Excellencies, Friends, Ladies and Gentlemen,

I would like to begin by thanking Radio Netherlands Worldwide for their kind invitation to speak to you in this fabulous place - a landmark of The Hague and the world. And I am even more thankful that you have organized a conference bold enough to address a question critical to any sector: Who Profits? This question is very relevant in microfinance, and therefore very relevant to me in my role as the UN Secretary-General's Special Advocate for Inclusive Finance for Development.

Let me start by defining inclusive finance, even though it might be rather obvious to some of you here. Financial inclusion essentially boils down to universal access, at a reasonable cost, to a range of financial services for everyone needing them, provided by a variety of sound and sustainable financial institutions.

Access to a wide variety of financial services - such as loans, savings, insurance, payments and remittances - helps to shelter people from the unexpected, generate income, and build assets. Universal access means access not only by individuals, but also by small and medium-sized enterprises, which, as we know, can act as the real engines of growth in many countries.

Economic growth is critical to development and we know that a strong and inclusive financial sector not only promotes growth but also reduces income inequalities. Building the financial infrastructure of developing countries is therefore something we should all be working on. Notably, financial institutions play a very important role in improving people's lives by offering services in an efficient manner and at an affordable price.

In here, I believe the issue of pricing deserves a bit more attention. We know that the cost of giving small loans is much higher, relatively speaking, than providing larger loans, and that paired with the high cost of capital often gets translated into high interest rates for these loans.

Something the microfinance sector has been pushing hard for is to have institutions that grow stronger, begin to attract more capital and invest in their operations to be able to reach more clients at a better price and in a sustainable fashion.

We have been very happy to see that efficiency gains driven by economies of scale and innovations have been pushing interest rates down globally, something we have fought for and now applaud. It seems that this continues to be the case on a worldwide perspective: the most recent available figures seem to indicate that interest rates have declined per year globally. This steady decline is a broad-based phenomenon, with the exception of South Asia where rates were already relatively low.

Having said this, we have to note that in certain markets some institutions seem to have raised their yields even as their operating expenses have been coming down. In these cases, profits have started to play a more important role than sustainability.

I believe we should discuss this very issue. Are we talking about signs of a mission drift? Are these isolated MFIs in one or two countries, or is this perhaps a more general trend? Is this the result of some new, more short-term and profit-oriented investors entering the market with the intent to make a fast profit?

Also, there are of course many other institutions that do not necessarily have big profits but continue to pass their own inefficiencies on to their clients and therefore charge high interest rates.

In all of this, I think it is crucial to consider your role as donors and investors as catalysts pushing the institutions you are involved in to be sustainable institutions that seek efficiency gains that will eventually be translated into
better pricing for clients. In other words, pricing that is both sustainable for institutions and affordable to clients.

And it's not only about price: quality of products also needs to be considered. Are current products properly designed so that the small entrepreneur benefits enough? Are the loans suitable for farmers, for example? Are we offering clients proper savings mechanisms? Are we offering them savings mechanisms at all? Can they access insurance: life insurance? health insurance? Can people send money to their relatives living in the countryside? Can we help them to send their children to school?

The point I am obviously making is that we still tend to focus our discussions only on the credit side, forgetting other financial products like savings that are as, or even more important to poor people.

And then there is the delivery of these services. Are the institutions lending in a financially sustainable and responsible way? Are clients not becoming over-indebted? Is the pricing of financial products transparent and adequately disclosed in a form understandable to clients? Are the collection practices appropriate? Campaigns developed in the last 2 years have addressed these issues and I am very happy that many MFIs have endorsed them.

And finally, the question that we all want answered: what is the impact of the financial services? Do such services make a positive difference in the lives of the poor?

Research has unfortunately not yet given us definitive answers to this important question. There are many studies dedicated to a specific country or region within a country.

These studies have often had a limited time scope and the indicators used have not always been the same, making comparisons difficult. As a result, we have valuable information but cannot yet draw conclusions for the sector globally.

For example some studies have found that microfinance improves the situation of existing entrepreneurs, that their assets increase, but that there is no gender effect. Others have found little increase in income or assets but an overwhelming improvement in women's empowerment. Still others have found considerable increases in income and employment creation. So the overall conclusion is that more and more careful evaluation is required, especially in terms of comparability of outcomes. What we do know is that financial services play an important role in helping poor families manage their lives and protect them against the shocks that are part of the daily experience of poverty.

I was therefore very happy to attend last year a panel organized by Oikocredit on social performance and investments in microfinance, which included an interesting discussion on the Social Performance Indicators. This issue has also been addressed through programs such as 'PPI', Progress out of Poverty Index, an assessment tool MFIs can use to determine the poverty level of their clients and to track their clients' progress out of poverty. With time, appropriate measurements will throw more light about who benefits, how much, and when. We will then be able to recalibrate policies and practices to those products that benefit people the most.

Ladies and gentlemen,

I would like to close my remarks with a message to all present here. I believe you all have a very important role to play. As donors, academics and investors, you could lead the effort to ensure that financial institutions address client protection issues, start measuring the impact of their services, and, analyze the sustainability of products and pricing for both clients and providers.

To quote one of the UN's key messages on financial inclusion: 'Broadening access to financial services is an important policy goal but will not in and of itself eliminate poverty.' Please think about this and let us think about how should financial services be used together with other policy goals in order to improve people's lives. At the end of the day, we must all remember that financial services are just a means to an end and not an end in itself.

Thank you very much.