EXECUTIVE SUMMARY

E-CONFERENCE ON BUILDING INCLUSIVE FINANCIAL SECTORS FOR DEVELOPMENT: WIDENING ACCESS, ENHANCING GROWTH, ALLEVIATING POVERTY

E-Conference organized by UNCDF and FFD in collaboration with the World Bank Institute

As part of the consultative process that serves as input to the Blue Book, the Financing for Development Office of the Department of Economic and Social Affairs, the United Nations Capital Development Fund and the World Bank Institute joined together[1] to organize an e-conference on “Building Inclusive Financial Sectors for Development: Widening Access, Enhancing Growth, Alleviating Poverty” from March 28th to April 13th. The three main objectives of this e-conference were:

1.

TABLE 1: REGIONAL DISTRIBUTION OF PARTICIPANTS IN E-CONFERENCE

Region	no. particip.	% of total
Europe	210	26.1
Central Asia	23	2.9
South and Middle America	47	5.8
Africa	130	16.1
North America	187	23.2
Middle East and Nothern Africa	24	3.0
East Asia	49	6.1
South Asia	70	8.7
Not specified	66	8.2
Total	**806**	**100.0**

Using the moderators guiding questions as a starting point, the following points came out of the debate as being particularly relevant in the process of building an inclusive financial sector.

WEEK 1 : EFFICIENT FINANCIAL INSTITUTIONS POSITIONED TO MEET CLIENTS' NEEDS

Both demand and supply barriers to increased access of the bankable poor to financial services were considered. It was questioned why the range of financial institutions engaged in finance for the poor is not able to expand the offer of such services more rapidly.

1. DEMAND SIDE BARRIERS

Five issues were highlighted in the debate on demand constraints and opportunities.

Cultural factors **-** The importance of cultural factors with respect to gender, religion and age was frequently mentioned. Women are often disadvantaged by credit requirements such as collateral since often property is registered under their husband's name. They also generally have less formal education and financial literacy. A participant from Iran specifically noted women's lack of access to formal financial services, but also that this has triggered creative, informal microfinance schemes. Due to women's changing role in a post-conflict society, the female demand for microfinance services also has a tendency to increase. Religion or other cultural norms may attach stigma to non-traditional income-generating activities, which would otherwise be good business opportunities. A participant mentioned that in Ethiopia, handicrafts are a non-traditional activity and therefore less popular to engage in than agriculture. Also, youth tend to

***Transaction costs* -** The role of transaction costs to the client (financial, time, etc.) as a demand barrier to financial services was debated. In spite of the recognition of the need for sustainability of microfinance institutions (MFIs), many felt that costly prudential requirements should be relaxed, considering the generally high repayment rates. A participant observed that transaction costs for the poor in Bulgaria are very high and the minimum requirements are a burden, however they are difficult to lower due to fixed costs involved for the bank. She observed that “even the socially engaged institutions cannot work below cost”. Examples of too-stringent requirements were collateral, licensing requirements, high interest rates, bureaucratic procedures, and co-signers on loans. Two creative solutions to this were allowing work equipment to serve as collateral and including informal sources of income in the credit analysis. Overall however, the feeling was that the availability and consistency of access to credit are relatively more important than the transaction costs involved in facilitating access and use of microcredit.

Financial literacy and skills capacity –Developing financial literacy and skills capacity of the bankable poor is another factor that would build demand and lower the real and perceived risk of micro-lending. Some participants agreed that this would also make participants more price-sensitive. A Chinese participant stressed that financial literacy training needs to take into account the lack of a for-profit mentality in former communist countries.

***Access to basic infrastructure* –** Lack of access to infrastructure, including roads, equipment and supplies, was mentioned as a demand barrier also. A participant from Haiti mentioned that the lack of infrastructure available for energy access (specifically electricity) deters business development. An Ethiopian microfinance practitioner mentioned that where infrastructure is poor, credit tends to increase the scale of existing activities rather than moving clients into higher value added activities. A solution mentioned by some would be provision of subsidized or targeted loans for improving this infrastructure.

2. SUPPLY SIDE BARRIERS

Four main issues were addressed as important in providing an adequate supply of financial services to the currently unbanked.

***Financial viability of MFIs* –** Several MFI practitioners mentioned the difficulty in having a “double bottom line”: at the same time aiming to be profitable and stimulating local economic development. Constraints include lack of steady capital, weak human resources capacity, lack of infrastructure, donor dependency and sometimes security concerns in servicing markets. Concerns were varied: some disproved of the profit-driven mentality of MFIs when they should be alleviating poverty; others worried about too much focus on repayment rates instead of on effectiveness in contribution to sustainable activities. Concerns were also raised about a tendency of MFIs to shift aw

ay from low-income clients to more profitable, commercial ventures (e.g. in Kenya and the Russian Federation). The opposite trend was also noted however: MFIs may be pushed “down market” by bank competitors moving into lower income segments, leaving MFIs to target the to participate more in the financial sector, and the "chronically poor," who are much more vulnerable to volatility in income flows, less able to engage in income generating activities and thus more in need of services in addition to micro-finance. One MFI practitioner suggested bundling insurance in with loans to hedge against risk from shocks (for example natural disasters or family health problems).

Institutions and linkage with the formal sector – It was pointed out repeatedly that the lack of linkages between MFIs and the overall banking sector limits access to additional capital to serve their clients' business, thereby hampering capacity growth. It also impedes clients' transition to larger banks. A participant explained that in Azerbaijan access to government funds for MFIs is only granted if they subsidize microfinance for clients, which he thought "unacceptable … and against best microfinance practices". Participants called for a stronger government role in creating an enabling policy environment and supporting microfinance. A participant from the Palestinian territories pointed out that most Palestinian capital is being invested abroad due to the unstable political and economic situation, which severely hinders the advance of micro and small business. Government efforts in combating corruption and ensuring political and economic stability were viewed as essential to expand microfinance, as well as actions to strengthen policy guidance, regulatory procedures and monitoring and enforcement institutions to deal with the microfinance sector.

Approaches and products – Supply of products by MFIs needs to be better adapted to meet diverse client demands, was the opinion of various participants. An important improvement would be for institutions to offer proximity services, especially in rural areas. Ins to c6 0 TD0.00.d7(i0.D0ucts b)4.r

***Private domestic capital* –** Some participants felt that rather than relying on international private or donor funding, the microfinance sector should instead focus on creating and supporting cottage industries that can create surpluses to be reinvested in productive activities. This would require a supportive infrastructure for the microfinance sector to link it to iector to lin8TTJ-001l-te8yn-5.3(ecd)4crofin int.eate

APPENDIX 1: Number of participants per country

Europe	
Austria	1
Belgium	6
Bosnia-Herzegovina	1
Bulgaria	33
Croatia	3
France	9
Georgia	2
Germany	11
Ireland	1
Italy	11
Latvia	1
Luxembourg	1
Macedonia	6
Poland	1
Portugal	1
Romania	15
Serbia	18
Slovakia	1
Spain	1
Sweden	3
Switzerland	17
The Netherlands	12
Turkey	18
UK	35
Ukraine	2
Subtotal	***210***
Central Asia	
Albania	3
Azerbaijan	3
Kazakhstan	1
Russia	9
Tajikistan	2
Turkmenistan	1
Uzbekistan	4
Subtotal	***23***
Central and South America	
Argentina	2
Barbados	1
Bolivia	2
Brazil	15
Chile	1
Colombia	1
Costa Rica	1
El Salvador	1
Ecuador	3
Guatemala	1
Haiti	2
Honduras	2
Jamaica	1
Mexico	3
Panama	1
Peru	8
Venezuela	2
Subtotal	***47***
Africa	
Angola	1
Botswana	2
Burundi	1
Cameroon	4
Congo	2
Eritrea	1
Ethiopia	3
Gabon	1
Gambia	1
Ghana	7
Guinea	1
Ivory Coast	2
Kenya	24
Lesotho	2
Madagascar	1
Malawi	1
Mali	1
Mauritius	1
Mozambique	1
Namibia	1
Niger	1
Nigeria	37
Sierra Leone	1
South Africa	8
Tanzania	3
Togo	2
Uganda	18
Zambia	1
Africa (not specified)	1
Subtotal	***130***
North America	
Subtotal	47