# GLOBAL MULTI-STAKEHOLDER CONSULTATION ON "BUILDING INCLUSIVE FINANCIAL SECTORS FOR DEVELOPMENT"

**Geneva, 4-5 May 2005**

## Report of the Meeting[1]

The Financing for Development Office of the United Nations Department of Economic and Social Affairs (DESA) and the United Nations Capital Development Fund (UNCDF) organized a global multi-stakeholder consultation on "Building Inclusive Financial Sectors for Development" that the International Labour Organization (ILO) hosted at its Headquarters in Geneva on 4-5 May 2005. This meeting was the culmination of a series of efforts to gather views from around the world in 2004 and 2005 as part of a project to draft a "Blue Book" for policy makers and other stakeholders that could help them address why the overwhelming majority of the bankable poor were not using basic services from financial institutions (savings, credit, insurance and payments, including international remittances), and what might be done to improve access to these financial services.[2]

Over 130 experts and financial sector stakeholders from 44 countries came to Geneva to participate in the global meeting on May 4 and 5.[3] Representatives of developing and transition economy governments and central banks, donor government agencies, official international institutions, commercial service providers, international and domestic networks of microfinance institutions and independent academics and consultants gathered for plenary presentations and smaller roundtable discussions to consider the challenges to building inclusive financial sectors. They had come at the invitation of the United Nations and with the encouragement of a core group of cooperating international organizations including the World Bank, International Monetary Fund, International Fund for Agricultural Development and ILO. The meeting was supported with generous funding by the Swiss Agency for Development and Cooperation.

---

[11] This report is based on notes prepared by the staffs of DESA, UNCDF and ILO, with the very valuable assistance of Phyllis Santa Maria of PlaNet Finance.

[2] For background on the project, see "Blue Book on Building Inclusive Financial Sectors for Development: A Multi-stakeholder Consultative Process — Overview," posted on the Internet with this report at http://www.un.org/esa/ffd/09multi-stake-consul-flyer-finsector.htm.

[3] See the List of Participants posted along with this report at the Internet address in the previous footnote.

International Year of Microcredit 2005

## Notes on the presentations

Underlining the importance that the multilateral system was giving to this project, the Director-General of ILO, Mr. Juan Somavia, opened the Global Meeting, which the United Nations Under-Secretary-General for Economic and Social Affairs, Mr. José Antonio Ocampo, chaired.[4]

The Meeting then turned to representatives of organizations that co-sponsored the regional consultations with UNCDF and DESA, who reported on their meetings in Amman, Bamako, Manila and Santiago: Fouad Abdelmoumni, Association Al Alamana (Middle East/North Africa), Anziz Said Attoumane, AFMIN (Africa), Kathryn Imboden, UNCDF replacing Nimal Fernando of the Asian Development bank (Asia), Enrique Errazuriz of BancoEstado, Chile (Latin America).[5] In addition, the United Kingdom National Committee for the Year of Microcredit had organized its own consultation jointly with the Commonwealth Secretariat on Andrew Chua of HSBC reported, which included considerations on improving public awareness of microcredit and using it more effectively as a development tool. This first panel was chaired by Peter Kooi of UNCDF.

A second panel then switched the viewpoint from a variety of regional to a variety of analytical perspectives, including those of David Porteous, ReCap Advisors, Mark Bienstman, World Savings Banks Institute, Patrick Honohan, World Bank, and H.E Tal Nay Im, National Bank of Cambodia, which has actively promoted microfinance in that country. The panel was chaired by Bernd Balkenhol, ILO, and Alan Roe, Oxford Policy Management served as commentator.

Following these panel sessions, the meeting broke into roundtable discussions on particular topics, but it returned to plenary format the following morning to look into the future of inclusive finance, with Marilou Uy, World Bank, Governor Charles Konan Banny, Donald Terry, Inter-American Development Bank, BCEAO, Alexandre Mendes Nina, Ministry of Foreign Affairs, Brazil, whose President has led a campaign with five other Heads of State to mobilize resources internationally to fight hunger and poverty. Nancy Barry, Women's World Banking chaired the panel and Arnaud Ventura, PlaNet Finance served as commentator.

A final set of roundtable sessions followed, after which the meeting reconvened in plenary to review the more specialized discussions in the roundtables and offer final advice to the team that would subsequently begin to draft the Blue Book itself.

---

[4] See "Building Inclusive Financial Sectors for Development: Agenda for the Blue Book Meeting," posted with this report.

[5] Reports on these consultations are also posted with this report.

## Notes on the discussions

Participants in the Global Meeting divided themselves into three roundtables, which focused respectively on demand and supply issues, relationships of small-scale financial services providers with the wider financial system, and the financial policy environment as it relates to small-scale financial services. Discussions were held in each roundtable in three sessions spread over two days, with a single pair of co-moderators in each roundtable sequence. This gave a measure of continuity to the discussions as well as the time to hear diverse experiences of participants from different continents and professional backgrounds. In each case, the discussions were meant to reflect on an "Issues Paper" that the Secretariat had prepared for the Meeting,[6] which had sought to identify areas of convergence, divergence and "open questions" in six different clusters of issues based on the previous consultations, an e-conference and interviews. In addition, brief sets of questions were provided to the moderators to facilitate their framing of the discussion on each issue.[7] The following notes seek to synthesize these discussions, including those in the final session of the Global Meeting at which participants took stock of all the discussions over the two days of the consultation.

### Roundtable 1: Demand and supply issues

Marguerite Robinson of Harvard University and Sanjay Sinha of Micro-Credit Ratings International, Ltd., India moderated the discussions under the theme of "demand and supply issues." The focus was on experiences from Asia, Africa and Latin America concerning constraints to the expansion of financial services usage by "unbanked" populations and opportunities to address the constraints (issues clusters #1 and #2).

#### *What clients want, really*

One proposition the discussion endorsed early on was the importance of seeing microfinance, as well as small-scale financial services in general, in the context of the needs of clients in their actual economic environment. One implication is that microfinance institutions (MFIs) should locate in market areas whose potential activities are sufficient to sustain the services they offer. This was an allusion to identifying which services might be provided in communities that were not well integrated into the market economy. But the roundtable was also warned not to confound "rural" with low density. Asian rural areas, in particular, can be quite densely populated. In other words, expectations of self-sufficiency for "rural" MFIs can be realistic in some contexts, but unrealistic in others.

---

[6] See "Shaping the 'Blue Book' on Building Inclusive Financial Sectors for Development: An Issues Paper for the Global Meeting," ILO Headquarters, Geneva, 4-5 May 2005, accompanying this report.

[7] See "Shaping the 'Blue Book' on Building Inclusive Financial Sectors for Development: 'Guiding Questions for Discussion' for the three roundtable tracks," accompanying this report.

It also had to be appreciated that clients need a variety of financial services. An African participant said that in her country, MFIs could only extend credit, whereas a full range of banking services was needed. Banks had discouraged small savings accounts, but access to such accounts is socially important. Savings accounts are sometimes the first legal asset people have, as in places in which they do not have legal title to their land. She asked why banks could not partner with MFIs, letting MFIs serve as their agents to extend the reach of basic banking services to unserved communities. Complementary services beyond those provided by financial institutions were also essential.

Insurance for the poor seemed to be a particularly underdeveloped financial services area. A private sector participant noted that several companies of global scope operate in the industry internationally and might be interested in expanding more into small-scale policies in poor countries (e.g., life, health, burial). MFIs sometimes offer insurance, especially when they engage in mortgage lending and combine it with a life insurance policy on the insured so that the family does not lose its home on the death of its main wage earner (and the lender does not have to go through the socially difficult and legally protracted process of foreclosure and eviction). There seemed to be limited experience with group insurance policies, wherein a savings and credit cooperative might take out a group policy, which would automatically cover all members, as opposed to selling individual policies at retail level. The roundtable seemed to agree that MFIs in general do not have the skills to sell insurance and that this would be one appropriate area for partnership with other providers. Some speakers saw the market for insurance to be potentially larger than that for credit, especially as there are different insurance products. Like in the case of savings, one speaker averred, once MFIs learn how to offer insurance the demand may be expected to mushroom.

The potential role of remittances in developing inclusive financial services was also discussed. Firstly, although great attention was being paid to international remittance payments, domestic remittances were also very important in many countries. Secondly, remittances appear to bring people into the banking system. Although the earliest remittances paid into savings accounts opened for the purpose are often completely withdrawn, over time people gain trust in the institution and start saving there. It was also deemed important to experiment with savings products and operations until a good fit between product and market results. A large East Asian institution tried many products until successful ones were found. Indeed, an international advisor warned against the donor community being “too prescriptive” in this area and instead called for seeking to increase the options for receiving and using remittances.

It also had to be appreciated that models for small-scale lending that were developed in one environment were not necessarily appropriate in others. For example, a participant from an African country reported difficulty in establishing “solidarity groups” for group lending owing to lack of trust among people living in urban areas. In a Central American country, gender inequality was found to be a less salient problem than expected; or rather illiteracy was an even more salient problem. Another participant doubted that “financial illiteracy” (unfamiliarity with financial products) was a problem in general, as she believed people learn what they need to know informally as part of

their coping strategies. An anthropologist cautioned against use of the term "cultural barriers" in discussing extension of microfinance, as it implied needing to overcome the culture instead of shaping the services to take culture into account. This did not mean accepting culture as is, however, as she also saw gender or caste discrimination as a progressive opportunity for microfinance.

One issue that had not been fully captured in the Issues Paper is the negative way that some people perceive financial institutions. This has to be overcome if the poor are to use them more systematically. While references had been made in the Issues Paper to lack of trust in financial institutions and that potential clients might not feel comfortable using them, the degree of distrust needed to be appreciated. As one person put it, some feel that banks exploit poor people. They could also appear indifferent. Examples included depositors making a long trek from home to withdraw from a bank account and finding that the bank was out of cash for the day. This is a management issue, a crucial one.

It was also emphasized that loss of trust can take "generations" to overcome. Some governments have in the past actually worsened the distrust. For example, in the 1979 coup in one African country, the new government confiscated bank accounts above $50,000 and even though that amount exceeds what most people accumulate, it is still widely remembered today. Similarly, over a decade ago, unregulated financial institutions in a Latin American country offered very high interest rates and their managers absconded with the funds, causing significant loss of confidence among the poor. However, since then a large international commercial bank has entered the market in that country successfully offering the poor insured savings products.

Other issues in understanding the market were also discussed. One speaker claimed that many MFIs do not appreciate how much of the potential demand for loans is not for investing in particular ventures but for income (consumption) smoothing or to stretch out repayment of previous loans. In his view, these should be considered legitimate uses of credit, and thus appropriate answers to the question in the loan application form that asks for the purpose of the loan. As is, MFIs are creating a generation of liars who have to misstate why they are applying for a loan.

There was also a lively discussion of the role of interest rates. On the one hand, it was observed that clients choose their financial service provider on the basis of the whole package of services used. Indeed, the fastest growing MFI in one South Asian country charged the highest interest rates but was doing well because it provided the best services overall. "Acceptable" interest rates also depended on context, as a participant observed. She cited an MFI in Latin America that charged interest rates of 120 per cent and noted that if a bank in that country charged such rates people would be rioting in the streets. Also, while clients are sensitive to the cost of credit, they can be fooled, as when they pay very high effective financing charges on purchases of consumer durables in some Latin American countries. This observation embodied a call for transparency and competition.

Indeed, there was concern about possible collusion among MFIs, as it was said that efficient providers in one South Asian country could cut their prices but did not

because it would "rock the boat" for the smaller ones. Concern was raised as well from a Latin American perspective that without competition, cost reductions would not lead to lower interest rates. It also allowed hiding inefficiencies. Government pressure to lower interest rates could be effective in such situations. This also meant the government had to be able to assess operating costs. One speaker suggested that a cost measure be part of a package of indicators that regulators should monitor on a regular basis. They would also need guidance, however, on what level the costs should be, for example, in institutions of different size.

***Who should provide financial services to the poor?***

One question put to the roundtable was whether the poor needed "poor-friendly" institutions. That is, commercial banks, the core of every country's financial system, typically did not see the poor as part of their client base. Instead, specialized MFIs, cooperatives and government institutions have usually provided what limited financial services the poor receive. It has been said that this is changing, as commercial banks witness that some financial institutions servicing the poor have become profitable and have grown to national scope. Indeed, the case was described of a microfinance institution that has become the largest and most profitable bank in a Latin American country and has awoken the interest of the commercial banks, which formerly said, "That's not what we do."

The essential concern of the commercial banks has been the high cost of serving small-scale clients. Discussion in the roundtable underlined that this concern is valid. To a degree it is handled by arguing for allowing MFIs to charge whatever interest rates are necessary to cover their costs, which as noted above is not always a politically realistic option for the large, regulated financial institutions. Also, interest charges that can be acceptable in a short-term loan for working capital, the basic microcredit loan, in an enterprise that is profitable, could be regarded as extortion on a long-term loan, as for a housing mortgage. In any event, a major concern in the MFI industry has been precisely to lower costs and thus charges. According to participants in the roundtable, costs have been lowered, as through simplification of loan approvals (e.g., reducing paperwork redundancies that had been put in place as risk controls), using new technologies for management information systems and payment transfers, and training staff to handle problems like client drop outs, which raise average operating costs.

The preferred institutional form seemed to be financial institutions that could address themselves to the poor as well as the rich. As one participant said, the poor do not want to be treated as poor. The institution should be friendly to all its customers, including the poor. In Asia, studies find that a respectful attitude of staff toward clients matters a great deal and can compensate for high charges to cover high costs. On the other hand, exploitative practices by some consumer credit institutions underlines the need both for strengthening consumer awareness and developing codes of conduct for financial institutions. In addition, some concern was expressed about the recent interest of commercial banks in some countries in extending their customer base to the poor by buying successful MFIs. The fear was that they might retain the more profitable segments and close down the rest. That is, the social aspect to finance should not be forgotten.

Overall, the solution to building inclusive financial sectors seemed to lay in a multi-institution structure that evolves over time. There is a role for unregulated MFIs, which can serve as first credit access points for the poor, albeit offering a limited range of products. It was also observed how different institutions, such as financial cooperatives in West Africa, are evolving into cooperative banks. Similarly, in some countries regulated MFIs have turned themselves into small banks, in some cases in such profusion that some consolidation seemed inevitable, according to one speaker. Then again, a participant from a large Latin American country noted that despite a rather dense banking network in his country, there were some 30 million unbanked people and therefore a special publicly owned bank was recently founded to serve the poor in cooperation with credit unions and financial non-governmental organizations (NGOs). Entry into the financial services industry can also come from other directions, as non-financial enterprises develop an appreciation of the market potential. For example, in a large Latin American country, a consumer goods retailer has created its own bank to leverage its market presence and client knowledge built up from consumer lending.

It was also observed that in many countries moneylenders continue to exist alongside MFIs and the more formal financial institutions. This indicates that moneylenders provide a service against which MFIs and banks cannot compete, or they provide their services in a more appealing way to clients (e.g., avoiding rigid procedures and long waits for credit approval). It is a sign that the evolution of the financial sector toward being inclusive still had a distance to travel. Policy makers thus needed to pay greater attention to the issue of financial inclusiveness, although participants were also concerned that financial services for the poor be “depoliticized.” That is, financial services for the poor should not be the object of temporary initiatives for short-term political effect but be the object of a coherent and sustained policy.

## Roundtable 2: Relations with the domestic and international financial sector

Kate McKee of the United States Agency for International Development and Jacques Toureille of the Aga Khan Agency for Microfinance moderated the second track of roundtable discussions, which focused on the relationship of institutions that specialize in financial services for the poor with the broader financial sector. Indeed, MFIs and other institutions providing financial services to the poor operate within a larger financial sector — in the first instance domestic, but also to some degree international for some countries — that can either facilitate or challenge their success (issue clusters #3 and #6).

### *Integration into the domestic financial system*

In most countries, microfinance is considered outside the domestic financial system, albeit interacting with it in various ways. MFIs use the banking system, in particular, for their own transaction accounts and sometimes may work in partnership with other financial institutions to offer additional services to clients. In some cases MFIs also view banks as sources of funds for onlending. This is the case, for example, in a small Middle-Eastern country, in which MFIs are registered as not-for profit entities and cannot mobilize savings. MFIs obtain their funds from the banking sector, which

mobilizes domestic savings through banks that are located all over the country. In other countries, especially where the financial system is weak, MFIs seem to have difficulty diversifying their sources of funding into bank credit. As one participant noted, banks in countries with weak systems are generally reluctant to lend to small and medium-sized enterprises (SMEs) and MFIs are SMEs.

Several speakers addressed the relationship of MFIs and banks. One speaker said that in her experience banks wanted to provide wholesale loans to MFIs, but were short of MFIs to which they felt they could lend. Nevertheless, it was reported that in Africa, several banks bought microfinance portfolios from MFIs. Another speaker said he had observed how banks were "downscaling" but they did not want to take on the risks themselves. A further speaker, on the other hand, noted that the government of a large Asian country created an incentive for private banks to involve themselves in microfinance through regulatory obligations on portfolio composition.

An international expert thought that the ownership structure of MFIs was an important obstacle to their desirability as clients of banks. When there is a private owner, the bank knows whom it can hold responsible for the loan. A participant from a major international bank, however, disagreed about the importance of ownership structure, saying, "It's about reputation." He said that a commercial bank looks at credit risk and track record of potential borrowers, as well as the range of products and markets over which it is spreading its risks.

It was observed that in some Latin American countries, where MFIs are fairly mature, there has been considerable local capital market borrowing, even equity investment, as well as bank-mediated funding of microfinance. In the case of one large Latin American country, MFI access to capital market funds had been bolstered by credit guarantees by public development banks. It was underlined, however, that for such guarantees to succeed, they had to be part of a package involving good MFI management and governance, on the one hand, and correct lender appreciation of the risks involved in doing business with MFIs, on the other hand.

One speaker criticized mature MFIs that still only extend microcredit, especially when the source of their funding is external aid. Such MFIs have little or no incentive to mobilize savings (nor to minimize costs if donors do not press them). Other speakers put the question into a more systemic context, namely that credit-only MFIs could operate alongside other institutions that took deposits. These other institutions could be public, such as national or postal banks, although the latter had been less agile, even "moribund" in some cases, according to the speaker. Another model was for a large state financial institution to offer microcredit as one of its services, which a representative from a state bank in a Latin American country described as his bank's situation. Another speaker asked if public financial institutions were not indeed appropriate to bridge a transition period to a stronger financial structure.

One speaker asked whether public-private partnerships would be a way to join microfinance and the financial sector, and channel more funds into microfinance. A further speaker noted that relationships with insurance companies could be mutually

beneficial, as MFIs could be a distribution channel for insurance and insurance companies are traditional sources of long-term financing that MFIs might tap. However, if this idea were followed up, he insisted, it would be important for MFIs to make balanced agreements with insurance companies regarding sharing of risks, duties and profits.

While selling insurance is one example, MFIs have used a variety of shared agents and point-of-sale arrangements to facilitate the provision of financial services. In a large Latin American country, banks are able to provide comprehensive banking services (including insurance and savings) at drug stores, bus stations and post offices. Private and public banks were said to provide 40,000 points of access in his country, made possible through partnerships between banks and MFIs, albeit also facilitated by the development of an appropriate technology platform. In a related context, it was noted that more and more insurance companies are outsourcing their back office work to information technology companies, a horizontal cooperation opportunity.

One question asked was why such use of shared agents and other cooperation features has not been adopted more in Africa. Was it out of motivation for the client or the providing institutions? It was suggested that donors and investors in MFIs should push collaboration with banks and other financial institutions, for example on information sharing about clients. Co-delivery of services could be matched with integrated back offices.

When a variety of types of institutions provide microcredit or other small-scale financial services, it is a sign that the finance for the poor is becoming more integrated into the financial sector, which roundtable participants favoured. It was stressed, however, that it is important to look at the financial sector as a whole. One issue is the influence of policy on competition; in particular, one should ask whether institutions that have the same characteristics or risk profile are regulated the same way? Also, is there a convergence of performance returns across institutions that provide similar services? Furthermore, is the whole system working so as to manage its overall risk better? MFI loan portfolios are by nature not diversified, but they are different from loan portfolios elsewhere in the financial system. Also, for the MFIs themselves to diversify their risk they may need special licenses, which may or may not be provided to them. Also, does the regulatory system promote innovation?

***Foreign financing: opportunity or challenge***

There was less discussion of foreign than domestic financing, which itself suggested the relative importance accorded to the two broad sources of funds for financial services for the poor. However, participants addressed a few international issues in some detail. A legal expert emphasized that international private financing can be and has been arranged, but that the terms of such lending needed work. For example, a large African MFI loan from an international socially oriented private bank did not include provisions to refinance the loan. Three years later, with interest rates having fallen significantly, the opportunity to refinance and save considerable sums could not be

captured. In addition, negotiations over the loan had been lengthy and this was both difficult and expensive for the borrower.

It was suggested that a standard international loan agreement for mobilizing private funds should be drawn up, one that also simplifies the legal documentation. Standardized contracts have already been developed by one international microcredit network for its borrowings, allowing the negotiations on individual loan agreements to focus on the amount to be borrowed, the interest rate and the amortization schedule. The challenge was to generalize this approach to the whole industry. Another suggestion was to develop a standardized document for equity investors.

It was appreciated in this context that "social investors" have pioneered international lending for microfinance. These investors could also become interested in local currency lending, which would address a major concern in international financing of microfinance. Indeed, the high foreign exchange risk in lending hard currency to institutions whose cash flow is in local currency is well understood. International local currency lending, however, was a new field and that implied slow growth ahead.

Behaviour of official donor agencies also came under scrutiny. As a donor representative herself mentioned, donors have not been "user friendly." There has been an arrogance of donors, although the new "Pink Book" of the Consultative Group to Assist the Poorest renews the opportunity for donors to improve donor practices. It could be a basis for discussion with MFIs or developing country governments. Other speakers seemed sceptical. One commented that donors do not follow their own guidelines and do not coordinate among themselves. Another said donor coordination was "discouraging."

There was also speculation on the future of "double bottom line" institutions that provide microfinance in developing countries. While there has been a tendency for MFIs to become regulated financial institutions and to become more commercially oriented, participants did not expect socially oriented institutions to disappear. Nevertheless, their role was expected to diminish. This was especially a view of those who see MFIs as becoming commercially viable. That is, as one speaker put it, MFIs start with a social mission and then move to commercialization. They keep their social goal, but use commercial means. A speaker from an official donor agency said there would always be room for financial NGOs as MFIs. Another speaker reminded the group that there were 500 million people who needed financial services and that there was thus room for all types of players. One could not say there was a convergence of views on this point or about whether or not to see it as a concern.

**Roundtable 3: The policy environment**

Roberto Brauning of the International Monetary Fund and Pia Roman of the Philippine Central Bank co-moderated the third set of discussions, which drew on concerns raised in clusters #4, #5 and #6 of the Issues Paper. Participants discussed a variety of policy themes, some of which have been the subject of decades of international donor policy advice, such as whether or not to cap or control MFI interest rates. Other

topics were more recent additions to the policy debate, such as whether governments should adopt policies toward remittances transfers from abroad and if so, what they should be. In any event, participants understood all of their discussion was taking place in a context governed by certain “core” goals of policy: macroeconomic stability, a generally competitive environment, and adequate provision for human and physical infrastructure. Another speaker added that the judicial system should be seen as fair and contracts should be enforceable.

***The nature and extent of government involvement***

Some participants argued that financial sector development should follow a national strategy, one that was developed through local political processes involving the relevant stakeholders so that they “bought into” the strategy. Such a strategy should then be embodied in legislation, which defined the policy, and that, finally, might lead to regulation of financial institutions and markets to the extent that the policy required it.

Many participants in the roundtable seemed to prefer that governments play an indirect role in the financial sector, including in financial services for the poor. One African financial regulator commented that he disliked state-owned banks because you cannot enforce policy on them, they are bad examples of corporate governance, civil servants are bad risk managers, and state banks do not play on a “level playing field.” Some other participants, however, saw a continued role, albeit limited, for direct involvement of state-owned institutions. Such institutions should and could operate efficiently, as was illustrated with national experiences.

There was a general concern to promote access of the poor to financial services by removing unnecessary policy disincentives to private market entry. There was some support for positive fiscal incentives, but concern about thereby introducing market distortions. It was noted, in particular, that an incentive in the form of relief from a tax obligation is also a subsidy. It was asked, who bears the cost of these incentives? One African participant emphasized that financial sector policy should in particular promote product development and innovative financial products. A Latin American participant suggested that one might be surprised at the amount of market response to innovative incentives. In his country, after households were given the opportunity to open free checking accounts, people opened 5 million accounts in 15 months.

On the question of interest-rate ceilings, several speakers voiced the view that they hamper MFIs, although it was also observed that even when ceilings are imposed, which is frequently despite conventional wisdom, lenders sometimes raise their rates anyway by imposing fees. On the other hand, as the experience related about one Latin American country highlighted, sometimes lending rates of small-scale financial NGOs can be lower than commercial rates, as when they are based on soft loans and grants. Those, however, are not sustainable.

The importance of expanding provision of information was also discussed. Some speakers considered the case of credit bureaux important in this regard. MFIs needed to be able to access a “black list” of bad credit risks, although credit bureaux in some

countries apparently came to have a poor reputation for showing only the bad credits. There was a concern as well to strengthen consumer protection by requiring full disclosure by lenders. However, a speaker observed that it would be hard for lenders to be fully transparent, as about debt-collection practices, as some borrowers would "game the system."

The roundtable had a considerable discussion of financial institution regulation and supervision. They should aim, as a general principle, to protect against systemic risk and protect depositors in financial institutions. If neither criterion applied, then regulation might be replaced by a simple registration requirement. Another speaker said that in fact when microfinance institutions crash and there is no systemic crisis, the government still has to "clean up the mess" and thus it has a material interest in how the institutions operate. Moreover, one should make room for different "cultures" of regulation. A starting point was thus that there was no reason regulatory regimes for microfinance should be uniform across countries. Indeed, one speaker said that regulations should include exemptions for small institutions, which would mean the regulations would not even be uniform within a country. This could mean a "tiered approach" to regulation, wherein an MFI could move from one tier to another as it developed. Another speaker expressed this point somewhat differently in saying that different minimum standards of performance were needed for different sets of institutions.

The regulatory regime should not ghettoize the microfinance industry either, although one international expert thought that financial NGOs had sui generis governance problems that had to be addressed. There was a strong appreciation among participants that regulations are pointless without the capacity to oversee and enforce them, and thus there was a major imperative for capacity building. On the other hand, another speaker warned that compliance costs for inappropriate regulations could ruin the industry. One had to be aware of "regulatory failure" as well as "market failure" in the view of another speaker. This only underlined another concern, which is the low supply of human capital at the level of individual institutions, in particular where accounting and auditing capacity were concerned. Institutions need the capacity to self-regulate.

Creating incentives for self-regulation had an obvious appeal, which seemed to be what some people meant when they used the term "light regulation." A government participant from an Asian country described policies that were developed in the direction of self-regulation. Another speaker referring to the same country explained how an NGO coalition developed its own performance standards owing to the unwillingness of the financial regulatory authority to take on the task. Indeed, another speaker averred that in general regulators do not want to handle microfinance, owing to the multitude of small institutions that would have to be covered. It was suggested that the microfinance world should learn lessons from self-regulation approaches in other industries.

Finally, there was some consideration of who should regulate, as there are usually different regulators for different financial services (e.g., insurance, financial markets, savings institutions and commercial banks). Often, these regulators are not familiar with each other or with each other's regulatory concerns. One question in this regard is whether a combined regulatory authority is a superior approach.

### *The new policy interest in remittances*

One policy issue that has burgeoned in public attention internationally in recent years is how to better support the poor in developing countries through facilitating remittance flows from relatives working in other countries. Remittance transfers have been made for decades in large amounts through high-cost money transfer companies (e.g., Western Union, MoneyGram) and lower-cost (but higher risk) informal channels. However, both political attention to the issue and the entry of new competition has been lowering the charges for making the transfers and increasingly directing them, albeit to a lesser degree, into local financial institutions. The question was, "what more (if anything) was needed?" One answer offered is that people should have a right to affordable and safe remittances and a right to a bank account, and the two could be linked together.

A first question then was why were banks in remittance-receiving countries typically slow to notice the remittances opportunity. One answer that was given is that the typical approach has been dyadic. A bank in a remittance receiving country would have to identify a community of emigrants in another country and develop a partnership with a local institution in that community. The latter institution would either have to have a branch in the immigrant community or agree to open one and often would need new staff that could speak the language of the immigrants. The institution would also have to handle a higher volume than usual of cash transactions, the common currency of migrant transfers.

A speaker noted that this model applied only to heavily trafficked remittance "corridors," while another approach involving the world's postal systems could be used more equally across the globe. Postal offices comprise a network of roughly 600,000 potential outlets worldwide (to which another speaker said could be added savings banks, which often have partnerships with the posts, which would add another 60,000 outlets). It was proposed that the postal systems could provide a basic standard remittance service for transfers up to some limited maximum amount (which would both complement the larger commercial transfer business of banks and discourage using the system for money laundering). The international standard, like that among the world's postal systems for a money order, could be open to other financial transfer companies to join, meaning they would be able to feed payments into the system or receive payments from them as well. On the other hand, many postal organizations lack proper technical infrastructure for electronic funds transfers and the human capacity, and so this proposal entailed a measure of international public investment, as well as technical assistance.

The proposal was received cautiously. As one speaker said, "The first principle regarding remittances should be 'do no harm'." In her view, remittances have taken place without any intervention from governments or donors. She feared introducing a policy that might cut down the competition among the growing industry of remittance providers. In particular, she feared introducing standards into the remittance business that could serve as a control mechanism.

Another view was that regulations and discussion of policy standards were already facilitating competition and lowering the cost of making remittances. A further

speaker believed that 60-70 per cent of the money transferred internationally was done through informal circuits, as a result of which, an enormous amount of money was lost through the transfer. He thought remittances should be reintegrated into a country's savings and thus he called for dialogues involving governments, international institutions and other stakeholders on how to improve the regulatory framework.

## Concluding Observations

In an atmosphere of open, energetic and fruitful exchange, the Geneva meeting covered a wide range of issues, some long-standing and still unresolved, others reflecting newer issues regarding financial inclusion. Discussions demonstrated that, indeed, the evolution of the financial sector still had a distance to travel to become inclusive, and this journey takes place at the national level.

In the concluding session of the meeting, participants contributed advice for the Blue Book itself, suggesting notably that the Blue Book should not be a recipe, but rather a framing of what is possible and do-able to build inclusive financial sectors. Under-Secretary-General Ocampo concluded the meeting by calling upon stakeholders not to lose, as they move forward, the richness and openness of the inclusive finance consultations, one of the key consultations of the Monterrey Consensus follow-up.