



## **High Level Meeting on Africa's Development Needs: State of Implementation of Various Commitments, Challenges and the Way Forward"**

22 September 2008

### **Brief Report Side Events**

<b>Title:</b>	<b>Microcredit, Microfinance, Inclusive Finance: Building on Success for Innovative Solutions for Poverty Eradication in Africa</b>
<b>Date:</b>	<b>22 September 2008, 10:00 AM – 12:00 PM</b>
<b>Venue:</b>	<b>Dag Hammarskjold Auditorium</b>
<b>Organizers:</b>	<b>Permanent Mission of the Kingdom of the Netherlands to the UN United Nations Capital Development Fund (UNCDF) UN Advisors Group on Inclusive Financial Sectors</b>
<b>Chair (s):</b>	<b>H.E. Mr. Bert Koenders, Minister of Development Cooperation, the Netherlands Mr. David Morrison, Executive Secretary, UNCDF</b>

A side event on “Microcredit, Microfinance, Inclusive Finance: Building on Success for Innovative Solutions for Poverty Eradication in Africa” was held on 22 September 2008 at UN Headquarters, New York City as a part of the Sixty Second Session of the UN General Assembly's High-Level Meeting on Africa's Development Needs.

The side event took place from 10:00 a.m. – 12:00 p.m at the Dag Hammarskjold Auditorium. About 100 representatives from member countries, private sector, civil society, UN system and other international organisations participated in the side event. The list of participants is included as Annex A. The panel discussion was co-chaired by H.E. Mr. Bert Koenders, Minister of Development Cooperation, the Kingdom of the Netherlands and Mr. David Morrison, Executive Secretary, United Nations Capital Development Fund. Panelist members included HRH Princess Maxima of the Netherlands, Dr. James Mwangi, Managing Director and Chief Executive, Equity Bank, Kenya, and Mr. Donald Kaberuka, President of the African Development Bank, and Mr. Jonathan Morduch, Professor of Public Policy and Economics, New York University.

HRH Princess Máxima, Dr. Mwangi, and Mr. Morduch are three of twenty-five Advisors who make up the UN Advisors Group on Inclusive Financial Sectors, a group of financial experts tasked by the United Nations with identifying the key issues that limit access to financial services for the world's poor and developing practical strategies to remove barriers to access.

The panel discussion focused on the importance of a **strong financial sector** in **reducing poverty** and recommended innovative solutions to remove the obstacles preventing the poorest populations in Africa from access to financial services. There is a tremendous demand worldwide for financial services among the poor and it is hoped that by showcasing success stories—such as those in Africa—inclusive finance as a global development priority and an important tool for poverty alleviation, will be elevated to the next level. 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. Thus a significant number of people in Africa remain “un-banked” and do not have access to bank accounts and other financial services which are enjoyed by people worldwide. The impact of such “financial exclusion” is very harmful; it implies that a significant segment of the population is being denied the allocation of resources and denied the ability to build capital assets and to generate income.

Given the current economic crisis impacting the commercial banking sector, the importance of creating **enabling environments** to address the challenges of building inclusive financial sectors was highlighted by the group. In this regard, the UN Advisors Group on Inclusive Financial Sectors has worked with governments, regulators, development partners, and private sector companies to identify the key issues limiting access to financial products and services and to outline concrete steps that can be taken to remove these constraints and embrace new opportunities that will ultimately result in increased access to financial products and services by all segments of the population. To address these issues, the UN Advisors Group on Inclusive Financial Sectors has developed important targeted recommendations to each of these stakeholders describing the actions they should undertake and the role they play in building strong financial sectors.

The experiences of Equity Bank, a Kenyan microfinance institution that is leading the development of innovative products, were highlighted in detail. Within ten years, Equity Bank has become the home to greater than 50% of all bank accounts in Kenya and has had remarkable success in rolling out savings and agricultural lending products that are innovative.

For Africa, increasing access to financial products and services is especially important to **revolutionize and create innovations in agricultural productivity**. Despite its huge potential, Africa suffers from low productivity in agricultural production. In an environment of rising food costs, increased access to financial services helps to allocate financial resources and can transform small-scale commercial farmers that lack the resources to increase agricultural production. Food security has been a major challenge in Africa, making it difficult for people to manage unexpected risks.

Designing and promoting innovative products that serve the needs of poor and low-income segments of the population was also emphasized by the panel. It was agreed that **savings**, in particular, plays a critical role in expanding access to financial services. Despite the importance of savings, only 20% of the population today has a formal savings account. Although savings has not received the same attention and resources as micro-credit, it is equally important, if not more. However, more data and research to understand the precise impact of savings programs still needs to be gathered. But anecdotal evidence in a few countries demonstrates that when people have access to savings, they take advantage of this resource and use their savings wisely.

Those with access to savings accounts through banks save three times as much as those with informal savings accounts.

For Africa, savings is also very important in building and strengthening a credit culture. A huge number of Africans are saving, but they are doing so through risky investments (e.g. in the form of livestock and grain) or through informal mechanisms. People need to be able to save in a secure and accessible way. Especially in these times of global financial crises, a special focus on savings-based programs and savings institutions is critical moving forward. Debt instruments are not optimum vehicles for everyone and savings provides a debt-free way for one to build assets, to buffer against unexpected risks, and to strengthen their financial management skills.

The significant role of **remittances** as one of the most important sources of development finance was also emphasized. International remittances, whereby migrants transfer funds to their home countries, constitute the second largest financial inflow to many developing countries, exceeding international aid. Many of these funds are going to poor people, who would otherwise be considered “unbankable”. The importance of remittances to a country’s economy can be demonstrated through the example of Ghana, where remittances exceeds the total value of exports and foreign aid. We need to better understand how to leverage remittances so that people can utilize these funds for productive and useful purposes, such as school fees.

Examples of **innovations in technology** that increase access to financial products and services were also presented. Many of these innovations are already facilitating the provision of financial services to difficult to reach clients by reducing costs, increasing efficiencies, and helping microfinance institutions achieve scale. 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. 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).

On the supply-side, the importance of financial services providers to be **transparent** about the costs of their financial products and services and to disclose all these costs to their clients was highlighted. Moreover, promoting **financial literacy programs**, can help financial service providers to educate their customers by providing them with the ability to make informed decisions and take appropriate actions on matters affecting their financial wealth and well-being. Ensuring that these two components are in place will help to ensure that provision to a broad range of financial products and services will have their desired affect and assist the recipients of these services to built capital, better manage their risks, and eventually pave their own paths out of poverty.

The panel concluded with recommendations of the agenda forward by the development partners. It was argued that additional focus on the following issues is needed:

- How the **private sector** can **support market infrastructure**, especially with respect to strengthening mobile banking networks, to solve the “last mile” problem.
- Creative ways to carry forward **advocacy and policy dialogue**.

- Innovative solutions to **build capacity** within institutions, such as through distance-learning courses.
- Development of **new products**, such as remittances and micro-insurance, that serve the needs of poor and low-income people and micro and small entrepreneurs.
- Usage of unique and creative **partnerships** as distribution channels to promote these new products.

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