepreneurs who came to New York from Afghanistan, Bangladesh, China, India, Liberia, Malawi, Peru, Sierra Leone and South Africa for the event. The award winners participated in the Global Microentrepreneurship Awards (GMA) and were honored by the UN for their innovative businesses and social impact in the community. They received their awards from celebrity guests at a UN gala dinner on 8 November.

On 9 November 2006, the Federal Reserve Bank of New York joined Diana Taylor, New York Superintendent of Banks, UNCDF and the Advisors Group to the International Year of Microcredit in hosting a high-level seminar on regulatory and supervisory issues related to inclusive financial sectors. This seminar was the first of its kind, bringing global financial sectors leaders together under Wall Street's auspices to

Shakila Sarajulldin of Afghanistan receives her award from Jennifer Lopez at the International Year of Microcredit Gala event. Photo by Jonathan Thurston.

discuss increasing access to finance for poor people around the world, sending a strong signal that microfinance is a key issue in the future of finance.

Central bank governors, government ministers, senior banking executives, and representatives from the world of microfinance from 45 countries participated in the event, which focused on regulation and supervision in the microfinance sector. Key messages that emerged from the Seminar included the following: safety and soundness need to be balanced with flexibility and innovation; microfinance services should not be subject to easier regulations; regulations should be based on maintaining the soundness of the financial sector and making sure that the broadest segment has access at the lowest cost and the lowest risk; and, competition needs to be fostered between lenders to bring costs down. Annex 12 features coverage of the event by Microfinance MATTERS, along with the agenda and list of participants.

6. Moving Forward

In its recommendation to adopt the draft resolution on the Follow-up and Implementation of the Outcome of the International Conference on Financing for Development, the Second Committee of the UN General Assembly noted the significance of the International Year of Microcredit 2005 in raising awareness, sharing best practices, and further enhancing pro-poor financial sectors. The General Assembly also urged member countries to "put best practices into action" and to build on the momentum created by the Year.[6] The full report of the General Assembly is provided as Annex 13.

In addition, following a recommendation of the Advisors Group and seeking to implement on a global basis the approach suggested to building inclusive financial sectors set forth in the Blue Book, the United Nations has decided to establish a UN Advisory Group on Inclusive Financial Sectors. It is expected that this Advisory Group will be formed prior to 30 June 2006.

[6] A/60/487. p. 9.

International Year of
Microcredit 2005

Final Report
Annexes

Annex 1. U.N. Resolution on the International Year of Microcredit 2005

UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/RES/53/197
22 February 1999

Fifty-third session
Agenda item 98

RESOLUTION ADOPTED BY THE GENERAL ASSEMBLY

[*on the report of the Second Committee (A/53/613)*]

53/197. International Year of Microcredit, 2005

The General Assembly,

Recalling its resolution 52/194 of 18 December 1997 on the role of microcredit in the eradication of poverty,

Recognizing that microcredit programmes have successfully contributed to lifting people out of poverty in many countries around the world,

Bearing in mind that microcredit programmes have especially benefited women and have resulted in the achievement of their empowerment,

Recognizing that microcredit programmes, in addition to their role in the eradication of poverty, have also been a factor contributing to the social and human development process,

Bearing in mind the importance of microfinance instruments such as credit, savings and related business services in providing access to capital for people living in poverty,

Noting the support to microcredit in the outcomes of different summit and high-level meetings, including the Twelfth Ministerial Conference of the Movement of Non-Aligned Countries, held at New Delhi on 7 and 8 April 1997,[1] the Ninth Summit of the South Asian Association for Regional

[1] A/51/912–S/1997/406, annex; see *Official Records of the Security Council, Fifty-second Year, Supplement for July, August and September 1997*, document S/1997/406.

99-76933 /...

Cooperation, held at Male from 12 to 14 May 1997,[2] the Assembly of Heads of State and Government of the Organization of African Unity at its thirty-third ordinary session, held at Harare from 2 to 4 June 1997,[3] the statement on economic and financial issues of the Group of Seven, issued at Denver, United States of America, on 21 June 1997, the substantive session of 1997 of the Economic and Social Council, held at Geneva from 30 June to 25 July 1997,[4] the meeting of the Commonwealth Heads of Government, held at Edinburgh from 24 to 27 October 1997 and the Thirteenth Ministerial Conference of the Movement of Non-Aligned Countries, held at Cartagena de Indias, Colombia, on 19 and 20 May 1998,[5]

Noting also that 2005 is the final year of the campaign of the Microcredit Summit, which was held in Washington, D. C., from 2 to 4 February 1997 and which, through its Declaration and Plan of Action,[6] endorsed a global campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services, by that year,

Noting further that the international community is observing the period 1997–2006 as the first United Nations Decade for the Eradication of Poverty,

1. *Proclaims* the year 2005 as the International Year of Microcredit;

2. *Requests* that the observance of the Year be a special occasion for giving impetus to microcredit programmes throughout the world;

3. *Invites* Governments, the United Nations system, all concerned non-governmental organizations, other actors of civil society, the private sector and the media to highlight and give enhanced recognition to the role of microcredit in the eradication of poverty, its contribution to social development and its positive impact on the lives of people living in poverty;

4. *Invites* all involved in the eradication of poverty to consider taking additional steps, including the strengthening of existing and emerging microcredit institutions and their capacities, so that credit and related services for self-employment and income-generating activities may be made available to an increasing number of people living in poverty, and to develop further, where appropriate, other microfinance instruments;

5. *Invites* the Secretary-General to submit to it at its fifty-eighth session a report containing a draft programme of action for the effective observance of the Year, in consultation with all relevant actors including United Nations bodies, under an item entitled "First United Nations Decade for the Eradication of Poverty (1997-2006)" to be included in the provisional agenda of that session.

91st plenary meeting
15 December 1998

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[2] A/52/222, annex.

[3] A/52/465, annex II.

[4] *Official Records of the Economic and Social Council, 1997, Supplement No. 1* (E/1997/97).

[5] A/52/970–S/1998/574.

[6] A/52/113–E/1997/18, annex I.

Annex 2. Responsibilities of the Coordinating Committee for the International Year of Microcredit

Act as a broker by actively promoting, supporting, communicating and advancing the objectives of the Year; facilitating collaborations and linking supply and demand microfinance partners; and encouraging practical actions, activities and knowledge sharing.

Remain a neutral party in order to give equal opportunity to differing geographical, philosophical and methodological perspectives on microcredit and microfinance.

Endorse the usage of the logo for the Year by national committees and strategic partners when their activities are supportive of the objectives and the outcomes of the Year.

Operate within UN policies and guidelines for International Years by ensuring that:

- national committees are formed and report on their actions for the Year;
- international and national level actions are complementary and support development in practical ways;
- the UN system works collaboratively and avoids duplication; and
- the Year is evaluated on the practical achievement of its objectives.

Work closely with National Committees and Strategic Partners to ensure that the activities and outcomes of the Year build upon the existing foundation of good work and do not duplicate efforts.

Annex 3. Priorities and Operational Objectives of the Secretariat of the International Year of Microcredit.

A. Communication Activities

- A significant portion of the public globally will know that 2005 is the Year of Microcredit and will appreciate the links between the availability of sustainable financial services for poor people and the goals of the Millennium Development Declaration, in particular poverty eradication and the empowerment of women.

B. Mobilization of Maximum Partner Engagement

- More than one hundred (100) Member State governments will establish National Committees comprising a wide range of actors in advance of the Year to promote and plan activities that include a diverse range of actors in order to address key themes and objectives.
- Over twenty-five (25) global, multi-stakeholder, high-impact strategic alliances will be formed and will demonstrate that the international community can work together to fulfill the objectives and produce concrete commitments as recommended in the 58th session of the General Assembly.
- At least one hundred (100) schools and universities will identify academic focal points and will engage in research on the constraints to microfinance and how to leverage financial systems to better contribute to the achievement of the MDG's.

C. Production of Substantive Outcomes

- Six (6) large scale, high-level global conferences or summits will include "building inclusive financial sectors" as a priority theme.
- Three (3) Global Reports will be prepared through a multi-stakeholder consultation process on activities and lessons learned during the Year, and on recommendations on how financial sectors can include all people and achieve the MDG's to provide input to the Secretary General's reports.

D. Special Events

- More than sixty (60) countries will organize national and regional public dialogue events on microfinance and engage their government and policy-makers to understand critical issues in microfinance.

Annex 4. Patrons Group for the Year

A. Emissaries for the Year

Her Majesty Queen Rania Al-Abdullah
Jordan

Her Royal Highness Princess Mathilde
Belgium

His Excellency Minister Gilberto Gil
Brazil

B. Advisors Group for the Year

Mr. Stanley Fischer
Chairman of the Advisors Group
Governor
Bank of Israel
Israel

Mr. Fouad Abdelmoumni
Executive Director
Association Al Amana
Morocco

Mr. Rene Azokli
CEO
PADME
Republic of Benin

Mr. Charles Konan Banny
Governor
Central Bank of West African States
Senegal

Mr. Matthew Bishop
Business Editor
The Economist
U.K.

Mr. Gregory Casagrande
President
South Pacific Business Development Foundation
Samoa

Jhr. Drs. Diederik Laman Trip
Chairman
ING Netherlands
The Netherlands

Ms. Marjorie Magner
Independent Advisor
USA

HRH Princess Maxima of Orange
The Netherlands

Ms. Diana Medman
Director
AO Bioprocess
Russia

Ms. Leonor Melo de Velasco
President
Fundacion Mundo Mujer-Popayan
Colombia

Dr. Raghuram Rajan
Economic Counselor and Director
Research Department
International Monetary Fund
USA

Mr. In Channy
General Manager
ACLEDA Bank Limited
Cambodia

Mr. Fazle Hasan Abed
Chairperson
BRAC
Bangladesh

Ms. Marilou van Golstein Brouwers
Managing Director
Triodos International Fund Management BV
The Netherlands

Mr. Enrique Iglesias
President
Inter-American Development Bank
USA

Mr. Christopher Rodrigues
President and Chief Executive Officer
Visa International
USA

Dr. Hernando de Soto
Director
Institute for Liberty and Democracy
Peru

Mr. Washington Sycip
Founder
The SGV Group
Philippines

Mr. Ajay Banga
Chairman and Chief Executive officer,
Citigroup Global Consumer Group and Global Consumer Group International
USA

C. Spokespersons for the Year

Anggun

Angelique Kidjo*

Souad Massi

Baaba Maal**

Natalie Portman

Katrina

Michael Douglas

Aishwarya Rai

* Spokesperson for UNICEF

** Youth Spokesperson for UNDP

Annex 5. Statement of the Advisors Group to the U.N. International Year of Microcredit 2005

United Nations Forum to Build Inclusive Financial Sectors

United Nations Headquarters, New York

8 November 2005

Endorsed by:

- **Stanley Fischer,** Chairman of the Advisors Group, Governor, Bank of Israel
- **Fouad Abelmoumni,** Executive Director, Association Al Amana
- **Rene Azokli,** CEO, PADME
- **Ajay Banga,** Chairman & Chief Executive Officer, Citigroup Global Consumer Group and Global Consumer Group International
- **Charles Konan Banny,** Governor, Central Bank of West African States
- **Matthew Bishop,** Business Editor, The Economist
- **Gregory Casagrande,** President, South Pacific Business Development Foundation
- **In Channy,** General Manager, ACLEDA Bank
- **Marilou van Golstein Brouwers,** Senior Fund Manager, Triodos Bank
- **Fazle Hasan Abed,** Chairperson, BRAC
- **Enrique Iglesias,** President, Inter-American Development Bank
- **Diederik Laman Trip,** Chairman, ING Netherlands
- **Marge Magner,** Independent Advisor
- **Princess Maxima,** The Hague, Netherlands
- **Diana Medman,** Director, AO Bioprocess
- **Leonor Melo de Velasco,** President, Fundacion Mundo Mujer-Popayan
- **Raghuram G. Rajan,** Economic Counsellor and Director, Research Department, International Monetary Fund
- **Christopher Rodrigues,** President and Chief Executive Officer, Visa International
- **Hernando de Soto,** Director, Institute for Liberty and Democracy
- **Washington Sycip,** Founder, the SGV Group

1 The United Nations International Year of Microcredit has exceeded even our expectations as the Advisors Group to the Year. The UN Year has raised the profile of microcredit and of microfinance in general. It has generated a great deal of enthusiasm, among microfinance users and providers, suppliers of capital, commercial businesses and the public of many nations, developed and developing: a record number of national committees - most of which are impressively diverse and actively engaged - have been formed to promote the goals of the UN Year. The critical role that access for poor people to financial services plays in reducing poverty is now much better understood by policymakers. Promoting greater access has become a key part of the international development agenda, including achieving the Millennium Development Goals.

2 As an Advisors Group, we are confident that, although microfinance remains very far from its potential, significant progress can be made in overcoming the remaining obstacles to the spread of financial services that can meet the needs of poor people. We have seen encouraging evidence that microfinance works. We applaud the efforts of thousands of people who have brought it this far. In this note, we make a number of key observations arising from the UN Year, and set out our recommendations for further action. This note contains the collective view of the 20 members of the Advisors Group alone, the result of our meetings and other conversations during the UN Year. It is intended to complement other important work produced as part of the UN Year, such as the "Blue Book" on "Building Inclusive Financial Sectors for Development".

3 The focus of the UN Year quickly expanded from microcredit to the whole of microfinance, including services such as savings, insurance and money transfer, as well as lending. With good reason, the main message of the UN Year became: there is a vital, pressing need to build inclusive financial sectors in which the billions of poor people around the world have access to affordable financial services.

4 At its launch last November, we said that the overarching goal of the UN Year was to "secure a global commitment to develop inclusive financial sectors in which all people have access to the financial services they need to make the best possible use of their human potential". Specifically, we agreed that the UN Year would be a success if it achieved three goals. First, if it increased awareness of microfinance and the conditions in which it can flourish. Second, if it contributed to filling the information gaps about who has access to what financial services, at what cost, what impact this access has, and why access is currently limited. Third, if it secured the commitment of governments to ensure that their fiscal, macroeconomic, regulatory and supervisory policies support rather than stunt the availability of microfinance, and of multilaterals, donors, NGOs and private-sector institutions to treat microfinance as a serious part of the financial sector and as a business concern, not an act of charity.

5 Given these demanding goals, our aim as an Advisors Group has not been to cheerlead but to focus attention on the many difficult questions that arise regarding financial access for poor people. From the start, we have been particularly concerned about the lack of reliable data (except in a few cases) about what financial services are available to poor people, and what services are actually used by them. This lack of data has made it hard to move beyond a general observation that, in sharp contrast to rich countries, a large majority of the populations of poor countries is essentially ignored by the mainstream financial sector. In our view, the lack of good data has made it hard for governments and others to make well-designed policy, hard for potential providers of financial services to poor people to accurately judge the need/opportunity, hard for multilaterals and donors to judge if their actions are helping or hindering the financial sectors in which they intervene, hard for investors to assess the market opportunities, and hard even to reach empirically sound conclusions about the relationship between financial access, poverty and economic growth.

6 The generation of good data has therefore been one of our priorities during the UN Year. Specifically, the Advisors Group has brought together central bankers, leading economists and statisticians, including from the UN, World Bank, IMF, Britain's Department for International Development (DFID), the Central Bank of West Africa (BCEAO) and the private and non-government sectors, to develop common measures of financial sector inclusion and to answer the central question of how many poor people have access to what kinds of financial services and what is the quality and impact of those services.

7 In September, the International Monetary and Financial Committee of the Board of Governors of the IMF observed in the official communiqué at its annual meeting that "2005 is the International Year of Microcredit. The Committee notes the IMF's role in improving data availability on microcredit and in addressing microcredit issues in the Financial Sector Assessment Programme". Following on this, we urge the IMF and the World Bank to include more of an analysis of the financial services targeted at poor people in the various statistics it collects. We expect that financial access will increasingly be recognised as a key indicator of the efficiency of a country's financial sector.

8 Although much work remains to be done, we are delighted that the process of gathering good data about the access of poor people to financial services has begun. Already it has yielded two notable achievements. The first is a window into the current state of microfinance. The second is that it has provided a foundation on which multi-year comparisons between nations can be built. We strongly recommend that this work continue, so that inadequate data will soon cease to be a factor slowing the spread of microfinance.

9 We are particularly hopeful that countries will soon employ common measures of financial inclusion developed during the UN Year by the World Bank and DFID as an indicator of progress in reducing poverty. We recommend that national governments (and their regulators and supervisory institutions) adopt common indicators and methodologies and work with the IMF, the World Bank and others in using these data to assess the breadth, depth and inclusiveness of their financial sectors. We also recommend that multilaterals and other donors support governments in this effort and help them to strengthen their statistical collection systems and that the UNDP Human Development Reports, amongst other publications, include this data.

10 We note recent empirical analysis by the World Bank, which for the first time shows that increased access to finance helps to reduce poverty (rather than, as is sometimes argued, that greater financial access is merely a consequence of reductions in poverty). The results support the view that building an inclusive financial sector should be considered a driving force of economic development and poverty reduction, and we hope that the increased availability of data about microfinance will encourage further research into its potential role.

11 The World Bank analysis is noteworthy in two other respects. First, it confirms that access to financial services remains extremely limited in most poor countries. Although throughout the UN Year we have been encouraged by numerous examples of how microfinance can transform the lives of poor people, it is clear that the biggest challenge for the next few years is to provide microfinance on a significantly greater scale than anything we see in poor countries today. A particular challenge is in rural areas that can be especially costly to reach.

12 Second, the World Bank analysis also finds that government ownership of the financial sector is inversely correlated with access. This underlines a crucial lesson for policymakers as they consider how to "scale up" microfinance: the private sector will play a critical role in enabling poor people to receive financial services.

13 This does not mean that governments should ignore microfinance. On the contrary, we believe that governments have a crucial enabling role to play in increasing access to financial services.

14 In general, financial services are more likely to be available to poor people in countries which are essentially well-governed: with sensible macroeconomic policies aimed at keeping inflation and interest rates low, a competitive economy with strong antitrust laws, limited red tape, clear enforceable property rights (for poor people as well as rich, for men as well as women) and effective law enforcement, including against corruption.

15 In addition, there are several crucial areas of government policy that specifically relate to microfinance. One common temptation is for governments to impose ceilings (caps) on the rate of interest that can be charged on micro-loans. Such

ceilings have a simplistic political appeal, by appearing to ensure cheap credit for poor people, but in practice interest-rate ceilings tend to reduce the supply of credit, especially to the poorest would-be borrowers, who are driven instead to borrow from illegal money-lenders whose rates are not capped, and whose collection methods are notorious. Interest-rate ceilings can also reduce the transparency of the cost of credit to borrowers, as lenders seek to evade the caps by adding various service charges and application fees. We strongly recommend that governments do not impose interest-rate ceilings on micro-lenders. The evidence shows that a far more effective way for governments to ensure that interest rates are not excessive is to foster healthy competition within the financial sector.

16 Government regulations on the collection of deposits often prevent, or impose a significant cost on, micro-lenders providing other financial services, in particular savings accounts. These regulations are often intended to protect savers from bank failure, which is clearly a desirable goal. However, they raise the cost of capital to micro-lenders, which are prevented from operating as normal banks that lend money that has been deposited with them. Moreover, these regulations can mean that poor people are denied access to savings accounts, and thus have to save by methods that involve far greater risks than that of bank failure. We recommend that financial sector authorities should devise prudent and appropriate means to make it possible for microfinance providers to qualify to accept deposits.

17 Finding the appropriate balance between consumer protection and a light regulatory burden is not easy, but getting it right should be a priority for governments everywhere, and particularly in poor countries. We believe that too often well-run microfinance institutions are being overly constrained by regulations (particularly with regard to restrictions on what services they can provide) as they look to increase the scale and scope of their operations. We recommend that governments, assisted by the relevant multilaterals, urgently review their regulations to ensure that they encourage prudent and sound provision of financial services to poor people. We also recommend that priority is given to training competent bank regulators, accountants and auditors, lawyers and credit-raters, who are often in short supply in poor countries. This may be a fruitful area for international assistance, from multilaterals and national governments, and from private donors. We commend the Bank for International Settlements, the Federal Reserve Bank of New York, the Banking Superintendent of New York, Citigroup and the Central Bank of West Africa (BCEAO), leading trainers of central bankers and other regulators and supervisors in developing countries, for including issues pertaining to microfinance in their training programmes. We recommend that others follow their example.

18 Regarding consumer protection, there are at least three areas in which government can play a helpful, enabling role. First, we recommend that lenders be required to inform borrowers clearly of the full cost of their borrowing, including

interest rates and any other fees. Such a requirement ought not to impose significant costs on either lenders or regulators.

19 Secondly, we are concerned that, in some countries, laws to protect privacy are preventing the emergence of credit bureaus. Such credit bureaus can greatly reduce the cost of lending – and thus increase the overall supply of loans - by giving lenders better information about the creditworthiness of borrowers. Some rich countries have managed to combine strong, effective privacy protection with sufficient freedom to share financial information to enable viable credit bureaus, and we recommend that poor countries follow their example and take measures to facilitate and encourage the establishment of credit bureaus. Furthermore, we encourage efforts to help microfinance providers improve their information systems, not least so that these bureaus can receive relevant information.

20 Third, deposit protection is often woefully inadequate in poor countries. Although deposit protection schemes, such as insurance, can have some downsides, including a heavy regulatory burden and the creation of a moral hazard that can make savers careless of who they entrust with their money, combined with effective but light regulation such schemes can greatly increase consumer confidence in the financial system. A lack of such confidence is often – and not unreasonably – a serious constraint on the growth of financial systems. We recommend that governments explore whether they can sensibly and cost-effectively introduce deposit insurance or other protection scheme for savings accounts provided to poor people.

21 A difficult issue for suppliers of capital for microfinance is how or if they should subsidize the provision of financial services to poor people. Here there is no simple answer. We observe that even at current levels of subsidy, many microfinance institutions find themselves constrained by a lack of funds. Increasingly, they are looking to find other sources of capital, not least by focusing more on generating profits from their activities, which in turn makes them attractive to private-sector investors. We welcome this increasingly commercial approach to serving poor people, not least because we believe that only the private sector will have the ability to provide the organization, expertise and capital that can drive a rapid increase in access to financial services.

22 Whether it would even be desirable for more subsidized capital to be made available is debatable. In practice, government or other donor subsidy of microfinance has often gone hand-in-hand with a lack of transparency, significant corruption and general inefficiency, which in turn has distorted the provision of financial services in ways that have hindered their long-run development. Whilst there may be poor people to whom it will never be commercially viable to provide financial services – in which specific circumstances, a case can arguably be made for subsidy (but perhaps a better case for social safety nets) – we believe that the best hope for a rapid increase in access to financial services lies in the provision of these services

to poor people becoming more commercially-driven. We therefore recommend that governments and others are restrained in their provision of subsidized capital to microfinance, and aim to deploy it in ways that encourage, not discourage, commercially-driven capital into the sector. For instance, governments and other donors might more usefully invest in the development of the regulatory infrastructure within which microfinance can thrive, in seeding new microfinance institutions and new technologies that speed the increase in financial access, and in providing relevant education and training to users and providers of microfinance.

23 We also welcome the increasing enthusiasm of many providers of microfinance – old and new – for delivering financial services to poor people on a commercially sustainable basis. Though many established microfinance institutions are rightly proud of their charitable roots, a growing number of them are willing to talk about possible partnerships with established commercial financial institutions, about scrutinizing loan portfolios, retailing insurance policies underwritten by commercial insurers, and even of making profits and perhaps becoming listed public companies. Some of the best institutions are now reducing their dependence on donor financing, exposing their operations to critical ratings agencies, and hunting out private capital. We also welcome the growing interest of commercial financial institutions in serving poor people, who until recently they often avoided as customers. Encouraging examples of commercial institutions entering microfinance include large banks in Latin America, Asia and Eastern Europe, and some of the major international banks based in rich areas of the world including America, Western Europe, and Australia.

24 Nevertheless, rhetoric is certainly running ahead of action. Although a growing number of institutions and governments talk about treating people who are poor as clients and not beneficiaries, they often continue to ghettoize microfinance within the philanthropic arms of their organizations, where resources and accountability are typically limited, or otherwise evaluate them in non-commercial ways. A culture change is still required in many of the established institutions that provide financial services to poor people. In particular, we recommend that providers of microfinance become more transparent, especially about their loan problems and about the degree to which they depend on subsidized capital, and we recommend that they subject their performance data and accounts to independent audit. Likewise, whilst we wholeheartedly welcome the growing interest in microfinance of established mainstream national and international financial institutions and even some industrial firms, we urge them to back up their rhetoric with more substantial action.

25 We note with some concern the fact that much of the commercial capital available to microfinance providers is foreign, and therefore carries significant exchange-rate risk. This risk has been sufficiently large to bankrupt some microfinance providers in the past. We recommend that foreign suppliers of capital to microfinance institutions develop ways of providing such funding in local currency. We further

recommend that governments examine whether their own policies are constraining the supply of local capital to microfinance.

26 We are also concerned about those multilaterals and other donors who, through their actions, appear wedded to microfinance remaining an activity subsidized directly through cash contributions or indirectly through technical assistance and subsidized financing. We recommend that multilateral institutions and other donors give serious thought to how they can use their resources more effectively to develop commercially sustainable microfinance.

27 We have been greatly encouraged by the growing interest in microfinance of a new generation of philanthropists, many of whom made their fortunes as entrepreneurs during the recent wave of technological innovation. We recommend that they bring that entrepreneurial mindset to microfinance, not least so that they avoid replicating existing subsidy-based microfinance.

28 We are also greatly encouraged by various attempts now underway to use technology such as mobile telephony to dramatically lower the cost of providing financial services to poor people. This may offer large economies of scale and reduce the need to deploy traditional high-cost bank branch networks. We recommend that donors do what they can to spur this technological innovation in the early stages where it may not be able to generate an economic return. We also recommend that regulators have an open mind to such technological innovation, which may challenge traditional approaches to providing, and regulating, financial services.

29 Throughout the UN Year, we have been greatly encouraged by the active role played by clients, and aspiring clients, of microfinance institutions. It is their demand, more than anything, that is driving the growth of microfinance, and their insights have been invaluable. We recommend that providers of microfinance continue to actively consult and otherwise involve microfinance clients to ensure that the financial services they offer truly meet their needs.

30 With the International Year of Microcredit, the UN has exemplified its role as a neutral broker, bringing together disparate parties to address an issue of critical importance. We commend the UN for the seriousness with which it has undertaken this task. In the light of this, we note that much of our work as an Advisors Group has been to initiate activities that will not be completed until after the end of the UN Year. Although our role concludes with the UN Year, and we do not wish to extend our mandate, we recommend that the UN should appoint a group of experts, for a limited period not exceeding two years, to see the work we have begun through to completion.

31 All that remains is to congratulate the UN for dedicating this year to such an important subject, and to thank all the many people involved in making the UN International Year of Microcredit such a success.

Annex 6. Summary of Newsletter Themes for Year 2005

Month	Topic	Featured Guest	Question posed to microfinance community
Jan	International Year of Microcredit	Fatimata Lonfo, Microentrepreneurs and GMA winner	Is channelling commercial capital to MFIs an effective way to scale-up?
Feb	The Indian Ocean Tsunami and the Role of Microfinance	Ambassador Rezlan Jenie, Indonesian Ambassador to the United Nations	What do you think the role of microfinance should be in the post-disaster context?
March	Challenges to Building Inclusive Financial Sectors	Philippine Central Bank Governor Rafael B. Buenaventura	In a year of global efforts to fight poverty, the issue of access to financial services has been largely ignored. What role does extending financial services to poor people play in eradicating poverty and achieving the Millennium Development Goals, if any?
April	Microfinance in Africa	Charles Konan Banny, Governor, Central Bank of West African States	According to the Report of the Commission for Africa, "MFIs alone are not the answer. Banks and other financial institutions, domestic and international, have far greater resources to take up the challenge of enterprise financing and come up with innovative financing schemes." Q. Do you agree? If not, why? If so, what concrete steps can be taken to generate greater involvement by banks and other financial institutions in responding to the financial needs of poor people in Sub-Saharan Africa?
May	Innovations and the Future of Microfinance	Christopher Rodrigues, President and CEO, Visa International	What is the most important innovation to come out of the microfinance sector in the last five years, and what was its impact on the industry?
June	Talking about the Future of Microfinance	Matthew Bishop, Business Editor of the Economist	TBD

Month	Topic	Featured Guest	Question posed to microfinance community
July	Microfinance in the Middle East and North Africa	Bassem Khanfar, General Manager of Jordan's new National Bank for Financing Microprojects, and former General Manager, Microfund for Women	TBD
Aug	Information Asymmetries?: Do We Have Good Data on Microfinance?	Stanley Fischer, Governor, Bank of Israel	TBD
Sep	Microfinance and the Millennium Development Goals	Salil Shetty, Director of the Millennium Campaign	TBD
Oct	Microfinance and the Private Sector	Diana Taylor, New York State Banking Superintendent	TBD
Nov	Summing up the Year of Microcredit	Kofi Annan, UN Secretary General	TBD

Annex 7. National Committees Update

During the International Year of Microcredit 2005, 101 countries have joined the global effort to build inclusive financial sectors, aiming to create financial opportunities for the world's low-income people. More than 60 countries have established formal National Committees or Focal Points. Their work to promote and facilitate microfinance is truly exceptional.

Region	Total # of Countries	Total # of National Committees
Africa	31	19
Asia	17	10
Latin America	19	12
Middle East/Eastern Europe	15	8
OECD	19	12
Total	101	61

List of Countries

- Argentina
- Jamaica
- Australia (Focal Point)
- Kenya
- Azerbaijan
- Luxembourg
- Bangladesh
- Madagascar
- Belgium
- Malawi
- Benin
- Mexico
- Bhutan
- Moldova
- Bolivia
- Mongolia
- Bosnia, Herzegovina
- Morocco
- Botswana
- Nepal
- Brazil
- Netherlands
- Bulgaria
- Nicaragua
- Burkina Faso
- Niger
- Burundi
- Nigeria
- Canada
- Pakistan
- Chile
- Philippines
- China
- Poland
- Colombia
- Russia
- Comoros
- Senegal
- Ecuador
- South Africa (Focal Point)
- El Salvador
- Spain (Focal Point)
- France

- Trinidad and Tobago
- Germany
- Tunisia
- Ghana
- Turkey
- Guatemala
- United Kingdom
- Guinea Bissau
- United States
- Hungary
- Uzbekistan
- Indonesia
- Zimbabwe
- Iran
- Togo
- Italy
- Mali
- Ivory Coast
- Central African Republic

Facts and Figures:

- National Committees have attracted active engagement from several governments. Presently, 215 government institutions, representing 57 national governments, are involved in the National Committees. Microfinance National Strategies have been developed by 23 of these governments to reach beyond 2005. The creation of new - or improvement of existing - financial tools to increase financial access for their low-income citizens are being supported by 26 governments. Approximately 31 countries are evaluating existing laws and/or developing new laws to create environments that will promote inclusive financial sectors. As many as 13 countries have designated a public institution, or a new position within an existing institution, to be in charge of the microfinance sector.

- Active membership in the National Committees includes 33 Central Bank Governors and 93 banks and bank associations.

- During the Year, Heads of State or representatives of 28 countries gave statements that recommended national strategies and promoted the development of microfinance. The Head of State or representatives of 20 of these countries have pledged to develop inclusive financial sectors in the future.

- Nearly 373 conferences, seminars and workshops have been organized by 72 countries during the Year.

- Public awareness campaigns to promote the benefits of microfinance have been developed by 71 countries. Of these, 41 countries have developed innovative means to raise public awareness such as: films, contests, parades, rallies, documentary-films, theatrical plays, caravans, exhibits and trade shows. A national microfinance commemoration day was established by 4 countries. Nearly 46 of the 71 countries have developed innovative communication campaigns through posters, flyers and special supplements in newspapers, special bulletins, booklets, brochures, magazines and other printed materials. In 39 of them, communication campaigns have used DVD's, radio, TV Commercials, national broadcasting centers or other electronic media. Websites devoted to the UN Year of Microcredit have been launched in.24 countries.

- Successful, local fundraising activities have been conducted in 29 countries and 30 countries have developed outstanding initiatives such as the launch of microfinance performance standards, the creation of an investment fund dedicated to microfinance, the implementation of commercial banks best practices, etc.
- National databases on the microfinance sector have been developed in 13 countries.
- As many as 46 countries have performed research on access to financial services, including assessments of the availability and demand for microfinance, evaluation of current practices, analysis of opportunities and challenges, study of the interest rates market, and sources of refinancing and structure of the funds.
- Training for Microfinance institutions and other stakeholders have been organized in 31 countries and 10 countries have established centers that provide information and assistance for Microfinance Institutions and clients.
- Approximately 27 countries have promoted the creation of microfinance coursework, competitions, and microfinance clubs in local universities. A total of 96 top universities around the world have been engaged with the UN International Year of Microcredit.
- A total of 85 private sector organizations are represented in the National Committees. formal partnerships with the corporate private sector have been developed in 24 countries
- Active members of the National Committees include 265 microfinance networks, 59 multilateral organizations and 45 cooperation agencies. Due to the presence of such networks, 37 countries have created regional committees or have coordinated regional initiatives; 25 countries have promoted microbusinesses, local markets and other points of sale for microentrepreneurs; and 40 countries have built or strengthened local, regional or international microfinance partnerships/networks.

Key Highlights:

- The Government of Benin has developed a National Policy for Microfinance.
- Ghana's National Committee sponsored an exposure visit for its government representatives to countries with best-practice microfinance systems: Bangladesh, Ethiopia and Uganda. The visit was intended to arm the team with first hand information on national policy, institutional and regulatory frameworks as well as capac-

ity building and coordination mechanisms of the countries visited in order to assist in formulating the Ghana Microfinance Policy (GHAMP)

- Nepal Rastra Bank has announced a policy to institutionalize the Rural Self Reliance Fund into a wholesale lending institution and to establish a National Microfinance Fund. The bank has committed to create a Microfinance National Policy including formulation of Umbrella Microfinance Act and establishment of Second Tier Institution for effective supervision, monitoring and promotion of microfinance institutions in Nepal.
- The Government of Bangladesh has decided to bring microfinance institutions under regulatory framework with a view to ensuring more transparency, accountability and helping further grow the sector.
- The Colombian government has begun a discussion hosted by the main microfinance actors in the country to ensure the legal, fiscal and regulatory systems promote microfinance development. Commercial Banks have exceeded the amount they committed to lend to microentrepreneurs in an agreement they signed with the Ministry of Commerce, Industry and Tourism.
- The government of Guatemala has developed the National Policy for the Development and Competitiveness of the Small and Medium Enterprise. Its official launch will be on November 22, 2005.
- On April 22, the Project "Emergency Support for the Development of Microfinance in Guinea-Bissau" was launched by the Ministry of Economy and the UNDP representative.
- The Philippines organized the National Microfinance Summit where the Philippine Declaration on Microfinance was signed. Also, the Memorandum of Agreement by concerned agencies to adopt the Uniform Set of Performance Standards for All Types of Microfinance Institutions was introduced.
- The President of the Republic of Uzbekistan has signed two decrees promoting microfinance sector development in July and August 2005.
- The National Committee of Kenya raised USD 22,000 from Danida, for provincial campaigns in Mombasa and Embu, and has been lobbying for the passage of a Microfinance Bill.
- The Central Bank of Nigeria drafted a microfinance policy to guide activities, which was launched at the national seminar on 1st November 2005.

Annex 8. GMA at U.N. Headquarters - 8 November 2005

The International Year of Microcredit Celebrates Entrepreneurs Across the Globe: Winners Honored in Stock Exchange Ceremonies and at UN Gala in New York

From the Microfinance MATTERS, November 2006 Issue.

The Global Microentrepreneurship Awards (GMA) Programme is one of the hallmark initiatives of the International Year of Microcredit, and serves to celebrate and reward outstanding microentrepreneurs around the world. By placing the microentrepreneurs themselves on center stage, the GMA Programme increased the visibility of microentrepreneurs to national governments, the private sector and donors alike, bolstering investment in microfinance across the globe. The GMA Programme expanded from eight participating countries in 2004 to 30 countries in 2005, and brought together thousands of microfinance clients, students, private and public sector professionals, celebrities, senior government officials and UN agency staff around celebrating the tremendous dedication and commitment of poor and low income entrepreneurs.

GMA Programmes in the 30 participating countries received over 3,350 nominations of microentrepreneurs from 425 microfinance institutions (MFIs). This is a testament to both the success of microenterprise and to the determination of individual microentrepreneurs. Criteria for the awards included innovation, social impact of the microentrepreneur, use of technology, quality of life improvement and creation of new employment opportunities. The winning contestants rang the opening bells at over 30 stock exchanges, sending a strong signal to the world that building inclusive financial sectors can play an important role in poverty alleviation.

Student involvement, both from the United States and at the local level, has been a critical factor in the successful implementation and expansion of the GMA Programme in 2005. Over 500 student volunteers have dedicated their time and energy to ensuring that the GMA in each country was a success. Students assisted their country teams by doing research, writing reports and press releases, facilitating communication between different team members and providing general administrative support.

Media coverage has been a victory as well, with over 100 different news stories covering the GMA 2005 on the radio, TV and newspapers from all four major world regions. As participating countries hold their closing ceremonies throughout November, news coverage is likely to increase.

Asia

In Asia, the GMA Programme was implemented in eight countries: Afghanistan, Bangladesh, China, India, Indonesia, Mongolia, Pakistan, and the Philippines. Together, MFIs in these countries submitted over 2,000 applications, illustrating the growing importance of microfinance as a solution to poverty in this region. The GMA

Sierra Leone's Mama Fatu Kanu thanks Christina Barrineau, Chief Technical Advisor to the International Year of Microcredit

Chelsea Clinton looks on as Shamima Kathun of Bangladesh accepts her award

India received over 700 applications for its competition, and the GMA Bangladesh also generated a substantial response with 425 applications received to date. In China, over 50 MFIs submitted applications on behalf of their clients to participate in the GMA competition. In Mongolia, a member of Parliament, Mr. Zandanshatar, was appointed to Chairman of Mongolia's GMA Advisory Council. He said: "The focus of the GMA Programme is the microentrepreneur. However, it could benefit broader stakeholders in Mongolia such as banks and microfinance institutions, NGOs, the private sector and the country of Mongolia itself. I hope the GMA will contribute to promote Mongolian entrepreneurial culture and establish strong partnership with all stakeholders".

Africa and the Middle East

The success of the GMA has been echoed in other regions around the world. In Africa and the Middle East, a total of 13 countries participated in 2005: Egypt, Jordan, Lebanon, Morocco, Democratic Republic of Congo, Kenya, Liberia, Madagascar, Malawi, Nigeria, Senegal, Sierra Leone, and South Africa. Over 500 applications from more than 100 MFIs were submitted on behalf of microentrepreneurs from this region. In Jordan, Ahmad Al Ashmawi, Executive Director of Sanabel, the Microfinance Network of the Arab Countries, praised the GMA Programme: "This award scheme represents an important tool for creating awareness about microfinance at all social levels: family and community of the winner, students, the press, business community, academics as well as decision-makers in Jordan."

Latin America

Latin America has experienced an exciting year of GMA Programmes in seven countries: Brazil, Chile, Colombia, the Dominican Republic, Mexico, Peru, and Venezuela. Together, these countries have generated over 500 applications, with both Brazil and Chile receiving more than 100 applications each. Two hundred MFIs from across the continent nominated microentrepreneurs. Student participation was an important part of the GMA in many countries: a total of 93 students in Latin America contributed their time and efforts to ensure the successful design and implementation of the GMA Programme.

Eastern Europe

The final region participating in 2005 is Eastern Europe, with GMA Programmes in Russia and Poland. The response in the region was overwhelmingly positive, with Russia receiving 100 applications for the competition. In Poland, 17 different MFIs submitted 96 applications on behalf of Polish microentrepreneurs. The media campaigns in both these countries were extremely active, helping promote microfinance at the national level.

Global Microentrepreneur Awards Gala at UN Headquarters in New York

In addition to initiating celebrations across the world, the International Year of Microcredit brought nine GMA winners from Afghanistan, Bangladesh, China, India, Liberia, Malawi, Peru, Sierra Leone and South Africa to UN Headquarters in New York for the Global Microentrepreneur Awards Gala on November 8, 2005, as part of the International Forum on Building Inclusive Financial Sectors. The winners were honored guests for the evening at an event that also hosted celebrities like Jennifer Lopez, Tim Robbins, Walter Cronkite, Rory Kennedy and Chelsea Clinton, who joined over 400 dignitaries, business leaders and high-level government officials in celebrating the tremendous achievements of the microentrepreneurs. The celebrities presented awards to each GMA winner. For many winners, this was the first time to travel outside of their country and, in some cases, village in their lives.

The winners from Afghanistan, Bangladesh, China, India, Malawi, Peru, and South Africa all thanked the microfinance institutions and banks that made their success possible. Ms. Xu XiaoEn from China said in her acceptance speech: “I wish that our efforts here will bring more people to realize the importance of microcredit, and that more financial services could be accessible to poor people, and I wish that all the people in the world will live a happy life in the future”.

Chrissie Akulila Katundu of Malawi said she thought microfinance “was a historic happening” for the women of Africa, and thanked everyone for taking time to attend

Walter Cronkite delivers the keynote address the audience at the 2005 International Year of Microcredit Gala event.

Marc Anthony sings his heart out at the 2005 International Year of Microcredit Gala event.

the event. It was revealed that night that in addition to successfully farming cassava and making it into flour, she has adopted 20 orphaned children, four of whom have attended college with her support.

Milkov Machaca Valenzuela, the winner from Tacna, Peru runs a microbrewery employing five people. Milkov thanked his supporters in Peru for making his success possible and also thanked, "everyone for enabling me to represent thousands of Peruvian microentrepreneurs and to show that with hard work, one can achieve success".

Mama Fatu Kanu was the final award recipient of the evening. A 70 year old widow from Sierra Leone, Mama Fatu farms tobacco, rice, and vegetables and brews a local gin. The success of her business has enabled her to pay for her son's college fees as well as build a home for herself and her family. She said, "I am illiterate, I cannot read or write English, but today, I am in New York. I thank you very much".

Renowned actor, writer, director and activist Tim Robbins acted as host of the event. He set the tone with a welcome speech in which he said, "Microfinance is a way for the world community to break this vicious circle of poverty, vulnerability, and economic anonymity. A way to give people access to bank accounts, the means to send a paycheck home, the ability to borrow small amounts of capital to seed a business, the tools to build and protect their assets or to provide education, health and nutrition for their families". He went on to say that: "Microfinance is development in its purest sense. It brings people in from the margins, allowing them to participate in and contribute to both economic and social progress. It recognizes that these people are not the problem, but rather the solution".

World famous entrepreneur Richard Branson, whose many accomplishments include founding Virgin Atlantic Airlines, presented the award to the winner of the GMA from South Africa. Before inviting Ms. Liza Troskie to the stage, Mr. Branson told the crowd a story of his personal experience with microfinance. Near his game reserve in

South Africa, he met a female elder who told him that with US$200 she could purchase a sewing machine and create jobs and goods to sell. He gave her the money and forgot about it, assuming he would not be paid back. Several months later, he returned to the reserve and four women approached him with a beautiful garment and told him the woman he had lent the money to sell more goods they had made in a nearby market. They all worked for her and repaid him the US$200. He ended the story by saying: "Five jobs had been created from US$200, which certainly got me thinking and made me realize what a wonderful thing it was", indicating how a small investment can yield big, positive changes in the lives of people involved.

World famous news anchor Walter Cronkite gave the keynote address of the evening on behalf of UN Secretary-General Kofi Annan. He spoke about the difficulty poor people face in changing their situation when they do not have access to the banking services we in the US take for granted. He began his speech by saying, "Tonight we honor successful entrepreneurs, who were able to access financial services to realize their hopes and dreams. But amidst the celebration, we must also remember that these incredible victories are all too rare. It's hard for many of us here in this room to imagine what type of house we would live in if no bank would offer us a mortgage." He applauded the efforts of the GMA winners by saying, "as our honorees tonight have shown us, microfinance allows people to move beyond day-to-day survival, toward planning for the future…We must move forward from the International Year of Microcredit into the Future of Microfinance. Only when the majority of the world's poor and disenfranchised people have real, tangible opportunity, will we be able to say our work is done".

By rewarding individual microentrepreneurs, the Global Microentrepreneurship Awards Programme has helped highlight the hard work and dedication of microentrepreneurs and foster stronger microfinance sectors in participating countries. The overwhelming success of the GMA Programme is evident in the number of participating MFIs, the vast number of applications submitted, the attention of the worldwide media, and the bonds developed between individuals, national governments, and private sector businesses across the globe. The GMA 2005 has not only helped to move closer toward promoting microentrepreneurship, but has inspired hope and dedication to supporting microfinance to alleviate poverty around the world.

Endnotes

(1) To view this event in its entirety, please visit the following link, and select 08 November 05 "Special Event: Microentrepreneurship Awards Dinner": http://www.un.org/webcast/2005.html

(2) For more information on the UN International Forum on Building Inclusive Financial Sectors, please visit: http://www.uncdf.org/english/microfinance/newsletter/pages/2005_11/news_forum.php

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C/E EUROPE/CIS

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(P) Countries that were part of the 2004 student entity GMA pilot

(**) Least Developed Country

(NC) LDC that do not have a Citigroup presence. Their inclusion in the 2005 GMA will depend on student entity and UNCDF agreement.

Annex 8.2 Student and University Networks

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Annex 9. Building Inclusive Financial Sectors for Development- Executive Summary

INTRODUCTION

Why are so many people and firms in developing countries excluded from full participation in the financial sector? That is the fundamental question that claims the attention of Building Inclusive Financial Sectors for Development.

The Monterrey Consensus that Heads of State and Government adopted at the International Conference on Financing for Development in 2002 explicitly recognized that "microfinance and credit for micro, small and medium enterprises…as well as national savings schemes are important for enhancing the social and economic impact of the financial sector." The United Nations General Assembly designated 2005 as the International Year of Microcredit to "address the constraints that exclude people from full participation in the financial sector." In this context, the UN Department of Economic and Social Affairs (DESA) and the UN Capital Development Fund (UNCDF) undertook a project to analyse the obstacles to financial inclusion and to report on efforts to overcome those obstacles in a variety of countries.

A multilateral agency group representing the World Bank, the International Monetary Fund, the International Fund for Agricultural Development, and the International Labour Organization supported the DESA and UNCDF staff team. This team was further supported by the Consultative Group to Assist the Poor, the Advisors Group of the International Year of Microcredit, the Group of Friends of the Year of Microcredit, the African Microfinance Network, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the Economic Commission for Latin America and the Caribbean, Women's World Banking, the World Savings Banks Institute, and the Microcredit Summit Campaign.

As an additional process, a series of regional "multi-stakeholder consultations" was organized in the Middle East, Africa, Asia and Latin America. The views of governments, international organizations, financial institutions, the private sector and civil society were gathered in informal roundtable discussions at these meetings. A global e-conference in the spring of 2005 mobilized over 800 participants. Material was also gathered from an on-line questionnaire, in-depth interviews with experts in the field and seminars organized by partner organizations. This consultative process culminated in a May 2005 Global Meeting on Building Inclusive Financial Sectors in Geneva.

The result of these extensive collaborations is this book. It offers a vision of what inclusive finance could be. It does not dictate policy prescriptions to realize that vision. Even before publication, the book has gained some notoriety in the microfinance industry where it has become known as the "Blue Book" after the colour of the United Nations flag. It is indeed a blue book, but it is not a "blueprint."

While there are areas of consensus, there are also many issues on which there are diverging views and different solutions proposed and implemented in different countries. The Blue Book is intended to be a guide and companion to national dialogues among relevant stakeholders that individual countries may wish to convoke to develop their own national strategies.

I. SETTING THE STAGE FOR BUILDING INCLUSIVE FINANCIAL SECTORS

> "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector…Together, we can and must build inclusive financial sectors that help people improve their lives."
>
> UN Secretary-General Kofi Annan, 29 December 2003,
> following adoption of 2005 as the International Year of Microcredit

In most developing countries, financial services are only available to a minority of the population. The majority have no savings accounts, do not receive credit from formal financial institutions, and have no insurance policies. They seldom make or receive payments through financial institutions. The limited use of financial services in developing countries has become an international policy concern.

The reason for concern about widespread financial "exclusion" in developing countries is straightforward: access to a well-functioning financial system can economically and socially empower individuals, in particular poor people, allowing them to better integrate into the economy of their countries, actively contribute to their development and protect themselves against economic shocks.

The central question asked by this book is how to bring access to these fundamental services to all people in developing countries and thus accelerate their economic development and that of their countries. Inclusive finance — safe savings, appropriately designed loans for poor and low-income households and for micro, small and medium-sized enterprises, and appropriate insurance and payments services — can help people help themselves to increase incomes, acquire capital, manage risk, and work their way out of poverty.

The starting point for discussion regarding building inclusive financial sectors is the recognition that mainstream for-profit financial institutions have largely ignored the lower segment of the market. The emergence of microcredit, microsavings, and microinsurance industries in various developing countries over the past quarter century indicates that poor clients can be served despite the higher cost of small-scale transactions. In addition, the cost differential of serving poor customers has fallen as advances in information and communications technology have pushed down the costs of many transactions.

A Range of Financial Service Providers

Today, most developing countries already have a range of retail financial service providers with different ownership structures and legal charters. These institutions provide financial services to a portion of the low-income population, although outreach is uneven, notably with regard to rural areas. Financial service providers include some private commercial banks that have special microfinance operations, but primarily they comprise public or non-governmental institutions that pursue a social purpose. They include state-owned commercial banks and savings banks, postal banks, private and state-owned rural banks, and banks that specialize in providing services to poor and low-income people or SMEs of varying degrees of quality. There is also a wide variety of non-bank financial intermediaries, including organizations that offer some but not all the services of a bank, such as the fondos financieros privados in Bolivia, microfinance deposit-taking institutions in Uganda, and licensed MFIs in Cambodia. Credit unions, cooperatives and member-owned mutual banks, generally established under distinct regulatory and supervisory frameworks, also provide financial services to poor and low-income households in rural and urban areas. In addition to these formal institutions, there are a number of financial service providers, including very large non-governmental organizations that are not regulated by the banking or other financial authorities.

Vision of Inclusive Finance

With a view to significantly increase outreach to unserved and underserved enterprises and households, the vision of inclusive finance begins with this general goal: supported by a sound policy, legal and regulatory framework, each developing country should have a continuum of financial institutions that, together, offer appropriate products and services to all segments of the population. This would be characterized by:

- access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, credit, leasing and factoring, mortgages, insurance, pensions, payments, local and international transfers;

- sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required;

- financial and institutional sustainability as a means of providing access to financial services over time; *and*

- multiple providers of financial services, so as to bring cost-effective and a wide variety of alternatives to customers.

A number of important considerations need to be taken into account to realize this vision of inclusive financial sector development: the right to fair treatment of the individual in his or her society; the degree of financial literacy of customers; the recognition of the need for some civic or government intervention to open access; the need for financial policy interventions to take a long-run view on access, regardless of short-run exigencies; and the recognition that the vision is dynamic and eclectic, allowing for the possibility of new forms of service provision arising through social, policy, technological and financial innovation.

There are a number of overall policies that support or impede financial inclusion. Growth with equity policies seeks to foster economic growth and strengthen opportunities for poor and low-income people to raise their incomes and build assets. A macroeconomic policy framework with excessive government deficits too often crowds out credit to the private sector just as an excessively tight macroeconomic policy too often chokes off economic growth and private demand for credit. General institutional weaknesses in a country can impede its development, including poor public sector governance, limited effectiveness of the courts, and excessive or corrupt bureaucratic procedures. On some occasions, governments intervene directly in the economy to protect the public. At other times, they can be most effective in protecting the public by promoting competition and transparency among private entities. Policies to assure that the buyer has options from which to choose are necessary in market economies as a general proposition. This means promoting competition by facilitating entry of new competitors and maintaining a diversity of types of financial service providers.

To realize the vision of financial inclusion, financial services for poor and low-income people should be seen as an important and integral component of the financial sector. This sector should include a continuum of financial institutions, each with its own comparative advantages, and each presenting the market with an emerging business opportunity. Inclusive finance should be part of any financial sector development strategy.

II. WHAT LIMITS ACCESS TO FORMAL FINANCIAL SERVICES?

There is no question that poor and low-income people use basic services from financial institutions when they are available, accessible and appealing. What people "demand" is very much shaped by what the market offers to them, and the market is often not very friendly to potential poor and low-income customers. A central question about use of financial services is how much this use is limited due to customer reluctance to seek services and how much these limits result from the reluctance of financial institutions to provide services.

There are many complex reasons why poor and low-income customers do not seek — or are not offered — more access to formal financial services. In some cases, there is a latent demand that innovative financial services providers can bring out. In other cases, the demand cannot be satisfied by the financial products or delivery methodologies currently being offered. In all cases, poor and low-income people want financial services that match their needs to better manage their households and businesses. Their requirements are practical and not surprising: convenient, affordable, flexible, permanently available, reliable and safe financial services. As a general matter, financial institutions have been more successful in unlocking demand or stimulating it when they "look through the eyes of their customers."

Who you are and where you live matters

Personal and cultural characteristics of potential customers have a large role in shaping — and often discouraging — the use of financial services by poor and low-income people, as do education and location. Cultural factors are routinely mentioned in surveys and interviews as constraints on usage of financial services. While some cultural barriers are reinforced by the legal system, others are based on deeply rooted social traditions that influence how people treat each other in society. Access to credit is frequently limited for women who do not have or cannot hold title to assets such as land and property or must seek male guarantees to borrow. Women often do not control cash flows from their family's economic activities or from their own work. In addition, women's literacy rates are generally lower, compounding the constraints on their demand for and access to financial services. Further, financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers.

Many people do not have identity cards, birth certificates, or written records that are often needed to prove who they are or to prove ownership of assets. Lack of legal identity often affects women and ethnic minorities most directly. In areas affected by civil strife and conflict, records are often lost, destroyed or left behind, and recording facilities are often inactive or no longer accessible. Economic and political refugees, migrant workers, and ethnic minorities who have no national legal identity are frequently excluded from accessing financial services.

Limited literacy, particularly financial literacy, is often cited as a significant constraint on demand. People with limited literacy skills are also generally unaware of their rights and can be intimidated by banking systems and procedures that include complex contracts and documentation they cannot read and do not understand.

Whether potential customers are located near a branch outlet of a formal financial institution can be an important determinant of access, although effective distance can be as much about transportation infrastructure as physical distance. Large urban neighbourhoods and densely populated areas have more access while rural populations generally have a harder time accessing financial services. Remote areas are the most poorly served. Highly mobile populations that have no fixed or formal address can find significant legal and service delivery constraints on accessing financial services. Insurgency can also constrain demand for financial services, although demand is often high in areas affected by conflict.

How you make your living matters

People who are not economically active express limited demand for formal financial services. Extremely poor people find difficulty in accessing financial services even when the services are tailored for them. But if lack of economic opportunity limits demand for formal financial services, it does not eliminate this demand. While destitute people are a less likely market for microcredit, they may wish to draw on microsavings services. Formal financial institutions and microcredit lenders frequently face difficulties in extending credit to newly established enterprises, regardless of size, which are higher risk for the creditor and the borrower. Agricultural lending remains a great challenge.

Compromised confidence in financial institutions

A customer's prior experience with financial services from institutions and informal sources can have important effects on willingness to utilize such institutions again. Previous exposure to institutional financial services generally has a positive influence on demand for additional services. Previous negative experience, however, can have a negative impact. The reasons fall roughly into two broad areas — behaviours of the providers of financial services and the economic environment in which they operate. Customers will limit their use of formal financial institutions for a variety of reasons that include knowledge of corruption, theft and mismanagement in the institution, how their staffs treat clients, and the clarity of rules and procedures customers are asked to follow. They can also limit their use when they anticipate political influence in decision making by the financial institution, or when they are wary of the organization's attitude toward confidentiality. Customers' central fear with saving in a financial institution is losing their funds. Customers limit their use of formal financial institutions when there are frequent or lingering crises in individual institutions, within the broader financial sector, or in the economy as a whole.

III. WHY RETAIL FINANCIAL INSTITUTIONS CAN SERVE POOR AND LOW-INCOME PEOPLE BETTER

A fundamental challenge in building inclusive financial sectors remains adequately expanding retail capacity to serve the unbanked and underbanked. Experience and research suggest that demand from poor and low-income customers in developing countries for financial services grows when financial service providers understand what customers use and value and then offer products and services customers want to buy. When these providers function with appropriate pricing, with efficient, streamlined institutional structures, and with solid risk management systems, they can become profitable business ventures that reach the scale necessary to be significant players within a very large market.

Which institutions will best serve this market? Legal form and ownership structure are not necessarily related to scale of operations or to organizational efficiency, effectiveness, or sustainability. Different types of retail providers have different strengths and weaknesses and different challenges and advantages, including with respect to the range of products and services they can offer. The commercial orientation of an organization does not prevent it from serving poor clients with quality financial services; by the same token, an organization's social mission or mandate does not assure that the organization will serve the poor well or efficiently. There is a direct relationship between profitability and scale of operations: profitable institutions have shown that they can most effectively reach out to poor clients on a sustainable basis.

Profitability, risk and incentive structures

The profitability of serving poor households and firms is a main concern for many retail financial institutions — those with a "double bottom line" as well as those which seek to maximize profits. There are two ways to assess the profitability of serving the low-income end of the retail market. The first is whether serving poor and low income customers can be a profitable business enterprise, and the second is whether it is relatively profitable when compared to other possible lines of the business that may compete for scarce resources.

While pricing strategies in microcredit have gained considerable attention, particularly with respect to interest rates, cost reduction, particularly through strong risk management, is the main driver of sustainability. Sustainable organizations frequently pass on increasing efficiencies to their customers. Achieving economies of scale in this high-volume business of small-sized transactions is important from the business perspective, as well as from economic and social development perspectives. Scale of operations was and continues to be a concern of policy makers, in part because the numbers of people without access to financial services is so great that serving a small customer base appears to be an insignificant activity and an ineffective use of national and international subsidies. From the business perspective, reaching scale is also of critical importance. The basic ability to spread fixed costs over more transactions is the basis for achieving economies of scale. There are also important economies of scope so that offering more than one product or service can lower average costs, improve income streams for the institution and provide a wider variety of choice to the customer.

There are advances in information technology and new innovations that build on past experiences and alliances. Successful models of operation emphasize multiple sales points, standard yet accessible products, and technological and operational innovations that increase efficiency and lower costs. Alliances with specialized providers present opportunities to overcome the limits on the products and services that one institution can offer on its own.

Private financial institutions can provide financial services to some segments of the low end of the market in a profitable manner. They may, however, choose not to provide these services if this line of business competes for managerial talent and investment from other more profitable opportunities. Factors internal to the firm can also influence decisions on market entry, staying power, and ability to expand and succeed. These factors include corporate culture, core business models and growth strategies.

"Small is beautiful, but large is necessary"

The economics of retail financial services drives managers of retail financial institutions toward choosing a set of standardized products and services and seeking to expand the volume of sales and lower average costs. A large number of institutions have done exactly that. But an even greater number have not. They start small and remain small; or they start large and stagnate; or they fail and go out of business. One argument that is sometimes offered is that the less dynamic providers have an especially difficult operating environment and this environment precludes thinking about growth strategies. In many cases, there are difficulties in the way the institution operates, including internal systems and management practices that make successful performance a challenge. Even when good management practices are present and operations run smoothly and efficiently, some managers of retail financial institutions are less open to innovation than others. There are individual and institutional factors making one management team dynamic and inspired, and another static and unimaginative.

Governance of financial institutions is of special importance given the crucial financial intermediation role of financial institutions in the economy, the need to safeguard depositor funds and the high degree of sensitivity to potential difficulties arising from ineffective management. The functions of a board of directors and senior management with regard to setting policies, implementing policies and monitoring compliance are key elements in the control function of a financial institution. In addition, governing bodies play a critical role in establishing the values and "culture" of an institution, including its ability to make sound technical decisions on products and pricing, manage risk, innovate, adapt, change and grow.

Small, locally oriented financial service providers can be expected to continue to penetrate their markets, seeking alliances with others and through networks to offer a greater range of products and services. The importance of small organizations should not be minimized; they are often the most significant, if not the only, financial service providers in many communities. But one may expect that these financial products and services will increasingly be provided through larger entities, ones that will be more likely to offer a broader range of financial products and services to small and medium enterprises, to middle and low-income people, as well as to the poor.

IV. Access to Financial Markets: A Challenge for Microfinance Institutions

Broad-based financial development includes the ability of financial service providers to access capital. Just as financial intermediation between individual savers and borrowers benefits accumulation of assets and investment, intermediation across the financial sector benefits retail financial institutions broadly, including those that serve poor and low-income customers. There is, however, fragmentation in financial markets serving poor households and firms.

In particular, microfinance institutions frequently lack access to mainstream financial sources. The progressive inclusion of microfinance institutions into domestic and international financial markets generally occurs when these institutions begin to mobilize savings as a source of funds and when they begin to access debt and short-term funds, utilizing capital market instruments such as bond issues, securitization and equity finance. It is also a critical step for these institutions to be included in national and international transfer, clearing and settlement systems.

Inclusion of MFIs in financial market development will continue to be a function of the broadening and deepening of financial markets, the capacity of these institutions to access domestic and international financial markets, and the development of the financial infrastructure to increase the flow of information and link institutions. When a variety of financial institutions provide a variety of microfinance products and services and when these institutions fund the liability side of the balance sheet in increasingly sophisticated ways, this is a sign that inclusive finance is becoming a more important part of the financial sector as a whole.

Impact of weak financial sectors on MFIs

The intermediation of private funds on competitive terms to the institutions that serve poor people requires some degree of financial sector strength, including the capacity to assess and manage risk. When the financial sector is weak, microcredit institutions will have limited opportunities to tap into domestic or international funds and credit for households and small firms is likely to develop more slowly and on a more limited basis. The less robust the domestic financial sector and the more fragmented its supportive infrastructure, the more likely it is that microfinance institutions will rely on government and international donors and the credit enhancements they offer.

Limited access of MFIs to financial markets

Institutional factors limit the ability of MFIs to access financial markets: weak management and operational capacity at the institutional level; higher cost of funds for new entrants to the private funding market, assuming they gain acceptance at all; and the lack of skills to manage their assets and liabilities for market risk — the risk of loss owing to changes in market rates and prices, including liquidity risk, interest rate risk and foreign exchange risk. Special hurdles are faced by young institutions in accessing financial markets. These include their lack of experience with financial market participants, their lack of experience with many financial instruments, and their limited negotiating power.

Beyond the general concerns regarding the track record of many MFIs, banks and other financial institutions have been slow to show confidence in MFIs. This is largely because microfinance institutions operate very differently from more traditional financial institutions. First, the status of many MFIs as non-profit institutions makes it difficult for them to secure loans. NGOs that are not legally established as corporations may have no clear ownership and no capital base that is formally the property of the owners that can be leveraged to raise debt. Second, risk assessments of MFIs are often unfavourable, in part because there is inadequate knowledge in the rating agencies about microfinance operations. Third, commercial banks may believe that MFI portfolios are inadequately secured and thus that regulatory authorities will require the bank to take additional provisions. Potential lenders may also be concerned that they cannot depend on the legal system to recover defaulted loans. Finally, most commercial lending institutions are not willing to accept a lower return on lending as part of a "socially responsible investment" programme.

There are a number of instruments and relationships that have enhanced the ability of MFIs to access financial markets.

There are continuing calls for guarantee funds and other guarantee mechanisms as a means of bolstering access of MFIs to capital markets. It is argued that guarantees are warranted to correct "market failure," such as inaccurate market evaluation of risk. Proper structuring of guarantee schemes is required, however, to address misperceived risks in lending without undermining the risk management of the lending institutions.

It is more unusual for an MFI to successfully sell a bond issue than to borrow from a bank. Successfully borrowing through a bond issue involves selling the bond to a large number of mostly institutional investors. For this broader investor group, more information must be made available to produce adequate confidence in the borrower. These instruments are sparking increased interest in financial markets. Local equity investment for MFIs is, however, still a major challenge in most developing countries; many constraints that apply to debt and bond transactions also apply to accessing shareholder capital

Agency relationships, strategic alliances and other partnerships are increasing as ways in which MFIs can engage with a wide variety of financial market participants. These include "strategic alliances," mergers and acquisitions, joint ventures, and contractual arrangements. As these arrangements capitalize on the comparative advantages of vastly different institutions, they can take many different forms.

There is increasing concern that donors are continuing to fund the most successful microfinance institutions even when these institutions are ready and able to access funding on commercial terms. This type of donor support can serve as a disincentive to the MFI to seek commercial funding.

Donor provision of loans at concessional rates can be critically important for launching microfinance operations and providing a demonstration effect. Donors can also pave the way for private sector finance. They can do this by lending, either alone or as part of private-public sector consortiums, by brokering new banking relationships, by offering incentives for the entry of commercial institutions, by taking equity positions in MFIs, by providing credit enhancement on capital market transactions and by promoting international investment funds.

International borrowing: opportunity and risk

There is an ongoing debate about the role of international financial market resources in inclusive finance. Some express concern that resources provided by international investment funds distract attention from the development of the domestic market for

MFI financing. There is also concern about the foreign exchange risks to which MFIs may be exposed if these external resources are not made available in the currencies of the countries where the MFIs operate. But these international funds frequently provide resources to institutions in countries where domestic financial markets are not yet prepared to finance microfinance institutions. By providing a “stamp of approval,” international investors can raise the profile and acceptability of lending to MFIs. This can be helpful for diversifying the MFI’s funding base and may prompt domestic market lenders to view the borrowing institutions (and microfinance generally) with less aversion.

As MFIs turn to international sources to access capital, the issue of foreign exchange risk issue has become increasingly visible. The serious concern about MFIs taking on unmanageable foreign exchange risk has led to increasing pressure to encourage the development of mechanisms to lend in local currency, or for the international funds to help cover the risk and to appropriately match investor risk/return targets with the funding requirements of MFIs.

Savings as a funding source

This last issue treats financial intermediation in its basic form: offering deposit services to savers and intermediating those savings to borrowers. Savings mobilization serves dual objectives –offering a valuable service to depositors and providing a source of funds for lending for regulated MFIs that can accept deposits. Many contend that savings are lower cost funds to fuel loan portfolio growth than domestic and international borrowing. But this may not always be the case. Mobilizing savings requires considerable institutional development, and the actual cost of funds can be higher than borrowing, notably in markets where subsidized wholesale funds are available. Whether savings are lower cost funds also depends heavily on the nature of the savings instrument. It also requires staff skills and systems that are different than those required by organizations engaged only in lending. Finally, the ability to mobilize savings can depend significantly on the macroeconomic conditions in the country and on the regulatory environment.

V. THE POLICY FRAMEWORK AND PUBLIC SECTOR ROLE IN INCLUSIVE FINANCE

Government has an important role to play in building an inclusive financial sector. Experience has shown that this role can be largely supportive, but that government intervention can also impede financial sector development. The issues regarding the appropriate role for government in building inclusive financial sectors revolve around what to do and how to do it in a specific country setting, not around whether to engage at all.

Country level policy frameworks: from vision to strategy

A key constraint to the development of inclusive financial sectors is the lack of a coherent government policy stance fostering a competitive and fair financial sector. Most countries have taken a fragmented approach, one that does not aim specifically and coherently to increase the access of all people to appropriate financial services. This means that there has rarely been a clear articulation of how the social policy objective of outreach and the financial policy objective of stability should interact with and balance each other.

While good policy and a participatory political process are at the heart of pro-poor financial sector development, the improper politicization of financial sector development provoked passionate responses during the consultations associated with the preparation of the Blue Book. In short, political focus on short-term expediency can undo years of development efforts, create significant frustration among various stakeholders, and seriously impede long-term efforts toward financial inclusion.

There is still no consensus on the liberalization of interest rates

Interest rate ceilings continue to exist and have been reintroduced in several countries. It can be politically appealing and expedient to "protect the poor" by re-imposing interest rate caps. But these caps can have negative market development consequences, and they frequently offer few benefits to the many of the very people they are intended to protect. The difficulty is that interest rate ceilings, by making it impossible to cover costs, undermine the ability of many microfinance institutions to become sustainable. This can cause many potential financial service providers to be unwilling to enter the market or to withdraw existing services from the most difficult populations to serve. This can force many poor people to rely on much more expensive and limited informal alternatives.

At the same time, legitimate concerns are expressed that high interest rates are not acceptable in the market segment that serves poor and low-income people. They may reduce profitable business opportunities for the poor, and they may reduce their ability to accumulate assets. High interest rates may also lead inexperienced or financially unsophisticated poor or low-income borrowers into debt traps. These factors together lead to concerns that very high rates are neither socially nor economically acceptable and thus to an ongoing and important policy debate.

A critical argument in the case for liberalized interest rates is the promise of competition, increasingly efficient institutions, and ultimately as much better informed group of customers. The practical dilemma is that simply calling for competition to drive down decontrolled interest rates does not create the market or spur entry of new, more efficient institutions when the conditions are not propitious. Consideration needs to be given to a range of measures, many at the institutional level, that lead to the lowering of interest rates over time.

Whether governments or donors should intervene in interest rate markets by providing subsidies to reduce costs of microcredit providers, which reduced costs can be passed on to borrowers through lower interest rates, is a widely and vigorously debated issue. In this regard, the term "smart subsidies," as discussed below, may sometimes come into play.

The issue of government involvement in financial intermediation

Despite calls for indirect rather than direct involvement of government in financial services provision, there is a renewed interest in developing countries in direct government involvement in financial intermediation. This interest has developed from the intention to better serve underserved market segments.

Concerns about government ownership of financial institutions are based on negative experiences in a number of countries and focus in particular on faulty risk management in direct lending to retail customers. A large body of evidence suggests that direct government lending to poor people has not always been effective or achieved stated governmental objectives. Regulators are particularly outspoken about the problems posed by government-controlled banks given their inability to apply the same supervisory standards to these institutions as to private ones.

Yet, there are also some examples of state-owned banks that are very successful in operating commercially. Some of these banks focus extensively on extending financial services, particularly savings, to the poorer segments of the population. In general, state-owned financial institutions have been more successful in offering savings to poor people than in managing the risks associated with credit services. In any case, publicly owned banks and other state-owned financial institutions are the major providers of financial services to the poor people in developing counties.

The success of state-owned banks depends on: a well-defined mandate; clear accounting of subsidies; sound governance; transparency in delivering audited financial statements; and, most importantly, government commitment to the protection of the institution's operational independence from political concerns and pressures.

Governments sometimes mandate commercial financial institutions to allocate a percentage of their lending to certain economic sectors or to the less advantaged segments of society in an effort to broaden access. Historically, directed lending programmes were applied in many countries in a way that distorted market signals and did not achieve intended purposes. Recently, some better-designed programmes have resulted in increased commercial bank involvement in finance for micro, small and medium enterprises.

The role of subsidies and taxation

Consensus has yet to emerge on whether and how to organize and monitor public subsidies for financial services. While subsidies have many drawbacks when they are misused or are applied without the necessary transparency and care, they can help to pursue social objectives and to correct for "market failures." Subsidies are subject to the same cautionary note with regard to politicization as other forms of government intervention. Constraints include wasted subsidies, excessive fiscal costs, and the capturing of subsidies by the relatively well off who already have access to financial services.

The debate around subsidies is clarified by looking into the nature of the subsidy, which is defined in terms of its structure, implementation, and duration. Opposing views suggest that the question is not one of subsidies or not, but rather whether specific subsidies are well-designed. “Smart” subsidies reflect the concept of maximizing social benefits and incentives for strong institutional performance while minimizing distortions and mistargeting. Costs that are “smart” to subsidize are, for example, start-up, research and development costs, those of high-risk/significant impact products, costs for capacity and customer building, and costs of developing adequate channels for accessing capital. Addressing issues of purpose, efficiency, and market distortion best focus the debate on whether a subsidy is valuable or counterproductive.

Participants in the multi-stakeholder consultations expressed concerns about unfair treatment of alternative financial institutions by tax regimes on the one hand and the lack of sufficient tax incentives on the other. Concerns were expressed about important differences in how tax regulations are applied to different financial institutions (e.g., whether loan-loss provisions are treated as an expense, or whether sales tax is collected on interest payments) and about the inconsistent application of the rules across institutions within the financial sector.

Policies to broaden and strengthen financial infrastructure

Financial infrastructure covers the range of support mechanisms provided by the public and private sectors to promote financial market development, competition and access of the poor to financial services.

- **Infrastructure that enhances risk mitigation:** This type of infrastructure includes credit bureaux and identification numbers that facilitate information sharing. It also includes an effective property registry. More attention is now being given to assuring that adequate credit history information is available across the financial sectors and to strengthening property rights and the functioning and adequacy of the legal and judicial system.

- **Infrastructure that enhances transparency:** This type of financial sector infrastructure includes financial standards, disclosure requirements and codes of practice of trade associations; accounting standards and external audit requirements; disclosure requirements; consumer protection laws, ratings performed by specialized, neutral and internationally recognized agencies. It is aimed at assuring financial sector transparency and accountability.

- **Infrastructure that increases efficiency and reduces costs:** These important elements of financial infrastructure include primarily clearing and settlements systems able to process an increasing number of transactions. The parameters of these systems need to be such that smaller financial institutions can benefit directly or through linkages with larger financial institutions.

- **Infrastructure that enhances innovation:** This type of infrastructure consists of technology and communication infrastructure, capacity-building initiatives, and research and development activities.

VI. LEGAL MODELS, REGULATION ADN SUPERVISION IN THE CONTEXT OF INCLUSIVE FINANCE

Traditional regulatory and supervisory regimes focused on the fundamentals of protecting depositors and the stability of the financial system. It is timely to consider integrating the objective of increasing access of the poor and micro and small enterprises to financial services into regulatory and supervisory schemes. Policy makers and regulators are challenged as they seek to redefine the opportunities for inclusion and to respect the fundamental principles of protecting the customer and the financial system.

There is still uncertainty about what, when, and how to regulate

It is not clear to many stakeholders, including regulatory authorities, to what extent government should oversee microfinance operations and how much to set forth appropriate roles and responsibilities in legislation and regulatory frameworks. This uncertainty is largely attributed to a lack of understanding of the risk profile of portfolios of microcredit loans to poor and low-income borrowers and to micro and small enterprises. As a result, policy makers and regulatory authorities frequently too easily conclude that general prudential regulations must apply. This can lead to limitations on market entry, over-regulation, or under-regulation.

Policy makers are challenged to consider the trade-offs between openness of entry to new market participants and concerns regarding the soundness of these institutions. Moreover, decision makers must carefully evaluate the adequacy of existing legal models and the design of new institutional models that support the expansion of microfinance activities. They also need to consider the advantages and disadvantages of strategic partnerships and consolidations that may occur among the increasing variety of market participants.

The decision of when to regulate is critical for the protection of customers and for the soundness of microfinance portfolios, either in specialized regulated institutions or as a specialized unit or activity in a larger financial institution. The protection of depositors is the one clear and compelling case for prudential regulation.

There is a continuing call from many quarters for “self-regulation.” This is sometimes deemed to be an appropriate substitute for direct governmental regulation and supervision. The essential point is not to confuse the state regulation required when public savings are involved with “self-regulation” at the industry level, which cannot be a substitute for government supervisory oversight.

The challenges of applying tiered regulation and risk-based supervision to microfinance

The establishment of tiered regulatory structures can foster diversity in institutional models. This can also help calibrate and tailor regulation and supervision to the specific products and services offered and their associated risks. This can allow the authorities to take into account the different types of institutions offering microfinance services, the different products and services they offer, and the different markets and populations they serve.

Introducing risk-based regulation and supervision is a current challenge worldwide. This approach gives more weight to requiring financial institutions to strengthen internal risk analysis and management and internal control capabilities. Applied to microfinance, risk-based supervision would result in an increased emphasis on risk management in MFIs and a fundamental shift of emphasis among managers and regulators to better anticipate and manage risks, rather than just react to them.

The need to focus on the adequacy of supervision

A crucial question with regard to all financial supervision is whether the supervisory authority has the tools and capacity to supervise the regulated institutions and to monitor compliance with regulatory requirements. It is unsafe to promote market entry without the necessary supervisory tools and the capacity to apply them to monitor new (and old) market participants.

Until recently, most central banks and supervisory authorities have not seen the importance of understanding the nature and nuances of microfinance institutions. Often, legislation and regulatory measures have been drafted without due consideration of the actual burdens of supervising many small, unconventional MFIs. Supervisors, who may be absorbed by a formal banking sector in transition or one in crisis, may not be prepared to supervise a large number of small institutions, particularly in rural areas.

Given that the range of corrective action that can be imposed by supervisory authorities is far more limited for deposit-taking MFIs than what can be applied to more conventional banking activities, it is important that supervisors see and respond to problems sooner rather than later and prepare for the consequences if deposit-taking MFIs experience financial difficulties.

Access to financial services as a policy goal

There is increasing interest in including access to finance and, more specifically, access to microfinance, in banking regulations and supervisory practices. We suggest in this book that access to finance should be a central objective of prudential regulation and supervision. This means that the two traditional goals of prudential regulation — safety of funds deposited in regulated financial institutions and the stability of the financial system as a whole — should be supplemented by a third goal: achieving universal access to financial services.

Incorporating access considerations into banking regulations and supervision would require: changing policy and regulatory views about the market segment; facilitating market entry; treating microfinance as a business line across the full range of financial institutions and supervising it as a separate asset class; allowing for greater innovation in products and delivery systems; and, overall, adjusting supervisory practices on the basis of a better understanding of risk profiles and the operating systems and methodology of financial service providers in the microfinance market segment.

Experience with the regulatory treatment of microfinance institutions suggests that access has not yet been generally made part of regulation and supervision. As more information about microfinance is accumulated, it serves to increase the ability of policy makers and regulators to assess the true risk in this line of business. A more sophisticated approach to regulation that takes into account the experience of lending to poor people and their enterprises is required. At the same time, the risk profile of the financial institutions concerned and the products and services offered requires the strict application of regulatory parameters in key areas to ensure financial soundness.

New regulatory issues

As microfinance service providers grow and microfinance products and services become more sophisticated, market participants are beginning to express concern about a number of new issues.

Managers of deposit-taking institutions have expressed the need for some form of deposit insurance. There is thus far limited experience in establishing deposit insurance schemes for deposit-taking MFIs. There are a number of issues that have been raised, including how the coverage can extend to many tiny accounts and whether MFIs should be insured through a separate deposit insurance mechanism.

Concerns about the ability of financial institutions to manage currency mismatches have led to some regulatory restrictions on foreign exchange exposures. Such restrictions can take the form of prohibitions on holding uncovered net liabilities in foreign currencies or changes in the provisioning regime to take into account foreign exchange risk. This issue is likely to become increasingly important for MFIs as borrowing in hard currency increases and regulators are called upon to be more vigilant about such risks. Regulators and policy makers should be encouraged to develop suitable frameworks or even prohibitions within their own country context.

International standards do not consider access to financial services at the present time. Three areas in particular have been flagged for their potential impact on access:

- The revision of the Basel Core Principles on Banking Supervision is underway. These principles have not thus far explicitly included access considerations.
- Developing countries should not rush to apply "Basel II", and certainly not in relation to small financial institutions. Changes in the determination of regulatory capital require sophisticated systems designed for large internationally active banks that entail costly compliance. These systems may risk raising capital requirements in institutions in developing countries.
- The international framework for anti-money laundering and combating the financing of terrorism (AML/CFT) (e.g. customer due diligence, keeping records of transactions) should be carefully analyzed to guarantee that it does not unnecessarily restrict formal financial institutions from reaching poor and low-income people.

VII. POLICY ISSUES AND STRATEGIC OPTIONS

"If only we could better understand the options and choices before us.
We must do so. The stakes for the ultimate clients are very high."

Manager, regional network organization

The book outlines a number of policy options which the relevant stakeholders in policy formulation at the country level may wish to consider. A consideration of these options should facilitate discussion and debate and help policy makers develop stronger policies. Seven areas are highlighted, each of which gives rise to a range of policy options. These options are based on the experience of many different countries. Policy choices in one area may have a profound influence on those in another area, strengthening or diminishing the intended effect. It is the responsibility of the policy makers in each country to determine whether one set of choices is superior to another in any given economic, social or political setting.

Option Set 1. Government intervention in the market for financial services — how much intervention, what kind, where and when?

Governments have been widely concerned that access to financial services is not equitable and have sought to improve the way the market functions through a variety of policy interventions. Interventions should be adjusted according to the dynamic reality of evolving financial sectors and judged by how they facilitate or hinder innovations in the business decisions, products, services and technologies needed to increase access. This option set considers the range of policy instruments governments have used, with varying degrees of success.

Policy makers can opt to…

…remove barriers to the entry of competent firms that wish to provide financial services for the poor. Many policy makers who wish to create a competitive environment suggest lowering barriers to entry for a wide variety of financial institutions. Barriers to entry protect some types of firms and discourage others.

…treat all service providers the same way or allow preferential treatment. In order to correct some failures that may occur in financial markets, policy makers need to determine to what extent and how policy objectives call for the introduction of incentives, subsidies and directives that may affect the way financial service providers compete.

…consider which subsidies are valuable and which are counterproductive. Most financial systems have some sort of subsidies, whether they are transparent or hidden, temporary or permanent. This policy option involves an examination of who gets subsidies and whether they are efficient and sustainable.

…intervene more, or less, in financial markets through mandates. Governments often seek to encourage and shape retail financial services through additional policies, including interest rate ceilings on loans, portfolio quotas and directed lending programmes for banks. The question is whether the policies have their intended effect to serve and protect the consumer and encourage financial institutions to provide these services over the long term.

…engage directly in providing financial services, or disengage from such activities. There are many state-owned banking institutions that provide retail services. Some of these institutions are extensively engaged in serving the lower segment of the market, particularly on the savings side and in rural areas. Experience suggests that if a government chooses to provide financial services directly, policy makers need to be certain that these institutions have a well-defined mandate, work on commercial principles, have a clear accounting of subsidies, and demonstrate sound governance and professional and transparently hired management. Governments also need to commit to the protection of the institution's operational independence from political interference and to comply with the general legal and regulatory framework governing financial institutions.

Option Set 2. How can we achieve affordable and sustainable interest rates?

No global consensus exists on what constitutes reasonable and fair interest rates or how to bring them about. There is solid evidence, however, that low interest rate ceilings have led to the rationing of credit to the benefit of better-off and more powerful segments of the population and have discouraged financial service providers from mobilizing savings. The basic question is whether it is possible to support the growth of the financial sector so that financial institutions serving poor households and enterprises can charge interest rates that are simultaneously affordable and sustainable.

Policy makers can opt to…

…apply interest rate ceilings or liberalize interest rates. The basic argument opposing interest rate ceilings is that the higher cost of offering microloans warrants a higher interest rate for lending, with evidence showing that borrowers are frequently willing to pay the higher interest because it is lower than in informal markets and because they need the credit and liquidity. A common counterargument is that high rates reduce the prospects of success for microenterprises and adversely affect poor households, no matter to whom they are paid. In addition, higher interest rates could also hide a low level of efficiency. The liberalization of interest rates is designed to attract competition from new entrants in an effort to drive down costs and, consequently, interest rates.

…require full transparency of interest rates, fees and other obligations of the

borrower and full reporting on the efficiency of financial institutions' operations. Truth-in-lending laws or voluntary measures with the same purpose allow customers to appreciate the full cost of borrowing, strengthening their bargaining positions. Reporting on the efficiency of operations permits comparison and benchmarking among institutions, thereby reinforcing the incentive to lower operating costs if indeed there are inefficiencies that can be corrected and passed on to customers.

…support the careful design of subsidies, in such a way as to minimize distortions and to assure transparency and the achievement of desired results. The debate around the issue of whether indefinite subsidies to lower interest rates in microcredit is a wise use of subsidy is far from settled. One use of subsidies that is considered "smart" and can help reduce the costs of microcredit is to focus them on funding the start-up of new institutions to cover capitalization, innovations and expansion to new areas, and initial operating short-falls.

…recognize that a complex set of measures is required to lower market-based interest rates. Policy makers need to recognize that interest rates are interconnected with other measures, particularly at the institutional and operational levels. These include: issues of competition (market entry and regulations), access to and cost of funds (financial market development), the high costs of poor communications infrastructure, and increasing efficiency at the institutional level (through, for example, simplification of loan appraisals, new technology for management information systems and payments transfers, training, etc.).

Option Set 3. How to fashion financial infrastructure for inclusive finance?

Building a strong and efficient financial infrastructure is an essential part of financial sector development in developing countries, and it applies ipso facto to those parts of the financial sector providing services to poor and low-income households and to micro, small and medium-sized enterprises.

Policy makers can opt to…

…give priority to those elements of the financial infrastructure that are essential in managing risk and in reducing transaction costs. Strengthening credit bureaux and information technology are key focus areas. Information and communication technology are of constantly increasing importance and their development and evolution are radically changing the financial sector landscape.

…support the establishment of guarantee funds. To the extent that they adjust for an unfair market evaluation of risk, guarantee funds can be considered as a correction for market failure. Credit guarantee schemes can be effective in promoting sustainable changes in lender behaviour. This can lead to financial sector deepening, in particular where necessary conditions for success are present such as an open, competitive banking environment, a dynamic and expanding business sector, and a high degree of transparency among market participants.

…provide avenues for MFIs to link into the infrastructure serving the major financial institutions. This opens an opportunity for joint public-private initiatives to upgrade and to adopt compatible systems of information and communications technology. It includes access to the payments and settlements system.

…focus more attention on the development of accounting principles and guidelines, public disclosure of information and transparency, and audit standards. These are an important foundation for better internal management and for external assessment. In addition, the assessments of independent rating agencies and credit bureaux are important tools that lenders and investors rely on to provide credible assessments of risk.

…set the standards for service provision through the private sector or provide the service through the public sector. Given the range and complexity of financial industry infrastructure, some services are better provided by the public sector and others are more efficiently handled by the private sector or through private-public partnerships where private sector providers follow standards set by the government.

Option Set 4. What should regulators and supervisors do to foster financial inclusion?

Regulation and supervision affect the extent to which the financial system as a whole is more or less inclusive. Traditionally, regulations have not tracked the status of access to financial services of different population groups nor sought to increase access as one of their policy goals. This could be made part of the mandate of regulators and supervisors.

Policy makers can opt to…

…integrate access into the objectives of regulations and supervision and into supervisory practices. Governments and policy makers should ask their regulators and supervisory authorities to play a proactive role in increasing access over time through an explicit assessment of the impact of regulations on increasing or limiting access and, beyond that, through the application of pro-inclusion regulations and supervisory practices.

…instruct all supervised financial institutions to collect and report data on usage of financial services. The authorities could use this data to monitor and encourage the expansion of financial services for underserved groups. A more controversial policy would be to target a minimum percentage of bank lending towards underserved customers, a practice that some countries follow.

…treat microfinance as a business line across the full range of financial institutions and supervise microfinance as an emerging asset class. This means allowing the full range of financial institutions to offer microfinance services, thereby treating microfinance portfolios as an asset class in terms of products allowed, risk categorization, reserves and provisioning requirements.

…reassess the risk in extending credit to the underserved and the institutions that serve them. Regulators might re-examine the risk profile of microcredit and small enterprise finance in light of experiences and in contexts comparable to those in their countries. With the expectation that regulators have often judged the risk to be greater than it actually is, a corrected assessment would allow the reduction of risk-weighting for capital adequacy requirements and the relaxation of other regulatory constraints, both with a view toward expanding the availability of microcredit.

…differentiate between where regulatory constraints can be relaxed and where they need to be tougher because of risk. Regulations and supervisory practices may sometimes unnecessarily discourage the supply of credit to poor people in the name of protecting depositors. Nevertheless, strict application of regulations in key areas is essential to ensure financial soundness.

…adjust supervisory practices and reinforce supervisory capacity. Reporting requirements can be simplified to align with the methodologies of the particular financial institution being supervised and with audit procedures that reflect the nature of the supervised institution's financial structure. Supervisory capacity, although weak overall in many countries, can be reinforced.

…exercise national prerogatives in applying international standards. Policy makers can opt to focus on what international standards can do to strengthen their financial sectors and on their pragmatic implementation.

Option Set 5. How to promote consumer protection?

The choices about the level of consumer education and protection within the financial sector are important because they can help make markets work better or they can undermine them. Fair treatment embodies the absence of personal discrimination and also entails honest dealing between the service provider and the customer. It includes provision of appropriate information by both sides of a financial transaction with each side having the capacity to arrive at an informed financial decision.

Policy makers can opt to….

…"let the buyer beware." This minimalist option is often considered anti-consumer. It provides little consumer protection unless combined with effective and widespread financial literacy initiatives.

…increase consumer information. This includes establishing a truth-in-lending law or transparency standards for publishing interest rates and other charges.

…invest in financial literacy initiatives. The ability of individuals and enterprises to use finance safely and effectively depends in part on their degree of financial literacy.

…insist that the retail financial industry take steps to protect customers. Financial institutions may be required to design their own pro-consumer codes of conduct and practices or develop them in an industry association and pledge to follow them.

…encourage the establishment of an independent oversight authority. Such oversight would involve monitoring, reviewing, publishing and making widely available annual ratings of financial institution good business practices, as well as information on consumer complaints and how they were addressed.

Option Set 6. How many financial institutions and of what types?

The case for a high degree of diversity in types of financial institutions is based on two primary considerations: the institutions should extend access to "unbanked" populations, and they should also give customers alternatives. Diversity in financial institutions contributes to competition in terms of service and pricing and increases the variety and quality of products and services available to the poor and low-income people and to micro and small enterprises.

Policy makers can opt to…

…ensure there are no barriers to entry of new institutions or to the expansion of sound institutions that can add financial services to a broader segment of the population. This option requires authorities to be open to the idea of new types of providers entering their market area. It also encourages openness to innovative strategic alliances and other new relationships among existing providers.

…design new legal forms to increase outreach. The need for a diverse set of institutions, structures, and approaches requires policy makers to examine existing legal, regulatory and policy frameworks to determine whether the diversity of the organizations permitted by law adequately serves the market. One strategy for permitting retail financial institutions to change their formal structure is to introduce "tiered" licensing and regulation.

…consolidate the number or type of institutions. The advantages of consolidation are that larger institutions can take better advantage of economies of scale and scope. In addition, they may be a better match between the number of institutions to be supervised and supervisory capacity. The disadvantage is that if one legal option is closed off without another being put in place, or if one bank is closed without others entering the market, access and competition may actually decrease.

Option Set 7. How should governments be organized to promote financial inclusion?

Not only do developing countries need to design appropriate strategies for increasing access to financial services by all segments of the population, but they must also be able to turn their strategies into effective policy and implementations. This requires that governments determine the best ways to organize themselves for actual implementation. This involves both the efficient clustering of financial access programmes and activities within the government administration and ensuring adequate political attention is focused on financial inclusion. It entails the cooperation of a full range of financial institutions and effective cooperation from development partners over the long term.

Policy makers can opt to…

…arrange various programmes in multiple ministries. This is the most common arrangement, as different policy focuses in government can independently introduce financial initiatives as part of their sectoral mandates.

…bring together all inclusive finance initiatives under the authority of one ministry or office. Such a ministry or office can focus on economic development and poverty alleviation. This approach allows a focused political champion of inclusive finance to emerge in government while also enabling the consolidation of different programmes.

…develop a comprehensive financial sector development strategy assigning responsibility for policy implementation to the ministry or office responsible for financial sector development. This option views microfinance as "finance" and credit and savings as part of banking activities. This option argues for strengthening the coherence in financial policy development, notably creating an enabling policy environment with appropriate roles attributed to the finance ministry and regulatory and supervisory authorities. It has the disadvantage of diluting specific concerns related to microfinance and related poverty alleviation concerns.

VIII. DIALOGUE AS A PRELUDE TO ACTION

A broad range of stakeholders — with important roles for government and regulatory authorities — can contribute to building a shared vision for developing and implementing national strategies to build an inclusive financial sector. Strategies backed by research undertaken within the national context enable the design of relevant polices that fit a country's particular state of financial sector development, the promotion of its inclusiveness, and ensuring that attention is focused on financial inclusion over the long term.

Setting the stage for dialogue at the national level

The previous material is based on international experience in a broad range of countries and institutional settings. It is provided to help national stakeholders build their own understanding of what is required to build an inclusive financial sector. Yet, this material serves only as a prelude for a national multi-stakeholder consultation. In a particular national context, processes to build inclusive financial sectors could be shaped in consideration of the following elements:

Assessment

- **Taking stock of the state of financial sector development and access.** An assessment of the current state of financial sector development and the nature of financial markets is the starting point for the discussion. This includes the degree of inclusiveness and the current state of access and usage of financial services. It should also include an expert appraisal of the degree of conduciveness of the legal and regulatory framework, the strength of financial markets and the performance of the range of institutions. Understanding the nature and extent of demand for financial products within poor and low-income populations is a fundamental piece of information that enables the consideration of what products and services the market may require. This may also suggest the type of organization that can best provide these products and services.

- **Analysis of constraints.** Obtaining a thorough understanding of the constraints to and opportunities for realizing an inclusive financial sector is a fundamental step in crafting a national strategy. These constraints may be found at the levels of policy, legislation, regulations, and guidelines. There may also be infrastructure, communications, and technology constraints. Furthermore, institutional and human capacity limitations may seriously constrain financial sector development. These areas can each be shaped by the development of the mainstream financial sector and its infrastructure, general institutional and human development in a country, and the ability of the customers to exercise demand for financial services.

- **Collaboration with external partners.** This collaboration can be an important means of reinforcing analytical capacity and testing policy options against international views and experiences and sound practice. Financial Sector Assessment Programmes of the International Monetary Fund and the World Bank are increasingly becoming vehicles to assess the "development" dimensions of the financial sector.

- **Mobilizing technical and financial support from development partners.** This mobilization allows for additional analytical work and capacity building. It can introduce innovation and help provide financing for infrastructure and institutions. It cannot, however, replace the vision and commitment of national authorities.

Building a shared vision, policy and strategy

- Mobilizing policy makers and the broad range of stakeholders and fostering their ownership of a dialogue process. A national dialogue should include: ministers and senior government officials; regulators and supervisors; key parliamentarians; local government associations and leaders; microfinance networks and other professional associations; the full range of public and private sector financial institutions that seek to provide inclusive financial services; academics and independent experts; institutions that provide financial infrastructure services; and representatives of institutions speaking for small enterprises and household users of financial services. Finally, international financial institutions and donor agencies should also be involved. Each of these groups has different perspectives and expertise on the subjects at hand, which should enable an informed dialogue backed by facts and knowledge of the financial sector.

- Building a shared vision. This should be a vision of what a competitive, diversified and inclusive domestic financial sector would be like in 10 years and beyond. Stakeholders at the national level should define what the country's financial sector should look like compared to where it is today.

- Analysis of policy options and policy formulation. National strategy should be built upon a clear evaluation and analysis of policy options specifically tailored to a particular national context. These options should be based on global experience and best practices and should be based on the fundamental consideration of the appropriate role envisaged for the State. The strategy should set forth the actions needed to resolve policy issues, establish appropriate policy frameworks, and put effective policies in place.

- Recognition of variation in policy options among countries. Policy options shift over time within a country. This may be due to shifts in the degree of financial sector development or to changes in circumstances, governments, or policy objectives. In some settings with less developed financial sectors, the issues for debate begin with broad policy considerations. In other country settings, policy may focus more quickly on detailed measures, such as specific legislation and regulations.

Implementation

- Implementation and on-going review. Governments require commitment, energy, skills and political space to implement policy. Policy change takes place over years, not months, and it requires stakeholder monitoring for achievements and corrections as the process advances. Mechanisms and processes that assume regular review, monitoring, and evaluation of national implementation plans are therefore critical to their long-term success.

Important process considerations

No one party can develop an effective national strategy in isolation. Multi-stakeholder dialogues that bring together government, central bank, regulatory and supervisory authorities, the full range of financial institutions, associations, academic experts, civil society, donors, investors and the private sector can facilitate the understanding of constraints and the development of a national strategy. This multi-stakeholder dimension cannot be overemphasized: policy change is most likely to occur when there is a critical mass of institutions and interests with the same concerns that are willing to act together.

At the same time, ministries of finance and central banks have to be centre stage. National leadership and championship at the highest levels of the process are vital. There needs to be extensive involvement and ownership at both the political and technical levels of ministries of finance, line ministries, central banks and banking supervisors. As such, the process recognizes more than a technical perspective; it accepts that the political policy agenda must often first be established and then revised and even rejected when appropriate. Many different individuals need to be involved, and a forum for open interaction and debate is always required.

In support of this process, it would be very valuable to acquire a comprehensive picture of financial inclusion and to track statistical indicators of changes in the degree of inclusion over time. Most countries have not systematically collected this type of data, which generally requires a substantial and expensive household survey for the initial stocktaking, complemented by the collection of data for compiling selected statistical indicators.

Donor support is most valuable when it works on the basis of priorities set by national stakeholders. This is indeed a good basis for effective partnership for development in general and for building inclusive financial sectors in particular.

Dialogue at all levels needs to be ongoing. A periodic review of progress and adjustments in strategy based on experiences gained will raise confidence that the strategy remains on sound footing and will help to achieve a genuinely inclusive financial sector.

Conclusion

Developing countries need to design appropriate strategies for increasing access to financial services by all segments of the population. They must also turn their strategies into effective policy measures and implementation plans. This means that multiple stakeholders must work together to design these strategies and determine the best ways to organize their implementation. Such an effort entails the cooperation of the range of governments, financial institutions, civil society organizations, development partners, and the private sector. And it requires all stakeholders to ensure that adequate attention is focused on financial inclusion over the long term.

We believe the payoff to a focus on financial inclusion in developing countries is very high. It will enrich the overall financial sector. By increasing the economic opportunities of poor and low-income people, it will help make economic development itself broader, deeper and more inclusive. Shared and sustained economic growth helps support political stability and social progress. But most of all, inclusive development of the financial sector will increase incomes, build financial assets, and empower and enrich the lives of millions of households currently excluded from economic opportunity. This is the ultimate objective of this endeavour.

Annex 10. Calendar of Events for the International Year of Microcredit 2005

	January
January 3	Bank for International Settlements Meeting (Basel, Switzerland)
January 17	MDG Report by Jeffrey Sachs (New York, USA)
January 22	Financial Women's Association 2005 Microfinance Symposium at the United Nations, "Microfinance in Transition: Becoming an Inclusive Financial Sector" (New York, USA)
January 25	Microfinance: A Business Opportunity for the Private Sector – Mainstreaming Microfinance in the UN Year of Microcredit 2005 (Zurich, Switzerland)
January 26-30	World Economic Forum (Davos, Switzerland)
	February
February 1-28	Benchmark Data Workshop with IMF, the World Bank, Citigroup, UNCDF and other partners (New York, USA)
February 3	Conference by the Bolivian German Chamber of Commerce and Industry (La Paz, Bolivia)
February 4 - April 5	Microfinance and the Capital Markets Series (Washington D.C., USA)
February 15	Launch Blue Book Website (New York, USA)
February 7-11	CGAP/UNCDF Donor Training: Building Financial Systems for the Poor: How Donors Can Make a Difference (Cottonou, Benin)
February 9-18	Commission for Social Development (CSD) - High-Level Segment with Finance Ministers' round-tables, 43rd Session (New York, USA)
February 15–16	Workshop on Making Markets Work for the Poor (MMW4P) organized by the Department for International Development (DFID) and Asian Development Bank (ADB) (Manila, Philippines)
February 16 to March 1	Presentation of "Microfinance in Kazakhstan: Facts and Figures by UNDP Kazakhstan (Almaty, Kazakhstan)
February 18-20	IYM Secretariat Presentation (Amsterdam, The Netherlands)
February 20	Advisors Group Meeting (Amsterdam, The Netherlands)
February 21-25	Visit to MFIs by Princess Maxima (Kenya and Uganda)
February 22	Expert Meeting Microcredit (Amsterdam, The Netherlands)
February 27-29	IYM Secretariat Presentation (Zurich, Switzerland)
	Launch of SG's report on implementing the Millennium Declaration
February 28 - March 11	Beijing +10, Women's Conference as part of Commission on the Status of Women (CSW) (New York, USA)
	March
March 3	Brown Bag Lecture Series "Managing Risks in Microfinance Investment" organized by the Grameen Foundation USA and the SAIS International Development (Washington D.C., USA) < www.sais.jhu.edu/programs/i-dev>

March 3-4	Belgium Platform of Microfinance (Brussels, Belgium)
March 3-6	Meeting with Princess Mathilde (Brussels, Belgium)
March 4	Observance of International Women's Day (New York, USA)
March 5	IYM Secretariat Presentation (Washington D.C., USA)
March 7-8,	The European Bank for Reconstruction and Development (EBRD) Meeting (Luxembourg)
March 8	International Women's Day (New York, USA)
March 9-10	La Caixa Microcredit Symposium –Opening Remarks by HM Queen Sofia of Spain (Madrid, Spain)
March 10	Seminar on "Health Insurance for the Poor in Developing Countries"organized by DESA, Division for Social Policy and Development / Division for Sustainable Development (New York, USA)
March 10	ALFI Conference on Microfinance: An Opportunity for the Luxembourg Fund Industry (Kirchberg, Luxembourg)
March 14-16	Blue Book Multi-stakeholder Dialogue Manila organized with ADB (Manila, Philippines)
March 15-17	CARE India Conference on Microfinance (New Delhi, India)
March 16-19	National Community Reinvestment Coalition (NCRC) International Conference (Washington D.C., USA)
March 16-18	The Latin American and Caribbean Forum for Rural Finance (Oaxaca, Mexico)
March 17	CGAP Donor Thematic Workshop: "The Role of Governments in Microfinance" (Manila, Philippines)
March 17	Le Français et le Microcredit (Paris, France)
March 17-18	Visit to MFIs by Princess Mathilde (India)
March 22	Microfinance, Women and Citigroup, sponsored by the GCIB Office of Global Diversity in Recognition of Women's History Month (New York, USA)
March 21-25	Sending Money Home: Remittances to LAC 2004 Flows, organized by the Inter American Development Bank/ Multilateral Investment Fund in collaboration with Microfinance Unit of Citigroup Inc. (New York and Washington DC, USA)
March 24-25	NGO Conference on "Save the Poor": Poor are Bankable (Quetta, Pakistan)
March 25	Millennium Development Goals: Lessons, Opportunities, and Challenges, organized by New York University and hosted by International Public Service Association (IPSA) (New York, USA)
March 28 – April 8	Blue Book E-Conference with the World Bank Institute
March 29 - April 1	Training Course "Loan Portfolio Management in MFIs," organized by Microfinance Centre for CEE and the NIS (Warsaw, Poland)
March 5	Seminar organized by the South Africa National Committee (Pretoria, South Africa)
March 8	Education outreach at Rudolf Steiner School, organized by UNIC and the South Africa National Committee. (South Africa)

March 8	Conference on "Access to drinking water, sanitation and electricity through microfinance," organized by the Moroccan National Committee (Morocco)
March 10	Launch of celebration of the International Year of Microcredit, organized by National Committee in El Salvador, UNDP and the Ministry of Economy (El Salvador)
March 10	3rd Meeting of National Committee: Action Plan Discussed, by the Italian National Committee (Italy)
March 14	Luncheon on IYM, organized by the Switzerland National Committee (Switzerland)
March 14	Public Launch of Emerge Microenterprise, organized by the Australia National Committee (Australia)
March 18	Forum on Mobilization of Savings, organized by the Morocco National Committee (Morocco)
March 23	Declaration of the Year of Microcredit and Ceremony, organized by Madagascar National Committee (Madagascar)
March 31	Debates via radio broadcast discussing current microfinance issues; adoption of national policy on microcredit and microcredit organizations, organized by Benin National Committee (Benin)
	April
April 4-8	CGAP/UNCDF Donor Training – Building Financial Systems for the Poor: How Donors Can Make a Difference
April 4–8	Microfin organized training course (Washington D.C., USA)
April 5	Launch of BDFC Rural Savings Program "Save to Grow" through a one-day workshop on microfinance (Thimphu, Bhutan)
April 5	Seminar on "Methodological Issues in Micro Finance Impact Assessment" (Chennai, India)
April 6–8	Women's World Banking/ UN Experts Group Meeting on Blue Book on Building Inclusive Financial Sectors (New York, USA)
April 5–9	IYM Secretariat Presentation (Cotonou, Benin)
April 6	High-level Seminar "Perspectives of Microfinance in Africa," organized by the Central Bank of West African States (BCEAO) (Cotonou, Benin)
April 9	Harvard International Development Conference, Panel discussion "Microfinance in post-conflict areas: An appropriate tool for economic, social and emotional reconstruction?"(Cambridge, Massachusetts, USA)
April 11	The Power of Women's Voices in Microfinance, organized by the Asia Society and Women's World Banking (New York, USA)
April 10-12	Inter American Development Bank (Okinawa, Japan)
April 11-12	The 9th Annual Conference on Economic Transition 2005 for the 10th Anniversary of the Barcelona Process "From Barcelona to the European Neighbourhood Policy (Barcelona, Spain)
April 18	Special High-level meeting of ECOSOC with the Breton Woods Institutions and WTO (New York, USA)
April 18 – 19	IYM Secretariat Presentation (Washington, D.C., USA)

April 19-22	Latin America/Caribbean Region Microcredit Summit Meeting of Councils (Santiago, Chile)
April 19-20	Multi Stakeholders Consultations on Building Inclusive Financial Sectors for Development/ Blue Book Latin America Conference (Santiago, Chile)
April 20-22	Committee of Donor Agencies for Small Enterprise Development Working Group Meeting (Berlin, Germany)
April 21-22	Commission on Sustainable Development (CSD)-High level Ministerial segment (New York, USA)
April 21 – 23	IYM Secretariat Presentation (Zurich, Geneva)
April 21-23	NP. The UBS Philanthropy Forum (Wolfsberg, Switzerland)
April 27-30	World Association of Women Entrepreneurs (FCEM) – World Committee (Fez, Morocco)
April 29	China Institute in America: Lecture on Microcredit and Microfinance in China (New York, USA)
	May
May 1	Advisor's Group Meeting
May 2 – 6	IYM Secretariat Presentation (Geneva, Switzerland and London, UK)
May 4-5	Blue Book Global Meeting on Building Inclusive Financial Sectors for Development (New York, USA)
May 2 – 6	Asian Development Bank Annual Meeting (Istanbul, Turkey)
May 10	Microfinance training and Year update for UN Missions and UN Agencies (UN Secretariat, New York, USA)
May 11	Press Conference on the International Year of Microcredit 2005 hosted by the Minister of Cooperation and Humanitarian Action, Ministry of Foreign Affairs. (Luxembourg)
May 11	Enterprise Opportunity Annual Conference (Portland, USA)
May 11 – 13	"Microfinance Products and Institutional Sustainability: Optimum Management Tools for Credit and Savings" organized by the Association for the Advancement of Women (ADOPEM), Foundation Codespa Caribe and the Support Center for the Microentrepreneur (CEAMI) (Santo Domingo, Dominican Republic)
May 13 -14	4th Roundtable on Microfinance in the Caribbean (Georgetown, Guyana)
May 16-27	Strategies for Local Economic Development (Turin, Italy)
May 17-18	Annual Meeting of African Development Bank (Abuja, Nigeria)
May 19-20	The World Savings Bank Institute (WSBI) Conference on Remittances and Financial Inclusion: Cross-Regional Perspectives (Brussels, Belgium)
May 19-20	*Chicago Business School, Kellogg, Grameen Foundation and UNCDF: "Expanding the Frontier" Transforming microfinance into a Global Financial Markets Instrument (Chicago, USA)
May 20-22	The World Economic Forum (Dead Sea, Jordan)
May 22-23	The European Bank for Reconstruction and Development (Belgrade, Serbia and Montenegro)

May 23	Conference on Experience with Promotion of Sustainable Financial Markets Meeting Poor Households and Micro Enterprise Requirements, organized by the United Nations Association of Greater Boston and John F. Kennedy School of Financial Sector Program (Cambridge, USA)
May 24	Financial Diaries of the Poor: Launch Event organized by FinMark Trust (Cape Town, South Africa)
May 23-27	IYM Secretariat Presentation (India)
May 25	ILO and ECLOF Meeting (Geneva, Switzerland)
May 25	Conference on microfinance at the University of Paris Dauphine (Paris, France)
May 25 –26	Développement international Desjardins (DID): Seminar on Microfinance (Quebec City, Canada)
May 26-28	8th Annual Conference of Microfinance Institutions in Central and Eastern Europe and the New Independent States. Success of Microfinance: How do We Use this Success to Maximize Benefits for Clients (Bucharest, Romania)
	June
June 1-2	Queen Rania's visit (Washington DC, USA)
June 2	Austrian Development Cooperation: Symposium on International Year of Microcredit, "Promoting Financial Global Partnerships for Development" (Vienna, Austria)
June 7-10	CGAP/UNCDF Donor Training – Building Financial Systems for the Poor: How Donors Can Make a Difference (New York, USA)
June 10	Fundraising Breakfast with leading financial women's associations (New York, USA)
June 10	Seminar on MFIs in Transformation organized by Cordaid (The Hague, Netherlands)
June 10	Oikocredit: International Symposium, "Small loans – Great change Building a future with Microfinance" (Bonn, Germany)
June 13 – July 01	Microenterprise and Development Institute: Microfinance Practitioner Training "Tools of the Trade" for Microenterprise Development Professionals (Manchester, New Hampshire)
June 15 – 24	Fostering Private Sector Development & Leadership, CASIN's 27th Seminar on the Management of Interdependence (Geneva, Switzerland)
June 19	Expanding Access to Microfinance: Challenges and Actors. High-level meeting organized by French Agency for Development (AFD) (Paris, France)
June 21	Advisors Group Meeting (Paris, France)
June 22-23	Microfinance/microinsurance and Community Disaster Risk Reduction and Adaptation to Climate Change (Davos, Switzerland)
June 22	Department for International Development (DFID) Conference on Development Data in Africa (Paris, France)
June 23-24	KfW Bankengruppe Conference New Partnerships for Innovation in Microfinance (Frankfurt, Germany)
June 27 – July 8	Monitoring and Evaluation in Development, organized by IMA International (Sussex, UK)

June 27-28	Financing for Development Meeting (New York, USA)
June 28	French Development Agency (AFD) Annual Conference on Microfinance (Paris, France)
	July
July 02	International Day of Cooperatives
July 6-8	G 8 Summit (Scotland)
July 11 – 15	CGAP/UNCDF Donor Training – Building Financial Systems for the Poor: How Donors Can Make a Difference (Kazakhstan)
July 29	Workshop on Microfinance “Curso de Verano sobre Microfinanzas” organized by the International University of Andalucía, Baeza (Jaén) (Spain)
	August
August 8 – 12	Seminar on MFI Ratings and Performance Evaluation offered by Microbanker Financial Training (London, UK)
August 12	International Day of Youth
August 15 – 26	Monitoring and Evaluation in Development organized by IMA International (Singapore)
August 26	Swiss Agency for Development and Cooperation (SDC) seco Annual Conference with focus on “Microfinance” (Fribourg, Switzerland)
August 28 to September 1	African Microfinance Conference on Integrating Microfinance into Formal Financial Markets (Cape Town, South Africa)
August 29 to September 1	Second African Microfinance Conference on Integrating microfinance into formal financial markets, organized by the Micro Finance Regulatory Council (MFRC) in conjunction with the Centre for Microfinance, University of Pretoria, the Association of Microfinance Institutions of Uganda (AMFIU) and Bank of Uganda (BoU) (Cape Town, South Africa)
	September
September 13-17	General Assembly, sixtieth session (New York, USA)
September 14-16	Millennium+5 Conference of the United Nations-High-level meeting (New York, USA)
September 26-27	International Monetary Fund and The World Bank Annual Meeting (Washington, D.C., USA)
September 30	Conference on Microfinance organized by Microenterprise Development Program, The International Alliance for Women (Denver, USA)
	October
October 5-7	Inter-American Development Bank Forum on Microfinance (La Paz, Bolivia)
October 5 - 7	VIII Inter-American Forum on Microenterprise (Santa Cruz, Bolivia)
October 6-8	Middle East/Africa Microcredit Summit Regional Meeting of Councils Annual Meeting of the Sanabel Network (Morocco)
October 8	Peace Concert (Geneva, Switzerland)
October 8-14	53rd World Association of Women Entrepreneurs (FCEM) World Congress (Buenos Aires, Argentina)

October 10 - 11	Conference: Private Capital in Micro- and SME Finance (Geneva, Switzerland)
October 17	International Day of Poverty
October 27-30	10th Association for Women's Rights in Development (AWID) International Forum (Bangkok, Thailand)
October 31 - November 2	World Resource Institute Meeting on Financial Sector Inclusion (Frankfurt, Germany)
October 29 to November 17	AMF: A Salute to the 2005 Year of Microcredit (Los Angeles, USA)
	November
November 6-10	CGAP/UNCDF Donor Training – Building Financial Systems for the Poor: How Donors Can Make a Difference (Amman, Jordan)
November 7 – 11	5th Annual Conference of AFMIN (Madagascar)
November 05	Millennium: One Gala and Year Awareness Raising event organized by the Grameen Foundation USA (Dallas, Texas)
November 8-9	United Nations Forum on Inclusive Financial Sectors (New York, USA)
November 10	New York Federal Reserve Bank Seminar (New York, USA)
November 14-18	Women's World Banking Annual Meeting (Marakesh, Morocco)
November 25	Maison des Sciences de l'Homme et de la Societe, University of Poitiers: Microfinance within Sustainable Development: Assessments and Challenges" (Poitiers, France)
November 25 - 27	World Congress on Agricultural and Rural Finance (Addis Ababa, Ethiopia)
	December
December 1	World Aids Day
November 29 – December 4	The Business Environment Conference (Cairo, Egypt)

Annex 11. U.N. International Forum to Build Inclusive Financial Sectors

International Year of Microcredit Unites Financial Sector Leaders, Senior Government Officials, Corporate CEOs, and Microfinance Clients

By Irena Budimova, Robert F. Wagner School of Public Service, New York University

From Microfinance MATTERS, November 2006 Issue

The United Nations International Forum to Build Inclusive Financial Sectors (the Forum) took place from November 7-9, 2005 at UN Headquarters in New York, assembling more than 700 representatives from 90 countries. The participants included dignitaries, high-level government officials, corporate CEOs, celebrities and microfinance clients. The Forum served as the culmination of the International Year of Microcredit 2005, and provided an opportunity for leaders in international finance and development to discuss and deliberate how to increase access to financial services for poor people. The goal of the Forum was to create an action plan for building inclusive financial sectors and help bring the world closer to achieving the Millennium Development Goals.

The three-day event included nine panels that generated debate on diverse topics such as the potential role of microfinance in post-disaster countries, the role of the private sector, the impact of technology on microfinance, the commercialization of microfinance, Africa's unique microfinance sector, and the regulation of the microfinance sector.

Panelists repeatedly remarked on the incredible success the Year has achieved in raising awareness of microfinance and its potential for alleviating poverty. During the opening ceremony Paul Wolfowitz, World Bank President, said, "Microfinance is a powerful tool for reducing poverty. It enables people to increase their incomes, to save and to manage risk. It reduces vulnerability and it allows poor households to move from everyday survival to planning for the future".

Kemal Dervis, Administrator for the United Nations Development Programme (UNDP) focused attention on the success of Year by saying, "This year has achieved success beyond all expectations, further demonstrating the worldwide demand for increased access to financial services".

Her Royal Highness Princess Maxima of the Netherlands, an Advisor to the Year, urged supporters of microfinance to ensure the profitability of the sector. "I and my

Richard Weingarten, Executive Secretary UNCDF; Kemal Dervis, Administrator, UNDP; Her Royal Highness Princess Maxima of the Netherlands

Paul Wolfowitz, President, World Bank and José Antonio Ocampo, United Nations Under-Secretary-General for Economic and Social Affairs

fellow advisors are convinced that to move to the next level, profitability will be crucial", she said. She continued to say that: "The biggest challenge is not how to do microfinance, but how to do it on a big enough scale to make a real macroeconomic difference. To reach the very large number of poor people who need financial services, microfinance must become commercially viable".

The Panels

The first panel focused on two important initiatives started as a result of the Year: the Data Project and the Blue Book. Of the Blue Book, José Antonio Ocampo, United Nations Under-Secretary-General for Economic and Social Affairs, said: "It only has one major policy prescription: that access to finance should be the main goal. It is to serve as a reference point for governments to share best practices". United Nations Capital Development Fund (UNCDF) Executive Secretary Richard Weingarten discussed UNCDF's role in working towards building more inclusive financial sectors in Sub-Saharan Africa, while Asli Demirguc-Kunt, Finance Manager, World Bank, presented the results of the World Bank's first efforts to collect data on access to financial services, initiated under the auspices of the Year.

The second panel focused on financial sector crises in post-conflict countries. James D. Rogers, Governor of the Central Bank of Sierra Leone, spoke about the importance of investing to ensure that conflicts do not take place in the first place. Investment in conflict resolution is more meaningful than large programmes, which come in after the fact. Panelists agreed that microfinance can be a very potent instrument in alleviating extreme poverty and thereby decreasing the risk of conflict. Two microentrepreneurs from war ravaged countries spoke of their ability to build a better life with the help of a microfinance loan, Shakila Sarajulldin, a microentrepreneur from Afghanistan, and Fatu Kanu of Sierra Leone.

One of the most important developments in microfinance in the last few years has been the increased participation in the industry by the private sector, which has demonstrated that microfinance is a viable commercial business. The need for private sector involvement to help build a sustainable microfinance sector was emphasized throughout the Forum and in the third panel: "Will the International Private Sector Transform the Landscape of Microfinance?" Bo Cutter, Managing Director of Warburg Pincus, said, "In order for this sector to evolve to include deep established financial services that reach the poor, as compared to the single product of today, we need to have strong public-private partnerships".

The fourth panel deliberated on technology implementation strategies and how can microfinance institutions obtain access to technology. One of the major obstacles was determined to be the lack of common standards to unite different systems. Henrik Pal, Managing Director of Eurogiro, encouraged interconnectivity between the developed and developing countries. Africa in particular lacks access to technology due to the high costs and this prevents the financial sector to expand or become profitable. Panelists concluded that innovative means to overcome this hurdle must be implemented.

The commercialization of microfinance institutions, the diversification of financial services, and the impact of technological advances are necessary for access to financial services to expand. During the fifth panel, "The Future of Access to Finance", Dr. Stanley Fisher, Governor of the Bank of Israel and Chair of the Advisors Group to the International Year of Microcredit said, "The capacity to reach the poorest people is more important than adding another credit card to someone who already has six in his wallet. My sense is that there's an enormous amount of capital in industry and it doesn't know how to find its way to those who need it."

Economist Jonathan Morduch moderated the sixth panel on exploring the financial needs of poor and low income clients. It was surmised that protecting savings of depositors and ensuring safety of deposits are most important. Dr. Robert Townsend, Economics Professor at the University of Chicago, said that in order to really understand the needs of the various clients, an intensive archive that brings together all existing secondary data and puts it on a geographic system should be created. Microentrepreneurs from Peru and China also shared their experiencesS in using financial services to build better livelihoods.

Sir Nicholas Stern, Head of UK Government Economic Service, who moderated the seventh panel on growth and access to finance in Africa, was heartened by the optimistic tone struck by the panelists. He said the panelists demonstrated that it is possible to create successful strategies in the region, to overcome problems of capacity, and that he hopes that the private sector sees that these strategies can be turned into action.

Panel 8, "Migration: The Changing Landscape of Banking", focused on how banks and regulators can cooperate to create cost efficiency and save remittances for low income workers. Diana Taylor, New York Superintendent of Banks, emphasized the need to keep money service businesses active and not dissuade them from operating by over regulating the sector. "Our hope is that when the banks become more comfortable with how we regulate the money transmitting businesses, they will become more comfortable in doing business with them," she said.

In the final panel of the event, Stanley Fischer summarized the achievements of the Year in bringing microfinance to the forefront throughout the world, and presented the Statement of the Advisors Group to the International Year of Microcredit. Dr. Fischer said he himself was taken aback at how the Year exceeded even the expectations of the Advisors to the Year. It has raised the profile of microfinance among users of microfinance, suppliers of capital, those in the business, and the public. The biggest challenge for the next few years is to provide microfinance on a significantly larger scale, he said.

To close the Forum, 17 Ministers and Permanent Representatives of UN delegations made statements on building inclusive financial sectors in their countries, including: the Deputy Prime Minister of Cambodia, the Minister of Social Development from Morocco, and the Permanent Representative of the United Kingdom to the UN. H.E. Dr. Iftekhar Ahmed Chowdhury, Ambassador and Permanent Representative of Bangladesh to the United Nations, said: "The momentum generated through the observance of the Year must be preserved and further enhanced. It is a categorical imperative for our Governments as well as the UN will to follow up on the progress to date. In microcredit we have an effective tool at hand. We must make proper use of it to supplement our efforts to rid our world of injustice, inequality and indignity that still sadly dot this globe".

The Private Sector at the Forum

The private sector's involvement was evident throughout the Forum. Two high-profile events were held by the Federal Reserve Bank of New York and Credit Suisse First Boston (CSFB). The Federal Reserve Bank of New York hosted a full-day seminar on regulation and supervision in collaboration with the United Nations Capital Development Fund (UNCDF) and the New York State Banking Department. CSFB held a reception on the opening day of the Forum to celebrate the Year's success in microfinance reform.

The seminar at the Federal Reserve Bank of New York provided insights for devising appropriate regulations for microfinance. Diana Taylor, New York State Superintendent of Banks, elaborated on the topic by explaining that the apprehension of regulating the microfinance sector is due to "horror stories" of inappropriate regulation in the past. Ms. Taylor said, "Part of problem is that regulators are government entities of civil servants with strict mindsets." She continued to call for an appropriate system of microfinance regulation that reflects the sector's on the ground and local level participation characteristics.

CSFB's reception drew prominent representatives of the private sector and practitioners of economic development. Renowned economist Jeffrey Sachs, Dr. Arthur Vayloyan, Executive Board Member of CSFB, and Richard Weingarten, Executive Secretary of the UNCDF, highlighted the potential role of the private sector to commercialize and regulate microfinance and ultimately eradicate poverty.

Mr. Sachs examined the role of microfinance in alleviating poverty, concluding that "microfinance is a key tool but it is only one tool...We've seen that microfinance works best when communities that receive microfinance institutions also have clinics, and safe drinking water, and roads, and transport facilities and other means," he said. Dr. Vayloyan said that while he was initially skeptical of microfinance, being part of the Year has convinced him that it is a powerful strategy. "We know it works, it enables the poor to take care of their own destiny," he asserted. "Microfinance is about helping to stabilize this world in terms of making this a better world."

Microentrepreneurs Honored at United Nations Gala Awards Dinner

The success stories of microfinance clients have been instrumental in encouraging the expansion of the microfinance sector. The incredible achievements of microentrepreneurs were formally recognized during the Forum during a Gala Awards dinner celebrating the worldwide winners of the 2005 Global Microentrepreneurship Awards. Nine entrepreneurs from Afghanistan, Bangladesh, China, India, Liberia, Malawi, Peru, Sierra Leone and South Africa were presented with awards for successfully using microfinance services to start their own businesses and build better futures for their families. Presenters included A-list celebrities such as Jennifer Lopez, Marc Anthony, Tim Robbins and Walter Cronkite who joined over 400 prominent business leaders, dignitaries, and high-level government officials in celebrating the tremendous achievements of the microentrepreneurs.

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Although the Forum marked the official end of the Year, activities launched in observance of the Year are being supported by more than 100 National Committees around the world. Long-term initiatives are being implemented by both national governments and the private sector in order to expand the access to financial services. At the CSFB reception, Richard Weingarten expressed the sentiment of all the supporters of microfinance as the Year came to a close: "There is a lot of work to do, and 2005 is the beginning of that work - certainly not the end".

Endnotes

(1) To view the full results of the panels of the International Forum to Build Inclusive Financial Sectors, please visit: http://www.yearofmicrocredit.org/pages/getinvolved/getinvolved_forum2005.asp

(2) For more information, please visit: http://www.uncdf.org/english/microfinance/newsletter/pages/2005_11/news_results.php

(3) To view the Statement of the Advisors Group to the International Year of Microcredit, please visit: http://www.yearofmicrocredit.org/

(4) For more information, please visit: http://www.uncdf.org/english/microfinance/newsletter/pages/2005_11/news_ny.php

(5) To view full story on the Gala Awards Dinner, please visit: http://www.uncdf.org/english/

microfinance/newsletter/pages/2005_11/news_celebrate.php

U.N. International Forum to Build Inclusive Financial Sectors - Agenda

7 November 2005

UN Headquarters, New York

8:00 – 9: 00	Registration (open throughout the day)
9:00 – 10:30	Opening Ceremony Chair: His Excellency Mr. Aminu Bashir Wali (Ambassador of Nigeria, Chair of the Second Committee) Welcoming Remarks: Mr. Kemal Dervis (Administrator, UNDP) Keynote Speaker: Her Royal Highness Princess Máxima (The Netherlands) Guest Speaker: Mr. Paul Wolfowitz (President, The World Bank Group)
10:30 – 11:30	PANEL I: Financial Sector Indicators and the Blue Book on Building Inclusive Financial Sectors During the past year, researchers associated with the UN International Year of Microcredit focused on two major projects: the lack of good information on access to microfinance, the extent of access, and the terms of access – the Data Project; and the obstacles which stand in the way of increased and improved access and avenues of opportunities to expand access to financial services– the Building Inclusive Financial Sectors, or "Blue Book" Project. Participants in this panel will describe the key questions and the results to date of both projects. With regard to data, the key questions are: what data do governments, the private sector, and multilateral organizations need to make good decisions, and what data do they have? How can we measure who has access to what kinds of services? What data do we have, and what data do we need to evaluate the effects of access to microfinance? The Blue Book presentation will discuss the following questions: What is meant by "building inclusive financial sectors"? What are the main findings of the Blue Book on the key question of "Why are so many bankable people unbanked? What are the issues highlighted in the consultative process, which will be presented in the publication in the first quarter of 2006? How will the Blue Book be used to help build inclusive financial sectors at the national level? Moderator: Mr. José-Antonio Ocampo (Under-Secretary-General for United Nations Department of Economic and Social Affairs) Panelists: • Mr. Richard Weingarten (Executive Secretary, UNCDF) • Ms. Asli Demirguc-Kunt (Finance Manager, The World Bank Group) • Mr. Raghuram Rajan (Economic Counselor and Director of Research, IMF)

11:30 – 13:00	PANEL II: Taking Meaningful Steps to Mitigate Financial Sector Crises in Post-Disaster/Post-Conflict Countries Wars, political turmoil, and natural and other disasters can devastate the livelihoods of individuals and endanger the safety of financial sectors. This panel will address the potential role of microfinance in the mitigation of the impacts of disasters. Participants will discuss methods to plan for crises, the types of services that should be offered to the affected people, and how best to respond to clients' needs and demands in these specific contexts. Questions to be taken up include: What needs to be done to strengthen microfinance systems to help ensure that they can operate post-crises? What needs to be done in the wake of crises to ensure that microfinance institutions can provide clients with access to financial services in these circumstances? When should relief services be offered in parallel with or instead of microfinance? Moderator: Mr. Robert Davies (Chief Executive Officer, The Prince of Wales International Business Leaders Forum) Panelists: • Mr. In Channy, (General Manager of ACLEDA Bank Plc., Cambodia) • Dr. James D. Rogers (Governor, Central Bank of Sierra Leone) • Ms. Fatu Kanu (Microentrepreneur, Sierra Leone) • Ms. Shakila Sarajulldin (Microentrepreneur, Afghanistan) • Mr. B.S. Kusmuljono (Board Commissioner, Bank Rakyat Indonesia)
13:00 – 15:00	Networking Luncheon – National Committee Awards
15:00 – 16:30	PANEL III: Will the International Private Sector Transform the Landscape of Microfinance? One of the most important developments in microfinance in the last few years has been the increased participation in the industry by the private sector, which has demonstrated that microfinance is a viable commercial business. A CGAP survey conducted in 2003 identified over 225 commercial banks and other formal financial institutions that are engaged in microfinance. Questions to be discussed in this session include: How will the entry of these new actors transform the microfinance industry? What will be the scope of their involvement? What are the opportunities for partnerships between existing microfinance institutions and the private sector, and what new types of investment vehicles, securitization, and risk management are likely to be introduced by commercial entrants to the industry? Moderator: Mr. Matthew Bishop (Chief Business Writer, The Economist) Panelists: • Mr. Bo Cutter (Managing Director, Warburg Pincus) • Ms. Doris Köhn (First Vice-President, KfW Bankengruppe) • Mr. Roderick (Rory) Stear (Executive Chairman, Freeplay Energy Group) • Mr. Khalid Sheikh (Senior Vice President, Group Risk Management-Emerging Markets Analysis & Multilateral Organisations, ABN AMRO) • Mr. Israel Moreno (General Manager, PATRIMONIO HOY, an initiative of CEMEX)

16:30 – 18:00	PANEL IV: Technology: Expanding the Outreach of Microfinance A wide range of technologies, such as ATMs, personal digital assistants and biometrics, are available to help microfinance providers improve efficiency, monitoring and supervisory capacity, increase transparency, and expand their client bases. Yet many microfinance institutions struggle to obtain access to and select the right technologies. This panel will discuss current trends in technological advances and technology implementation strategies. Key questions for the panel include: Given the wide array of technological services available, what are the latest effective innovations, and how can they be implemented? What impact will these technologies have on bringing new players into the microfinance market and extending the outreach of microfinance on a massive scale? How can they improve critical information flows within and between institutions? Moderator: Mr. Matthew Piasecki (Chief Commercial Officer, Visa International) Panelists: • Mr. Simon Willis (Global Head of eGovernment, Internet Business Solutions Group, Cisco Systems Inc.) • Mr. Vikram Akula (Founder and CEO, SKS Microfinance) • Mr. Henrik Parl (Managing Director, Eurogiro)
18:30 – 21:00	Reception Hosted by Credit Suisse First Boston

8 November 2005

UN Headquarters, New York

9:00 – 10:00	Registration (open throughout the day)
10:00 – 11:00	PANEL V: The Future of Access to Finance This panel will discuss the commercialization of microfinance institutions, the diversification of financial services, and the impact of technological advances. It will address the question of whether integrating microfinance into the formal financial sector will expand access to finance for poor and low-income people around the world. Questions include: How will this change the world of microfinance? Who will be the leaders in this endeavor and why? What must be done to help give more poor and low-income people access to the financial sector? Moderator: Mr. Tom Easton (Chief Financial Correspondent, The Economist) Panelists: • Mr. Yi Gang (Assistant Governor, People's Bank of China) • Dr. Stanley Fischer (Governor, Bank of Israel) • Dr. Arthur Vayloyan (Member of the Executive Board and Head of Private Banking Switzerland, Credit Suisse) • Sir Ronald Cohen (Chairman, Social Investment Taskforce)

11:00 – 12:00	PANEL VI: Poor and Low Income Clients: Exploring Their Financial Needs Poor people use a wide range of financial services, including purchasing land or other assets, making home improvements, and addressing life cycle needs such as education or marriage; seasonal events such as those relating to harvest, school fees, or festivals; and emergencies such as illness, theft or natural disasters. This panel will examine the array of products and services that can help poor people make choices, take advantage of opportunities, and smooth incomes, what types of providers are necessary to serve this market, and the costs and risks associated with reaching this segment of the population. Moderator: Dr. Jonathan Morduch (Associate Professor of Public Policy and Economics, New York University) Panelists: • Dr. Robert Townsend (Charles E. Merriam Distinguished Service Professor in Economics and the College, University of Chicago) • Ms. Xu Xiaoen (Microentrepreneur, China) • Mr. Milkov Machaca (Microentrepreneur, Peru) • Mr. Fouad Abdelmoumni (Executive Director, Association Al Amana) • Mr. Andrey Vladimirovich Sharov (Director, Department of State Regulation of Economy, Ministry of Economic Development, Russia)
12:00 – 13:00	PANEL VII: Africa: Growth and Access to Finance – The Final Frontier There is a notable lack of information about microfinance in Africa and what kinds of financial services people need. This panel will discuss what we know about the extent and distribution of microfinance in Africa, the hurdles to building inclusive financial sectors, and possible ways to improve the reach and effectiveness of microfinance institutions in Africa. Among the questions to be considered are: How can access to microfinance help address Africa's chronic poverty problems? What growth constraints does the microfinance sector face? How can governments, microfinance institutions, and the private sector work together to collect more data on the access and needs of financial services in African countries? What is the role of governments in adapting the legal and supervisory framework to facilitate development of microfinance in Africa? Moderator: Sir Nicholas Stern, FBA (Head of UK Government Economic Service) Panelists: • Her Excellency Mrs. Maïmouna Sourang Ndir (Minister of Small and Medium Enterprises, Republic of Senegal) • Mr. René Azokli (Managing Director, PADME) • Ms. Chrissie Akulila Candu Katundu (Microentrepreneur, Malawi) • Mr. James Mwangi (Chief Executive, Equity Bank Ltd., Kenya)
13:00 – 15:00	Networking Luncheon

15:00 – 16:30	PANEL VIII: Migration: The Changing Landscape of Banking In 2000, there were 175 million persons living outside of their country of birth. Massive global population movements can dramatically impact the financial sector, particularly through the desire of migrants to send remittances to their home countries. But migration also makes it difficult for people to establish credit histories. Among the questions to be discussed by this panel are: How can banks and regulators create more efficient, cost-effective means for people to move with their assets, and transfer new assets back home? How can remittances be safely channeled to create more economic opportunities for both senders and receivers? How can immigrants transfer their credit histories from location to location? Moderator: Mr. Goanpot Asvinvichit (President and CEO, Government Savings Bank, Thailand) Panelists: • Ms. Diana L. Taylor (Superintendent of Banks for the State of New York) • Dr. Luigi Zingales (Robert C. McCormack Professor of Entrepreneurship and Finance, University of Chicago) • Dr. Dilip Ratha (Senior Economist, The World Bank Group) • Mr. Ajay Banga (Co-head of the Global Consumer Group, Citigroup)
16:30 – 18:00	PANEL IX: Can "Access to Finance" be a Policy Objective: Member State Delegate Statements Ministers and representatives of Member States will discuss challenges, results and problems remaining, in the building of more inclusive financial sectors. Chair: His Excellency Mr. Francis K. Butagira (Ambassador of Uganda, Chair of the Third Committee) Closing statement: Dr. Stanley Fischer (Governor, Bank of Israel; Chair of the Advisors Group to the International Year of Microcredit)
18:30 – 22:45	Evening Gala Awards Dinner "Celebrating the Unsung Heroes of Poverty Eradication"

U.N. International Forum to Build Inclusive Financial Sectors – Participants

Mr. Fouad Abdelmoumni
Executive Director, Association Al Amana
Advisor to the International Year of Microcredit

Dr. Vikram Akula
Founder and CEO, SKS Microfinance
H.E. Mr. Goanpot Asvinvichit
President and CEO, Government Savings Bank, Thailand

Mr. René Azokli
Managing Director, PADME
Advisor to the International Year of Microcredit

Mr. Ajay Banga
Chairman and CEO, Global Consumer Group International, Citigroup

Mr. Matthew Bishop
Chief Business Writer, The Economist
Advisor to the International Year of Microcredit

His Excellency Mr. Francis K. Butagira
Ambassador of Uganda to the UN, Chair of the Third Committee

Mr. In Channy
General Manager of ACLEDA Bank Plc., Cambodia
Advisor to the International Year of Microcredit

Sir Ronald Cohen
Chairman, Social Investment Task Force
Mr. Bowman Cutter
Managing Director, Warburg Pincus

Robert Davies
Chief Executive Officer, The Prince of Wales International Business Leaders Forum

Ms. Asli Demirguc-Kunt
Finance Manager and Advisor, The World Bank Group

Mr. Kemal Dervis
Administrator, UNDP

Mr. Tom Easton
Chief Financial Correspondent, The Economist

Dr. Stanley Fischer
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Chair of Advisors Group to the International Year of Microcredit

Dr. Yi Gang
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Ms. Chrissie Akulila Candu Katundu
Microentrepreneur, Malawi

Ms. Fatu Kanu
Microentrepreneur, Sierra Leone

Doris Köhn
First Vice-President, KfW Bankengruppe

Mr. B.S. Kusmuljono
Board Commissioner, Bank Rakyat Indonesia

Mr. Milkov Machaca
Microentrepreneur, Peru
HRH Princess Máxima of the Netherlands
Advisor to the International Year of Microcredit

Dr. Jonathan Morduch
Associate Professor of Public Policy and Economics, New York University

Mr. Israel Moreno
General Manager, PATRIMONIO HOY, an initiative of CEMEX

Mr. James Mwangi
Chief Executive, Equity Bank Ltd., Kenya
Her Excellency Mrs. Maïmouna Sourang Ndir
Minister of Small and Medium Enterprises, Republic of Senegal

Mr. José-Antonio Ocampo
Under-Secretary-General for United Nations Department of Economic and Social Affairs

Mr. Henrik Parl
Managing Director, Eurogiro
Mr. Matthew Piasecki
Chief Commercial Officer, Visa International

Mr. Raghuram Rajan
Economic Counsellor and Director, Research Department, IMF
Advisor to the International Year of Microcredit

Dr. Dilip Ratha
Senior Economist, The World Bank Group

Dr. James D. Rogers
Central Bank Governor, Sierra Leone

Ms. Shakila Sarajulldin
Microentrepreneur, Afghanistan

Mr. Andrey Vladimirovich Sharov
Director, Department of State Regulation of Economy, Ministry of Economic Development, Russia

Mr. Khalid Sheikh
Senior Vice President, Group Risk Management-Emerging Markets Analysis & Multilateral Organisations, ABN AMRO

Mr. Roderick (Rory) Morton Stear
Executive Chairman, Freeplay Energy Group

Sir Nicholas Stern, FBA
Head of UK Government Economic Service

Ms. Diana L. Taylor
Superintendent of Banks for the State of New York

Mr. Robert Townsend
Charles E. Merriam Distinguished Service Professor in Economics and the College, University of Chicago

Dr. Arthur Vayloyan
Member of the Executive Board and Head of Private Banking Switzerland, Credit Suisse

H.E. Mr. Aminu Bashir Wali
Ambassador of Nigeria, Chair of the Second Committee

Mr. Richard Weingarten
Executive Secretary, United Nations Capital Development Fund

Mr. Simon Willis
Global Head of eGovernment, Internet Business Solutions Group, Cisco Systems Inc.

Mr. Paul Wolfowitz
President, The World Bank Group
Ms. Xu Xiaoen
Microentrepreneur, China

Dr. Luigi Zingales
Robert C. McCormack Professor of Entrepreneurship and Finance, Graduate School of Business, University of Chicago

Annex 12. Federal Reserve Bank of New York Seminar

New York State Banking Department Observes the International Year of Microcredit: Gathers Global Financial Sector Leaders for Landmark Seminar on Regulation and Supervision

By Maura McGill, Robert F. Wagner Graduate School of Public Service, New York University

From Microfinance MATTERS, November 2006 Issue

On November 9, the Federal Reserve Bank of New York joined Diana Taylor, New York Superintendent of Banks, the United Nations Capital Development Fund (UNCDF) and the Advisors Group to the International Year of Microcredit in hosting a high-level seminar as part of the United Nations International Forum to Build Inclusive Financial Sectors.[1] This seminar was the first of its kind, bringing global financial sectors leaders together under Wall Street's auspices to discuss increasing access to finance for poor people around the world, sending a strong signal that microfinance is a key issue in the future of finance.

Central bank governors, government ministers, senior banking executives, and representatives from the world of microfinance from 45 countries participated in the event, which focused on regulation and supervision in the microfinance sector. Key messages that emerged from the Seminar included that safety and soundness need to be balanced with flexibility and innovation; that microfinancial services should not be subject to easier regulations; regulations should be based on maintaining the soundness of the financial sector and making sure that the broadest segment has access at the lowest cost and the lowest risk; and that competition needs to be fostered between lenders to bring costs down.

The event began with opening remarks from Ms. Christine Cumming, First Vice President, Federal Reserve Bank of New York. To set the stage for the panelists and start the audience thinking about the major questions the banking sector must ask itself to implement regulation and supervision strategies into microfinance, Ms. Cummings asked, "How can we level the playing field for financial institutions without sacrificing security and soundness? How do supervisors ensure that access to banking services is available to people from all walks of life?" Ms. Cummings suggested that research can be of great help to the field and highlighted current microfinance programs in upstate New York promoting financial literacy. She then introduced Stanley Fischer, Governor, Bank of Israel and Chair of the Advisors Group for the International Year of Microcredit.

Mr. Fischer spoke of the conclusions made by the Advisors Group in assessing the future of microfinance. One such conclusion was: "as we seek to expand access to financial services to the poor, the private sector will play a critical role. The supervisory framework, if it hopes to facilitate expanding access, will have to deal with the emerg-

Dr. Stanley Fischer, Governor, Bank of Israel, and Chair, Advisors Group to the International Year of Microcredit

Lady Lynn Forester de Rothschild, Mrs. Miranda Swaray Goeltom, Ms. Ricki Tigert Helfer

Ms. Ricki Tigert Helfer, Mr. Carlos Danel, Mr. Erik Ekue

Mr. Mauricio Moura, Mr. Robert Annibale, Mr. Tom Easton, Mr. James Mwangi, Mr. Jack Lowe ing role of the private sector in this industry". Mr. Fischer stressed that governments must encourage competition between lenders and balance the protection of consumers while keeping the burden on the private sector manageable. He also emphasized that microfinance institutions accustomed to subsidized capital should not prevent the entrance of private capital into the market. On the topic of regulation and supervision, Mr. Fischer highlighted one of the Year's important achievements, the Blue Book, a policy dialogue which addressed the key constraints and opportunities in building inclusive financial sectors. Participants of the Blue Book voiced concern that banking regulations in some countries were unsupportive, if not detrimental to building inclusive financial sectors and that regulators, therefore, need to take a more proactive approach in collecting data on microfinance clients and reassessing credit and risk profiles. Mr. Fischer concluded by stating that, "No one should fool themselves into thinking we need easier standards for microfinance". He suggested that supervisory practices should be adjusted to provide safe financial services to poor people without sacrificing standards.

Following Mr. Fischer's remarks, Ms. Ricki Tigert Helfer, Former Chairman, FDIC, moderated the first panel: Encouraging Safety and Soundness amongst Diverse Providers. Panelists included Carlos Danel, Executive Director, Compartamos; Miranda Swaray Goeltorn, Senior Deputy Governor, Bank Indonesia; Lady Lynn Forester de Rothschild, ELR Holdings LLC; Rene Azokli, CEO, PADME Cotonou, Republic of Benin; and Eric Ekué, Director of Microfinance, Central Bank of West African States (BCEAO).

Ms. Goeltorn of Indonesia stressed the importance of institution and capacity building, establishing credit bureaus and technical assistance. She also noted that governments play a crucial role in improving microfinance institutions (MFIs) and strengthening their capacity. Lady Lynn Forester de Rothschild spoke about the role of governments in the microfinance sector, saying that "governments in the developed world can give aid for that first tier of microfinance efforts. There needs to be a layer of support for MFIs that is from donors, but after that, there can be commercialization". On the issue of regulation, Ms. Rothschild suggested that regulators must subsidize costs if they are too high and developing countries need to have less regulation rather than more to encourage more participation both from commercial banks and potential clients.

Mr. Ekué noted the importance of savings and deposits in microfinance and stated that in Togo, the regulatory framework allows for support of cooperative structures and gives MFIs the right to operate and mobilize savings. Supervision in Togo is delegated to ministries of finance overseeing this range of institutions. Mr. Azokli added, "Is there a need to regulate this industry? Yes, because microfinance is finance. Just because we are creating wealth for poor people, doesn't make it different. It's still finance. You need to follow the same rules of the financial sector. If your car is big or small, or if you're riding a bike, you still need to follow the rules of the road". He suggested that regulation needs to be flexible, should not bring bad competition and should protect both the clients and the institutions.

In Mr. Danel's opinion, regulation should help MFIs understand where the risks lie, and not the other way around. He noted that regulation built around traditional banking is not geared towards low cost operations, yet regulators must be conscious of the cost burdens that regulations can place on serving the poor. He also stressed that supervision should focus on deposit taking institutions and that creating parallel financial sectors hinders the entry of different institutions that offer micro and small products. He later noted that "If we are to offer more products to more people, we have to think outside the box and we need to have the full support of regulators".

The second panel: Commercializing Microfinance, was hosted by Tom Easton, Chief Financial Correspondent, The Economist. Panelists included Mr. Jack Lowe, CEO, BlueOrchard Finance; Mr. James Mwangi, Finance Director, Kenya Equity Bank; Mr. Mauricio Moura, Executive Manager, Unibanco; and Mr. Robert Annibale, Global Director of Microfinance, Citigroup.

Mr. Lowe emphasized the importance of regulatory issues, noting that there are problems of collateralization and security in some countries. "Many times the local regulatory environment is not adapted to the kinds of financial instruments of private investors", said Mr. Lowe. Mr. Annibale added that "MFIs are inheriting the requirements of large commercial banks, yet there is a lack of experience…It's an unfair burden in some cases if you want to have the full spectrum of financial institutions to be subjected to the same regulations of commercial banking institutions".

Mr. Moura urged banks to understand that a large part of the Brazilian economy is based in the informal sector, and so regulations need to be built around that. Mr. Mwangi added that in Kenya, there must always be strict justifications when applying for a license. He noted that "it is difficult to create a financial industry and tailor the proper regulation. It's not about just prudential guidance - it can be about consumer protection and market maintenance". Mr. Annibale suggested that when it comes to regulatory laws, "some should be eliminated because they are outdate. Some of these regulations are just on the books and they don't apply anymore. This pulls banks out from where you want them to go".

The discussion then turned to the regulation of remittances in the microfinance sector. All of the panelists agreed that when it comes to migrants, there is a lack of documentation, which presents both problems for the client in opening accounts, and problems for the service provider in regulating transactions.

At the conclusion of the panels, Diana Taylor offered closing remarks regarding regulation in microfinance. Ms. Taylor suggested that "maybe regulation as it's currently set up doesn't work for microfinance. Maybe we need to think more out of the box in terms of what would work". She stressed the need to shift focus from systemic risk to consumer issues on the ground. Ms. Taylor concluded the seminar by congratulating the International Year of Microcredit on its laudable success and expressing hope that these discussions on the development of the microfinance sector continue and result in a system that works.

The seminar concluded the three-day International Forum to Build Inclusive Financial Sectors, hosted by the United Nations in celebration of the achievements of the International Year of Microcredit 2005. Though the year has come to a close, it is the sincere hope of the organizers that fervent efforts pushing for the development of microfinance will continue, as Ms. Taylor said, and that microfinance will become an integral part of the financial sector.

Federal Reserve Bank of New York Seminar – Agenda

9 November 2005

Federal Reserve Bank of New York

9:00 – 10:00	Registration and Continental Breakfast
10:00 to 10:30	Opening Remarks and Welcome Ms. Christine Cumming, First Vice President, Federal Reserve Bank of New York Mr. Stanley Fischer, Governor, Bank of Israel and Chair, Advisors Group for the International Year of Microcredit
10:30 to 12:00	Panel 1: Encouraging Safety and Soundness amongst Diverse Providers What is the role of regulation and supervision in advancing the reach of microfinance? How can governments help build a level playing field among diverse providers of financial services? What challenges do bank regulators face in supervising and fostering growth amongst a diverse set of financial service providers? In a system that regulates by risk, are unregulated MFIs and regulated MFIs equally effective? At what point, if any, has regulation impeded growth in this sector? Given the increased focus on broader financial regulatory concerns when does self-regulation make sense? What role should regulators and lawmakers play? This panel will examine the various regulatory and supervisory environments, how to encourage competition among providers of financial services and how diverse providers of retail financial services offer products to low-income or otherwise disadvantaged customers. Moderator: Ms. Ricki Tigert Helfer, Former Chairman, FDIC Panelists: · Mr. René Azokli (Managing Director, PADME) · Mr. Carlos Danel, Executive Director, Compartamos · Lady Lynn Forester de Rothschild, ELR Holding LLC · Mrs. Miranda Swaray Goeltom, Senior Deputy Governor, Bank Indonesia
2:00 to 3:30	Panel 2: Commercializing Microfinance Can a consensus be reached on how to expand relevant services to the unbanked? What role does regulation play in the integrating microfinance into the financial sector? Does regulation advance or impede the deepening and commercialization of microfinance? Do regulators need to play a more active role in facilitating inclusive commercial markets? Does increased interest from the financial sector in integration of services indicate a growing desire to reach microentrepreneurs and low-income consumers? What impact have specialized microfinance rating agencies had to date? Among the issues likely to be addressed are how regulation (or lack thereof) impacts the activities and strategies of banks and investors (local and international). Moderator: Mr. Tom Easton, Chief Financial Correspondent, The Economist Panelists: · Mr. Jack Lowe, CEO, BlueOrchard Finance · Mr. James Mwangi, Finance Director, Kenya Equity Bank · Mr. Mauricio Moura, Executive Manager, Unibanco · Mr. Robert Annibale, Global Director of Microfinance, Citigroup

12:00 to 2:00	Networking Luncheon
3:30 to 4:00	Coffee Break
4:00 to 4:45	Tsunami Recovery: Building back better financial sectors? Ms. Diana L. Taylor, New York State Superintendent of Banks
4:45 to 4:50	Concluding Thoughts Ms. Christina Barrineau, Chief Technical Advisor, The International Year of Microcredit 2005.

Federal Reserve Bank of New York Seminar - Participants

Robert A. Annibale
Global Director, Citigroup Microfinance Group

Ricki Tigert Helfer
Former Chairman, FDIC

Mr. René Azokli
Managing Director, PADME; Advisor to the International Year of Microcredit

Mr. Jack Lowe
CEO, BlueOrchard Finance

Ms. Christine Cumming
First Vice President, Federal Reserve Bank of New York

Mr. Mauricio Moura
Executive Manager, Unibanco

Mr. Carlos Danel
Co-Chief Executive Officer, Compartamos

Mr. James Mwangi
Chief Executive, Equity Bank Ltd.

Mr. Tom Easton
Chief Financial Correspondent, The Economist

Lady Lynn Forester de Rothschild
President and CEO, ELR Holdings LLC

Dr. Stanley Fischer
Governor, Bank of Israel

Ms. Diana L. Taylor
Superintendent of Banks for the State of New York

Mrs. Miranda Swaray Goeltom
Senior Deputy Governor of Bank of Indonesia

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Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Report of the Second Committee

Rapporteur: Mr. Abdulmalik **Alshabibi** (Yemen)

I. Introduction

1. At its 1st plenary meeting, on 13 September 2005, the General Assembly, on the recommendation of the General Committee, decided to include in the agenda of its sixtieth session the item entitled "Follow-up to and implementation of the outcome of the International Conference on Financing for Development" and to allocate it to the Second Committee.

2. The Second Committee considered the item at its 10th, 12th and 39th meetings, on 12 and 19 October and 19 December 2005. An account of the Committee's discussion of the item is contained in the relevant summary records (A/C.2/60/SR.10, 12 and 39). Attention is also drawn to the general debate held by the Committee at its 2nd to 7th meetings, from 3 to 5 October 2005 (see A/C.2/60/SR.2-7).

3. For its consideration of the item, the Committee had before it the following documents:

(a) Report of the Secretary-General on the follow-up to and implementation of the outcome of the International Conference on Financing for Development (A/60/289 and A/60/289/Add.1);

(b) Summary by the President of the General Assembly of the High-level Dialogue on Financing for Development (A/60/219);

(c) Letter dated 5 July 2005 from the representative of Jamaica to the Secretary-General, transmitting the Doha Declaration and Doha Plan of Action adopted by the Second South Summit of the Group of 77, held at Doha, Qatar, from 12 to 16 June 2005 (A/60/111).

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4. At the 10th meeting, on 12 October, the Director of the Financing for Development Office and the Chief of the Multi-stakeholder Engagement and Outreach Branch, Financing for Development Office of the Department of Economic and Social Affairs made introductory statements.

5. At the same meeting, in accordance with the provisions of General Assembly resolution 58/316 of 1 July 2004, the Committee held a question time, during which comments were made and questions were posed by the representatives of Spain, Chile and the United Kingdom of Great Britain and Northern Ireland (on behalf of the European Union), to which the Director of the Financing for Development Office responded.

6. Also at the same meeting, the representative of the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States made a statement.

II. Consideration of draft resolutions A/C.2/60/L.6 and A/C.2.60/L.72

7. At the 12th meeting, on 19 October, the representative of Jamaica (on behalf of the Group of 77 and China) introduced a draft resolution entitled “Follow-up to and implementation of the outcome of the International Conference on Financing for Development” (A/C.2/60/L.6). The draft resolution read:

“*The General Assembly*,

“*Recalling* the International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, and its resolutions 56/210 B of 9 July 2002, 57/250 of 20 December 2002, 57/270 B of 23 June 2003, 57/272 and 57/273 of 20 December 2002, 58/230 of 23 December 2003 and 59/225 of 22 December 2004, as well as Economic and Social Council resolutions 2002/34 of 26 July 2002, 2003/47 of 24 July 2003 and 2004/64 of 16 September 2004,

“*Taking note* of the report of the Secretary-General on the follow-up to and implementation of the outcome of the International Conference on Financing for Development, prepared in collaboration with the major institutional stakeholders,

“*Having considered* the summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development, held in New York on 18 April 2005,

“*Welcoming* the High-level Dialogue on Financing for Development held in New York on 27 and 28 June 2005, and the separate meeting on Financing for Development, held within the framework of the High-level Plenary Meeting of the General Assembly on 14 September 2005,

“*Having considered* the summary by the President of the General Assembly of the High-level Dialogue on Financing for Development, "*Recalling* section II on development of the 2005 World Summit Outcome,

"*Welcoming* ongoing international efforts, contributions and discussions, such as the Action against Hunger and Poverty initiative, aimed at identifying possible innovative and additional sources of financing for development from all sources, public and private, domestic and external, within the context of the follow-up to the International Conference on Financing for Development,

"*Stressing* the importance for developing countries, bearing in mind development goals and objectives, that all countries take into account the need for appropriate balance between national policy space and international disciplines and commitments,

"*Reiterating* the need to implement fully and build further on the commitments made and agreements reached at the International Conference on Financing for Development, and recognizing the strong link between financing for development and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

"1. *Stresses* the importance of increased resource flows to developing countries in achieving sustained economic growth and development, notes with concern the continued increase in net outward transfers of financial resources from developing to developed countries, and underscores the need for measures at the national, regional and international levels to reverse this trend, in view of the importance of increased capital flows and financing for development for developing countries;

"2. *Reaffirms* the importance of fulfilling commitments by developed countries to increase official development assistance, to reduce debt and debt-service payments, to open their markets to the products of developing countries and to encourage foreign direct investment flows to the developing world;

"3. *Stresses* the importance and the critical role that a universal, rule-based, open, non-discriminatory and equitable multilateral trading system can play in stimulating economic growth and development, particularly in the case of the developing countries, where trade continues to be one of the most important sources of development financing;

"4. *Notes* that, while foreign direct investment is a major source of financing development, the flow of such funds to developing countries remains uneven, and in this regard calls upon developed countries to continue to devise source-country measures to encourage and facilitate the flow of foreign direct investment;

"5. *Urges* developed countries that have not done so to make concrete efforts to reach the targets of 0.7 per cent of gross national product as official development assistance to developing countries and 0.15 to 0.20 per cent of gross national product to least developed countries, as reconfirmed at the Third United Nations Conference on the Least Developed Countries, encourages developing countries to build on progress achieved in ensuring that official development assistance is used effectively to help to achieve development goals and targets, and acknowledges the efforts of all donors, commends those donors whose official development assistance contributions exceed, reach or are increasing towards the targets, and underlines the importance of undertaking to examine the means and time frames for achieving the targets and goals;

"6. *Notes with concern* the increased share of debt relief and emergency aid in total aid flows over the last decade and the resulting decline of official development assistance as a source of budgetary resources for developing countries, and in this regard stresses the need to translate the donor commitments to increase official development assistance into real increases in financial resources to support the implementation of national development strategies in developing countries and their achievement of the Millennium Development Goals;

"7. *Requests* the Secretary-General to report to the General Assembly at its sixty-first session on progress made in the fulfilment of official development assistance commitments, including the establishment of timetables to achieve the 0.7 per cent target;

"8. *Decides* to give further consideration to the subject of innovative sources of financing for development, provided that such sources do not unduly burden developing countries, and in this context recognizes the progress achieved in the implementation of some innovative mechanisms, particularly concerning the International Financial Facility and a solidarity contribution on airline tickets to enable financing development projects, particularly in the health sector;

"9. *Encourages* further efforts to improve aid effectiveness, and invites the next World Bank/Organization for Economic Cooperation and Development conference on aid effectiveness to ensure the full participation of developing countries in future work on aid effectiveness;

"10. *Reiterates* its request to the Secretary-General to consult with the Director-General of the World Trade Organization in order to expand existing cooperation between the two organizations on issues related to financing for development and to build on the ad hoc modality of interaction between the United Nations and the World Trade Organization in the preparations for the International Conference on Financing for Development by making better use of the possibilities offered by the existing framework of cooperation;

"11. *Stresses* that scaling up investment in infrastructure is key to faster growth and progress in reducing poverty and calls for continued deepening and scaling up of support for infrastructure service delivery and removal of impediments in this regard in order to respond to the needs of developing countries, and as a part of this effort, looks forward to contributions by the World Bank and the International Monetary Fund at their spring meeting, in 2006, on the impact of fiscal space on growth and the achievement of the Millennium Development Goals;

"12. *Welcomes* the offer of the Government of Qatar to host a follow-up International Conference on Financing for Development, in Doha in 2007, to review the implementation of the Monterrey Consensus, as called for in the Monterrey Consensus;

"13. *Decides* to agree on the appropriate modalities for the follow-up International Conference on Financing for Development to review the implementation of the Monterrey Consensus during the sixtieth session of the General Assembly;

"14. *Stresses* the importance of the full involvement of all relevant stakeholders in the implementation of the Monterrey Consensus of the International Conference on Financing for Development at all levels, and also stresses the importance of their full participation in the Monterrey follow-up process, in accordance with the rules of procedure of the United Nations, in particular the accreditation procedures and modalities of participation utilized at the Conference and in its preparatory process;

"15. *Decides* to include in the provisional agenda of its sixty-first session the item entitled 'Follow-up to and implementation of the outcome of the International Conference on Financing for Development', and requests the Secretary-General to submit to the General Assembly at its sixty-first session a substantive report, including concrete recommendations for action to further the implementation of the Monterrey Consensus, to be prepared in full collaboration with the major institutional stakeholders involved in the financing for development process."

8. At its 39th meeting, on 19 December, the Committee had before it a draft resolution entitled "Follow-up to and implementation of the outcome of the International Conference on Financing for Development" (A/C.2/60/L.72), which was submitted by the Vice-Chairman of the Committee, Mr. Selwin Hart (Barbados), on the basis of informal consultations held on draft resolution A/C.2/60/L.6.

9. At the same meeting, the Committee had before it revisions to draft resolution A/C.2/60/L.72, which were circulated in English only.

10. Also at the same meeting, the Committee was informed that the draft resolution contained no programme budget implications.

11. At the same meeting, the Committee adopted draft resolution A/C.2/60/L.72 as revised.

12. After the adoption of the draft resolution, statements were made by the representatives of the United States of America, Canada (on behalf of the CANZ Group (Australia, Canada and New Zealand)), the United Kingdom of Great Britain and Northern Ireland (on behalf of the European Union), Mexico and Jamaica (on behalf of the Group of 77 and China).

13. In the light of the adoption of draft resolution A/C.2/60/L.72, draft resolution A/C.2/60/L.6 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

14. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

Follow-up to and implementation of the outcome of the International Conference on Financing for Development

The General Assembly,

Recalling the International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, and its resolutions 56/210 B of 9 July 2002, 57/250 of 20 December 2002, 57/270 B of 23 June 2003, 57/272 and 57/273 of 20 December 2002, 58/230 of 23 December 2003 and 59/225 of 22 December 2004, as well as Economic and Social Council resolutions 2002/34 of 26 July 2002, 2003/47 of 24 July 2003 and 2004/64 of 16 September 2004,

Taking note of the reports of the Secretary-General on the follow-up to and implementation of the outcome of the International Conference on Financing for Development, prepared in collaboration with the major institutional stakeholders,[1]

Taking note of other relevant reports of the Secretary-General on the follow-up to and implementation of the outcome of the International Conference on Financing for Development,[2]

Having considered the *World Economic and Social Survey 2005: Financing for Development*,[3]

Recalling the 2005 World Summit Outcome,[4]

Having considered the summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development, held in New York on 18 April 2005,[5]

Welcoming the High-level Dialogue on Financing for Development held in New York on 27 and 28 June 2005 and the separate meeting on financing for development held within the framework of the High-level Plenary Meeting of the General Assembly on 14 September 2005,

Having also considered the summary by the President of the General Assembly of the High-level Dialogue on Financing for Development,[6]

Reaffirming the commitment to the global partnership for development set out in the United Nations Millennium Declaration,[7] the Monterrey Consensus of the International Conference on Financing for Development,[8] the Plan of

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[1] A/60/289 and A/59/822.
[2] A/59/800, A/59/855 and A/60/289/Add.1.
[3] United Nations publication, Sales No. E.05.II.C.1.
[4] See resolution 60/1.
[5] A/59/823-E/2005/69.
[6] A/60/219.
[7] See resolution 55/2.
[8] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

Implementation of the World Summit on Sustainable Development ("Johannesburg Plan of Implementation")[9] and the 2005 World Summit Outcome,

Reaffirming that each country must take primary responsibility for its own development and that the role of national policies and development strategies cannot be overemphasized for the achievement of sustainable development, and also recognizing that national efforts should be complemented by supportive global programmes, measures and policies aimed at expanding the development opportunities of developing countries, while taking into account national conditions and ensuring respect for national ownership strategies and sovereignty,

Recognizing the ongoing international efforts, contributions and discussions, such as the Action against Hunger and Poverty Initiative, aimed at identifying and developing possible innovative and additional sources of financing for development from all sources, public and private, domestic and external, to increase and supplement traditional sources of financing within the context of the follow-up to the International Conference on Financing for Development, recognizing that some of the sources and their use fall within the realm of sovereign action,

Underlining that the increasing interdependence of national economies in a globalizing world and the emergence of rule-based regimes for international economic relations have meant that the space for national economic policy, that is, the scope for domestic policies, especially in the areas of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations; that it is for each Government to evaluate the trade-off between the benefits of accepting international rules and commitments and the constraints posed by the loss of policy space; and that it is particularly important for developing countries, bearing in mind development goals and objectives, that all countries take into account the need for appropriate balance between national policy space and international disciplines and commitments,

Reiterating the need to implement fully and build further on the commitments made and agreements reached at the International Conference on Financing for Development, and recognizing the strong link between financing for development and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

Welcoming the recent decisions, commitments and proposals made in this regard to implement and build on the commitments made and agreements reached at the International Conference on Financing for Development,

1. *Underlines*, in accordance with the Monterrey Consensus:

(a) The importance of the implementation of the commitment to sound policies, good governance at all levels and the rule of law;

(b) The importance of the implementation of the commitment to create an enabling environment for mobilizing domestic resources and the importance of sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure as a basis for sustained economic growth, poverty eradication and employment creation;

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[9] *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1 and corrigendum), chap. I, resolution 2, annex.

(c) The importance, in order to complement national development efforts, of the implementation of the commitment to enhance the coherence and consistency of international monetary, financial and trading systems;

2. *Welcomes* the efforts by developing countries to adopt and implement national development strategies to achieve their national development priorities as well as the internationally agreed development goals and objectives including the Millennium Development Goals; reaffirms the resolve, for those countries that have not yet done so, to adopt by 2006 and implement such strategies; and also reaffirms the resolve to support these efforts as set out in the 2005 World Summit Outcome, including through increased resources;

3. *Stresses* the importance of a universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, that can substantially stimulate development worldwide, benefiting countries at all stages of development; in that regard, reaffirms its commitment to trade liberalization and to ensuring that trade plays its full part in promoting economic growth, employment and development for all; thus welcomes the decisions of the World Trade Organization to place the needs and interests of developing countries at the heart of its work programme and commits itself to their implementation; and in this regard, emphasizes the importance of fulfilling the development dimension of the Doha work programme and the successful completion of the Doha round as soon as possible;

4. *Notes* that, while foreign direct investment is a major source of financing development, the flow of such funds to developing countries and countries with economies in transition remains uneven; in this regard calls upon developed countries to continue to devise source-country measures to encourage and facilitate the flow of foreign direct investment, inter alia, through the provision of export credits and other lending instruments, risk guarantees and business development services; and calls upon developing countries and countries with economies in transition to continue their efforts to create a conducive domestic environment for attracting investments by, inter alia, achieving a transparent, stable and predictable investment climate with proper contract enforcement and respect for property rights;

5. *Reaffirms* the Monterrey Consensus; recognizes that mobilizing financial resources for development and the effective use of those resources in developing countries and countries with economies in transition are central to a global partnership for development in support of the achievement of the internationally agreed development goals, including the Millennium Development Goals; and in this regard:

(a) Welcomes the increased resources that will become available as a result of the establishment of timetables by many developed countries to achieve the target of 0.7 per cent of gross national product for official development assistance by 2015 and to reach at least 0.5 per cent of gross national product for official development assistance by 2010, as well as, pursuant to the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010,[10] 0.15 per cent to 0.20 per cent for the least developed countries by no later than 2010, and urges those developed countries that have not yet done so to make concrete efforts in this regard in accordance with their commitments;

[10] A/CONF.191/13, chap. II.

(b) Recognizes the importance of official development assistance as an important source of financing development for many developing countries; stresses the need to translate increases in official development assistance into real increases in resources for national development strategies to achieve the national development priorities of developing countries as well as the internationally agreed development goals and objectives, including the Millennium Development Goals, taking into account the need for resource predictability, including budget support mechanisms where appropriate; welcomes recent efforts and initiatives to enhance the quality of aid and increase its impact, including the Paris Declaration on Aid Effectiveness; resolves to take concrete, effective and timely action to implement all agreed commitments on aid effectiveness, with clear monitoring and deadlines, including through further aligning assistance with countries' strategies, building institutional capacities, reducing transaction costs and eliminating bureaucratic procedures, making progress on untying aid, enhancing the absorptive capacity and financial management of recipient countries and strengthening the focus of development results; and encourages the broadest possible participation of developing countries in future work on aid effectiveness;

(c) Recognizes the importance of developing innovative sources of financing for development provided that such sources do not unduly burden developing countries; notes that some countries will launch the International Financial Facility, some countries have launched the Facility's immunization pilot and some countries, utilizing their national authorities, will implement in the near future a contribution on airline tickets as a "solidarity contribution" to enable financing for development projects; and notes that other countries are considering whether and to what extent they will participate in those initiatives;

(d) Recognizes the progress achieved in this regard and decides to give further consideration to the subject of innovative development financing from all sources, public and private, domestic and external;

(e) Emphasizes the importance of microcredit and microfinance in the eradication of poverty; highlights that the observance of the International Year of Microcredit 2005 has provided a significant opportunity to raise awareness, share best practices and further enhance financial sectors that support sustainable pro-poor financial services in all countries; in this regard urges member countries to put best practices into action; and invites the international community, including the United Nations system, to build on the momentum created by the Year;

(f) Acknowledges the vital role that the private sector can play in generating new investments, employment and financing for development;

6. *Stresses* the importance of investments in basic economic and social infrastructure, as set out in the Monterrey Consensus; notes that scaling up investment in infrastructure, alongside strong programmes for health and education, is a key element for faster growth and progress in reducing poverty; in this regard, calls for continued deepening and scaling up of support for infrastructure service delivery and removal of impediments in order to respond to the needs of developing countries, consistent with national development strategies; welcomes the progress made by the Bank Group to strengthen public-private partnerships to leverage investment and maximize impact, including in the framework of the newly established Africa Infrastructure Consortium; and acknowledges the work of the World Bank in this area, including plans for a progress report to the Development

Committee on the impact of fiscal space on growth and the achievement of the Millennium Development Goals;

7. *Emphasizes* the great importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries since debt financing and relief can be an important source of capital for economic growth and development, and also emphasizes that creditors and debtors must share responsibilities for preventing unsustainable debt situations;

8. *Welcomes*, in this regard, the recent proposal of the Group of Eight as endorsed by the Bretton Woods institutions at their 2005 annual meetings to cancel 100 per cent of the outstanding debt of eligible heavily indebted poor countries owed to the International Monetary Fund, the International Development Association and the African Development Fund, and to provide additional resources to ensure that the financing capacity of the international financial institutions is not reduced;

9. *Emphasizes* that corruption at all levels is a serious barrier to development and to effective resource mobilization and allocation; reaffirms the commitment expressed in the Monterrey Consensus to make the fight against corruption at all levels a priority; in this regard, welcomes the entry into force on 14 December 2005 of the United Nations Convention against Corruption;[11] and reiterates its invitation to all Member States and competent regional economic integration organizations, within the limits of their competence, to ratify or accede to and fully implement the Convention as soon as possible;

10. *Recognizes* the work of the Financing for Development Office in organizing, within its mandate, workshops, multi-stakeholder consultations, panel discussions and other activities aimed at better enabling member countries to implement their commitments as agreed in the Monterrey Consensus, and requests the Office, in collaboration with experts from the public and private sectors, academia and civil society, to continue its work in this area;

11. *Reiterates its request* to the Secretary-General to consult with the Director-General of the World Trade Organization in order to expand existing cooperation between the two organizations on issues related to financing for development and to build on the ad hoc modalities of interaction between the United Nations and the World Trade Organization that were undertaken in the preparations for the International Conference on Financing for Development held in 2002 by making better use of the possibilities offered by the existing framework of cooperation;

12. *Decides*, in accordance with paragraph 73 of the Monterrey Consensus, to hold a follow-up international conference on financing for development to review the implementation of the Consensus at a date to be determined during the period 2008-2009;

13. *Welcomes* the offer of the Government of Qatar to host the conference;

14. *Decides* that, in line with General Assembly resolution 57/270 B, the review conference should assess progress made; reaffirm goals and commitments; share best practices and lessons learned; and identify obstacles and constraints

[11] Resolution 58/4, annex.

encountered, actions and initiatives to overcome them and important measures for further implementation, as well as new challenges and emerging issues;

15. *Also decides* to commence the preparatory process, including a decision on the exact date of the conference, at its sixty-first session;

16. *Resolves* to continue to make full use of the existing institutional arrangements for reviewing the implementation of the Monterrey Consensus as set out in paragraph 69 of the Consensus and in line with General Assembly resolution 57/270 B, including the high-level dialogues convened by the General Assembly and the spring meetings of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development;

17. *Stresses* the importance of the full involvement of all relevant stakeholders in the implementation of the Monterrey Consensus of the International Conference on Financing for Development at all levels, and also stresses the importance of their full participation in the Monterrey follow-up process, in accordance with the rules of procedure of the General Assembly, in particular the accreditation procedures and modalities of participation utilized at the Conference and in its preparatory process;

18. *Decides* to include in the provisional agenda of its sixty-first session the item entitled “Follow-up to and implementation of the outcome of the International Conference on Financing for Development”, and requests the Secretary-General to submit under that item an annual analytical assessment of the state of implementation of the Monterrey Consensus and of the present resolution, to be prepared in full collaboration with the major institutional stakeholders.