Luxembourg High-Level Symposium "Working Together to Increase the Development Impact of Aid"

Session: Aid to Catalyze Domestic and External Resources

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Remarks by David Morrison
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Centre Culturel de Rencontre Abbaye de Neumunster, Luxembourg, 18 October 2011

Check against Delivery

Thank you very much and good morning everyone. We've had a very interesting discussion on broadening access to inclusive financial sectors. My job is now to try to draw out some of the threads of the discussion, and to offer some concluding thoughts on the role of public money in what is largely a private sector driven agenda.

In terms of the threads of our discussion, I'd like to focus on what I consider the most important one. And I'm afraid it seems to me more of a knot than a thread. I'm speaking of course about the difference between microcredit, microfinance and the broader concept of inclusive finance. The distinctions among the three concepts were outlined eloquently by Bernd Balkenhol in opening the panel for us this morning.

But it seems to me that in our subsequent discussion – and indeed in most of the questions raised – we kept skipping among the three different concepts. Indeed it seems to me that most of the critical comments and questions were focused on microcredit, even though we were meant to be speaking of inclusive finance.

Questions were raised, for example, including by the representatives of Tanzania and Nepal, about the link between microfinance and economic development, especially the failure of microfinance to address the needs of SMEs. Several

speakers referred to recent publicity about the negative impact of microcredit and microfinance, in terms of high interest rates and over-indebtedness. The failure of microfinance to address the needs of the agricultural sector was also mentioned, as was the perceived failure of microfinance to live up to its promise as a means of empowering women.

In my view many of these criticisms are valid if what we are talking about is "microcredit" or small-scale loans for poor people. For the truth is that microcredit was never as good as some of its champions maintained, in terms of being a silver bullet or a panacea against poverty.

And this is precisely why most of the larger community associated with "microcredit" moved on some time ago to the broader notions Bernd described to us at the outset: first to "microfinance", which implies additional products appropriate to poor people and small businesses including savings, micro-insurance, payments, etc; and then to "inclusive finance", which implies a range of products supplied by a variety of sustainable providers, for a range of clients up to and including businesses.

Inclusive finance also places a strong emphasis, for example, on client protection and responsible investing, precisely because this broader conceptual framework recognizes the shortcomings of the earlier emphases on microcredit and microfinance.

Let me stress, however, as Bernd did, that financial inclusion is NOT an end in itself. This is likely why Bernd emphasized "Financial Inclusion at the Service of the MDGs".

In the opening panel this morning our speaker from Liberia spoke of the importance of roads for his country, both larger national roads and smaller local and feeder roads. Roads are important because they ENABLE progress on a wide range of MDGs. Roads enable mothers to seek healthcare for their children. Roads enable farmers to take their produce to market.

In the view of UNCDF and many of the other active organizations, financial inclusion is similarly an ENABLER of progress across a wide range of development objectives. Teachers with basic bank accounts – even if those accounts are held on mobile phones – can receive their monthly salaries directly into those accounts instead of

leaving the classroom to travel to the provincial or national capital to collect a paper check.

The same holds for social welfare recipients. I recently returned from the South Pacific where social welfare recipients in Fiji now get their monthly payments directly onto a debit card that they can turn into cash at the local store in their village. This saves them a trip into the capital, and the time needed to wait in two lines.

Financial services can likewise help poor people and small businesses access water and electricity where these necessities are not effectively provided by the public sector. And there are many more examples of how inclusive financial services are helping to improve lives and meet the needs of small businesses.

We must, in my view, do more to examine the real impact of financial services on the lives of clients. At the same time, in our discourse, we should keep in mind that the move from microcredit to microfinance to inclusive finance came about precisely because of the very real and acknowledged limits of the narrower concepts.

Let me now turn to the appropriate use of public money in the sector, and to how the UN looks at this question. In his opening remarks Marc Bichler gave us four examples of how Luxembourg is using development aid to leverage private sources of finance, thereby greatly increasing its impact. I will not recap them here but I do believe Luxembourg should be congratulated for its innovative approaches.

How, exactly, best to use public money in a private sector driven area such as inclusive finance, is an important question, and one we wrestle with at the UN in general and UNCDF in particular.

How can we be sure what we are doing doesn't "crowd out" the private sector? And how can we be certain we are adding unique value as the UN, as opposed to doing things that could appropriately be done by other actors including bilateral donors or the international financial institutions?

At UNCDF we answer these questions by focusing our interventions in three broad areas: provision of public goods; intervention in cases of market failure; and innovation for demonstration effect. Let me provide an example of each.

- Public Good: UNCDF is in the process of developing a new diagnostic tool for financial inclusion at the national level. The tool will help national governments and the wider group of stakeholders – including development partners – assess the current state of financial inclusion in a country and what needs to be done to make the sector even more inclusive.

- Market Failures: UNCDF is working to bring financial inclusion to countries and areas that are currently being left out. Of particular concern are post crisis countries where there is a high degree of risk and risk perception that sometimes causes private players to shy away. Here UNCDF provides subsidies to "leverage in" financial institutions willing to provide appropriate products to poor people and small businesses.

- Innovation: UNCDF is working to bring mobile money and mobile banking to the least developed countries. Here UNCDF's interventions help to prove concept – that technological innovations developed for more advanced counties can also elsewhere. The net result is private sector-driven financial service innovation reaching poorer countries earlier that it otherwise might.

To the three areas I've just outlined, let me add a fourth area of intervention where we believe spending public money is justified, especially for the UN. This is the larger area of advocacy. Bernd mentioned the Blue Book produced as a result of the UN's International Year of Microcredit in 2005 (and which even back then was arguing for the broader concept of inclusive finance). More recently UNCDF has been a leader in promoting consumer protection at both the national and global levels. And we also provide support to HRH Princess Maxima of the Netherlands in her role as the UN Secretary-General's Special Advocate for Inclusive Finance for Development.

So, overall, despite the strong private sector dimension to inclusive finance, we believe public money can be well spent if it is focused on the provision of public goods, on clear cases of market failure, on promoting innovation, and on advocacy for best practice.

Thank you very much.