

EUROPEAN MICROFINANCE WEEK 2009

MICROFINANCE IN A NEW FINANCIAL ERA

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Closing address keynote speech

**EIB Vice-President
Plutarchos Sakellaris**

“Opening perspectives beyond the crisis”**Closing Plenary: “Moving forward...”****VP P. Sakellaris Speech on 15.45****Room (Jose Ensich) A22 (2nd floor), Abbaye de Neumünster**

Last year, in my speech at the European Microfinance Week, I wondered whether the financial storm could sink the microfinance ship. The storm in financial markets was gathering strength and was seriously threatening the stability of entire financial systems of both developed and developing countries around the world. One year later, with the storm receding behind us, hopefully for good, I would like to explore perspectives beyond the crisis.

The financial crisis has left many microfinance institutions and their clients weaker and certainly more vulnerable. As economic activity slowed down around the globe, household income levels have declined. Faced with lower wages, shrinking remittance receipts and depressed earnings, microfinance clients have found it increasingly difficult to make timely loan repayments. Eventually, even financially sound and profitable microfinance institutions struggled in securing financial resources necessary to provision against a growing share of non-performing loans and to refinance their existing operations.

The immediate pressure on microfinance institutions was somewhat relieved by emergency credit lines put into place by development finance institutions. Other special facilities, such as Microfinance Enhancement Facility, were also designed and launched by development finance institutions in a short period of time.

In the long-run, the refinancing of microfinance institutions cannot depend on and cannot be ensured by public institutions, such as the European Investment Bank or other development finance institutions, alone. We need private sector, especially local commercial banks, to resume their financing and refinancing activities in the microfinance sector.

The financial crisis also exposed dangers of over-dependence on external sources of funding. In many countries, savings have been rediscovered as a more stable and predictable source of funding, especially in times of crisis. Arguably, the resilience of microfinance institutions, in some of the weaker economies of sub-Saharan Africa, could be attributed to their deposit-led business-models, which acted as a buffer against both currency fluctuations and the global liquidity contraction.

The promotion of savings as an alternative to external funding of microfinance institutions is not, however, without risk. Adequate regulatory and supervisory frameworks have to be implemented in order to protect microfinance clients from fraud and mismanagement of their deposits. Whenever possible, local deposit insurance schemes should be developed and opened to all regulated deposit-taking institutions. Significant efforts by Central Banks and financial regulators, as well as by microfinance institutions, will have to be made before savings can become a standard feature of microfinance funding.

The crisis also taught some and reminded others that there is no “invisible hand” to replace ethical, moral and professional standards. Microfinance has to be financially sustainable, but financial results cannot be achieved at the expense of the social empowerment of clients.

Using the opportunity offered by the European Microfinance Week, I am pleased to announce that yesterday the Management Committee of the European Investment Bank made a decision to endorse Client Protection Principles as a concrete step in implementing social criteria in the appraisal and monitoring of its microfinance investments. By endorsing Client Protection Principles, the EIB is joining other likeminded microfinance actors, including NGOs, private investors and public agencies, all of us are committed to support the development of a responsible microfinance industry.

At the forefront of responsible finance should remain the ultimate goal to reach the poorest and most vulnerable people. Microfinance programs are already reaching economically active people living in economically deprived, post-conflict and post-environmental disaster areas. More and better investments, often combined with technical assistance programmes, will have to be made to support the development of sustainable microfinance operations in rural and remote areas.

The use of technology is becoming indispensable in achieving the goal of universal access to financial services. Mobile banking is already a reality for many clients in Asia, Africa and beyond. New platforms are being developed to allow for peer-to-peer lending and remittance services, as well as branchless banking. EIB is supporting the development and promotion of technology by investing in specialist private equity and microfinance funds with a special focus on Africa, which is often neglected by so-called “traditional” investors.

In the post-financial crisis environment, the successful implementation of technology will also depend on the availability of sufficient credit resources to support the end-beneficiary: micro and small businesses. That is why, with its partners, EIB will continue developing and implementing dedicated loan facilities, such as the Regional Facility for sub-Saharan Africa (also called, “REGMIFA”), which intends to provide resources to microfinance institutions and banks serving small businesses on a commercially sustainable basis. In order to reach scale and outreach, such facilities will depend on private sources of capital to complement and, later, replace funding provided by public developmental institutions such as ours.

The challenges related to post-crisis funding should not prevent us from looking into new microfinance areas, notably, microinsurance. The lack of social safety nets in developing countries exposes microfinance clients to additional risks that cannot be addressed by microcredit alone. For example, without adequate insurance, a sickness or an accident can push a microfinance client into a permanent debt-trap with no possibility to escape.

In order to make certain that microfinance services are provided responsibly, we need to develop and introduce microinsurance as a standard microfinance offering. As a concrete action in this direction, EIB has made a significant investment in LeapFrog, the first commercial microinsurance fund, earlier this year. By making this investment at the time of the financial crisis the European Investment Bank has played its part in ensuring that important microfinance initiatives are not abandoned and that opportunities are not lost.

Ladies and gentlemen, I have outlined a number of microfinance perspectives beyond the crisis. However, in this short speech, one guiding principle stood out – that is the principle of responsible finance. The financial crisis has taught us that no business, large or small, can be built on a sustainable basis if it deviates from ethical, moral and social standards. It is important that as the financial crisis recedes behind us, this lesson is not forgotten.

Thank you!