



Side Event Draft Concept Note

TITLE: “MICROCREDIT, MICROFINANCE, INCLUSIVE FINANCE: BUILDING ON SUCCESS FOR INNOVATIVE SOLUTIONS FOR POVERTY ERADICATION IN AFRICA”

Lead Sponsor: United Nations Capital Development Fund (UNCDF)
Permanent Mission of the Netherlands to the UN

Co-Sponsor: The UN Advisors Group on Inclusive Financial Sectors

Date: 22 September 2008

Time: 10:00 a.m. – 12:00 p.m.

Venue: Dag Hammarskjöld Auditorium

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Context

World leaders are coming together to reaffirm their commitment to the developmental needs of Africa. This gathering comes at a time of both promise as well as challenges for Africa. On the one hand, several African governments have strengthened their policies, advancing the conditions for long-term economic growth and further integration with the global economy. Africa has also been at the forefront of innovations in technology and business partnership models. Nevertheless, with almost 300 million people in Africa still living in extreme poverty, more attention and focus is needed to solve the challenges facing the continent. The ongoing efforts to fight poverty and to achieve the Millennium Development Goals (MDGs) in Africa are fraught with challenges stemming from the accelerated and worsening impact of climate change, economic slowdown throughout the world, and skyrocketing food and fuel prices threatening the livelihoods of millions. For people living in such extreme circumstances, gaining access to a diverse range of financial products and services can directly provide the tools to protect, diversify, and increase their sources of income, thereby expanding their economic choices and opportunities.

Building broad and deep financial sectors that promote access to finance is a practical development strategy and approach that should be implemented to achieve the globally adopted targets for reducing poverty. The critical importance of microfinance to help achieve the MDGs was highlighted at the 2005 World Summit, as well as in the endorsement by the Summit of the Monterrey Consensus of the International Conference on Financing for Development. The Monterrey Consensus underscored the contribution that a range of financial institutions can make in providing financial services to enterprise development and called for public and private actors to work collaboratively to provide access to all. The

final declaration of the Monterrey Consensus puts particular emphasis on strengthening domestic financial sectors to include underserved markets, such as rural areas and women.

Despite the achievements of microcredit and microfinance worldwide as well as on the African continent, there is still widespread financial “exclusion” in Africa. The majority of the African population does not have savings accounts, does not receive credit from formal financial institutions, and has no insurance policies. They seldom make or receive payments through financial institutions. Only 4% of the sub-Saharan African population has bank accounts and only 1% of Africans has a loan or credit facility with a formal financing institution. Women and the poorest people often have no access to financial services in Africa, particularly in the rural areas.

Main issues and challenges

An inclusive financial sector refers to a well-functioning financial sector which provides access to a continuum of financial institutions offering a variety of products and services to all segments of the population at a reasonable cost.

Challenges to building truly inclusive financial sectors include:

- Creating a clear vision and commitment by policy makers to include the development of inclusive financial sectors as part of their development agenda;
- Establishing enabling policy, legal, and regulatory environments to facilitate access;
- Supporting the growth of strong institutions that provide a broad range of financial services at a reasonable cost to serve large numbers of people on a sustainable basis;
- Ensuring more active involvement of the private sector;
- Strengthening local financial markets and facilitating access to those markets by strong MFIs, as a means to support their growth in the long-term.

In addition, Africa faces a number of acute challenges that makes achieving progress towards financial inclusion difficult. These include:

- A low population density and weak communication infrastructure that increases transaction costs and makes access more difficult;
- An overall weak institutional capacity and scarce trained human resources; and
- A lack of access to domestic sources of capital, despite the high liquidity of the banking sector overall.

Recent positive developments

However, impressive developments have occurred in Africa that could pave the way for building inclusive financial sectors. Some examples are illustrated below:

- Some of the fastest growing microfinance institutions (MFIs) are from Africa, as is the case of Equity Bank in Kenya, which added an average of more than 1,200 new customers each day in 2006.
- Africa also hosts some of the most successful microfinance institutions in offering saving services to the poor, for example, through large financial cooperative networks in West Africa.
- Moreover, innovative applications of information and communication technology (ICT) are revolutionizing access to financial services, including remittances, throughout the continent. Examples of innovations in technology that have lowered transaction costs and made it easier to

reach the poor include the use of mobile phones to bank the poor (e.g. WIZZIT banking in South Africa, M-PESA partnerships with Vodafone, Faulu-Kenya and CBA in Kenya) and the use of ATMs and Point-of-Sale Networks that increase financial institution outreach without the costs of opening an expensive branch network (e.g. Uganda Microfinance Ltd).

Governments and the private sector

These developments are compelling governments and policy makers to re-define their role and to adapt the regulatory and legislative environments to encourage the emergence of inclusive financial sectors. To illustrate, the West Africa Monetary Union (UEMOA) has recently adopted legislation that facilitates the role that non-financial cooperative institutions can play in providing financial services to the poor.

While the role of governments in creating an enabling environment for greater access to financial services is important, it is equally critical to recognize the key role of the private sector. Therefore, efforts need to be developed to ensure that the private sector in Africa is actively engaged in the process of building inclusive financial sectors across the continent. The private sector can be engaged in this process through a number of ways:

- The private sector can contribute to the development of financial services infrastructure, innovations in delivery mechanisms and product design using technology and other methods to increase efficiency and lower costs, and improve human and institutional capabilities.
- Furthermore, access to capital for lending and improving management and information systems in Africa is a key area where the private sector can make important and substantive contributions.
- In particular, strengthening the local financial markets and their linkages with international markets will be an important part of building inclusive financial sectors in Africa that meets the needs of the poor while promoting sustainable economic development.

Other issues

The side event will include panel presentations featuring successful strategies at the national levels to promote financial inclusion, practical examples of financial services providers at the vanguard of promising innovations, as well as advocacy efforts to promote financial inclusion (i.e the role of the UN Advisors Group on Inclusive Financial Sectors to promote inclusive financial sectors).

Other issues that may be raised include:

In post-conflict and post-natural disaster situations, how can microfinance instruments (including microinsurance) contribute to mitigating the risk and help to repair the socio-economic fabric in Africa?

What needs to be done to bring additional attention to the opportunities in the field of microfinance and inclusive financial sectors in Africa? By whom?

What needs to be done to catalyze greater private sector engagement in the process of building inclusive financial sectors in Africa?