Key Findings of the Symposium titled "Promoting Financial Global Partnerships for Development" on the International Year of Microcredit, Vienna, 2 June 2005

The United Nations Information Service (UNIS) Vienna, in collaboration with the Development Agency (ADA) of the Austrian Ministry for Foreign Affairs, on 2 June 2005 held a Symposium under the motto "Promoting Financial Global Partnerships for Development" to commemorate the International Year of Microcredit 2005. The symposium gave an insight into microcredit as one effective tool out of a variety of instruments for achieving the Millennium Development Goals in the context of the United Nations Secretary-General's report "*In Larger Freedom"* and in preparation of the Summit to be held in September. Panellists and participants (delegates of government agencies, activists from non-governmental and civil society organizations, representatives of the financial sector, academia, media, and United Nations staff) also discussed the benefits of microcredit and microfinance in different economic and political environments, and elaborated on best practices and innovative approaches.

Following are major findings from that Symposium which might be useful in the course of further preparations of the September Summit e.g. during the June hearing of NGOs in the General Assembly:

Key messages: to broaden the base of bankable people and to include the potentially bankable people into an inclusive financial system for development in order to achieve the Millennium Development Goals. "Sustainable Development not only for the poor but with the poor". Microfinance for development is an important complementary tool to ODA (0,7% of GDP of donor countries by 2015).

Microfinance and the MDGs

- The MDGs are mainly social goals, whereas providing financial services is a tool to achieve them.
- The segment of "non-bankable" people should be first covered by non-financial sector development cooperation, e.g. education, access to health, etc. Therefore, financial sector development should set priorities on the potential of 1 billion people who are bankable but not reached yet.
- The effects on income and asset building are important outputs of microfinance to realistically achieve the MDGs.
- Microfinance is not just for development but more so for sustainable development, which is a Millennium Development Goal in itself.
- Careful analysis of the effect of microfinance on social structures and household relations is necessary.
- Microfinance is an important tool for empowerment, especially for women.
- Microfinance and empowerment of women can influence the behaviour especially in HIV/AIDS prevention (more empowered women are less vulnerable to prostitution, social pressures etc).
- Microfinance can offer new perspectives to the livelihood of people (e.g. reducing migration to cities or abroad and, therefore, the brain drain from developing countries)

Promotion of an inclusive financial sector

- Approximately 1 billion poor people are still bankable but not yet with access to financial institutions.
- To reach inclusive financial sectors, there is a need for support of:
  Green-fielding – Foundation of new Microfinance Institutions (MFIs);
  Down-scaling – Supporting commercial banks to serve the micro-segment;
  Linking – connecting MFIs with the national or international capital markets;
  Up-grading – transformation of a credit NGO into a fully-fledged micro-bank.

- Product diversification is important to reach the poor. Donors can position themselves as niche players – supporting the development of new products, establishing guarantee schemes, etc.

- An integrated financial system is essential to reach as many people as possible with financial services:
  Microfinance – micro entrepreneurs, households;
  SME finance – small and medium enterprises;
  Capital markets – investors and refinancing possibilities for banks;
  Central banks – stability of the entire financial market.
- Building cooperatives and getting credit within the cooperative is considered as “democratization of credit” – the clients are the owners. Microcredit as cooperative approach is also free from institutional set-ups.
- Inclusive financial sectors are more competitive, that will lead to lower interest rates.
- Physical infrastructure development (roads, transport) should be developed and loan officers to be educated in order to influence competitive interest rates.

Commercialization of Microfinance

- Commercial provision of financial services is crucial.
- Commercial microfinance investment funds can be complementary to social investment funds, not excluding. Both serve an important segment of investors and play an important role.
- Integration of Microfinance Institutions into formal capital markets is a challenge for all actors.
- Engagement of commercial banks would be desirable, as they could have valuable knowledge which is important to be transferred to MFIs. However, commercial banks are reluctant to explore the microfinance market, incentives should be developed.
- Commercially oriented MFIs are starting to attract commercial investors.
- The often proclaimed possible mission drift which could be going along with the commercialization of microfinance could also be seen as natural development because the segment of clients to be served also changes. However, it is natural that not every NGO will convert into commercial MFIs, there is need and room for social financial products, too. There is no study yet about the mission drift and the type of clients which are reached by the commercial investment funds.
- Creating a local currency risk fund is desirable in order to minimise foreign exchange risks for MFIs.
- Knowledge transfer to MFIs is essential in order to absorb the potential coming from commercial investors.

Microfinance in the context of missing frameworks (post-crisis, crisis, political uncertainty, etc)

- Microfinance is also a suitable tool in crisis or post-crisis countries, e.g. the average loan size in Bosnia and Herzegovina is EUR 665; the Ukraine started a credit-cooperative and have now about 1000 members and EUR 325,000 in loans, whereas the average loan size is about EUR 350.
- After natural disasters, a combination of grants and credits, i.e. the combination of different financial instruments are a possibility to ensure maximum outreach to the affected people.
- Creating competition in post-crisis countries brings interest rates down and serves the poor.
- Microfinance can also be used as instrument to overcome social obstacles after a crisis, e.g. in Senegal microcredit was used for reintegration of rebels.
- The legal environment is important, although in countries with no structures (post-crisis) you need strong partners to protect the institutions from corruption.

Future challenges

- Need to raise awareness on microfinance and best practices in developed countries.
- Microfinance is not the one and only tool for poverty alleviation and has to be adjusted to local contexts.
- Innovation of new products can also be counterproductive, if the products are not accepted by clients, timing is not correct, etc.
- Microfinance can be a tool for the “Global Marshall Plan Initiative” that is complementary to the MDGs, and the European Union could support this.
- The dialogue between commercial and central banks should be promoted as it leads to more outreach and an integrated approach, e.g. in rural areas.

- Creation of a platform between government, microfinance institutions, commercial banks, pension funds, etc.
- Pushing the dialogue on national level in order to promote the vision of an inclusive financial sector.
- On an international level bring forward the project of the blue book in order to promote the building of inclusive financial sectors.