INVESTOR PRINCIPLES FOR INCLUSIVE FINANCE: HOW INVESTORS CAN CONTRIBUTE TO BUILDING VIBRANT AND RESPONSIBLE FINANCIAL SYSTEMS

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Good morning Your Excellency, ladies and gentlemen. Welcome all to The Hague and to the Responsible Finance Forum. I am so happy to see representatives from governments, microfinance institutions, development agencies, and, above all, the many investors. Your presence illustrates to me just how dynamic the sector has become!

So dynamic, that today we talk about 'inclusive finance', an evolution that builds on the successes of microfinance. Microfinance brought much-needed services to millions of poor people and enterprises around the world. And it has changed the way we think about poverty. It showed that poor people, when provided with the right product, can be good financial clients.

In Liberia last June, I met a lady who started her business by borrowing less than USD 100 from a microfinance institution. With that, she bought one container of palm oil, which she resold. Today, this lady exports to the United States and employs 13 people. She now has an outstanding loan of USD 12,000, a savings account with USD 4,000, and a warehouse of palm oil. This is just but one example of how microfinance can change lives and communities. And how small and medium enterprise finance is equally needed.

The concept of 'inclusive finance' is broader than microfinance, and potentially even more powerful. Inclusive finance implies universal access, at a reasonable cost, to a wide range of financial services, for everyone needing them, provided by a diversity of sound and sustainable institutions.

This 'diversity of institutions' includes today cooperatives, banks, mobile phone companies, village savings groups, and more. In recent years, we have witnessed some innovative public-private partnerships, including governments working with stores or mobile phone companies to deliver welfare payments.

Another aspect of the overall evolution is that inclusive finance is now attracting significant private capital, in addition to philanthropic and public capital. Services have greatly expanded as a result. In 2009, for example, nearly 2,000 MFIs provided USD 65 billion in loans to millions of people around the world, and had nearly USD 27 billion in deposits.

At the same time, this evolution and success has brought some challenges. We are seeing cases where returns on equity have remained high, sparking debate about reasonable costs, profits and fees. Some microfinance institutions have shown weak internal systems.

Sometimes the external infrastructure - such as regulation, supervision, credit bureaus and payment systems - were not effective. Overall, the focus has been too heavily on loans and some local markets were saturated. This lead to increased competition, vigorous marketing and multiple lending.

Unfortunately, we are now seeing the cumulative impact that this can have on clients, institutions and markets.

All of this does not mean that microfinance does not work. It does work. But like any sector that has developed rapidly, it has come to a point where these and other issues need to be addressed. Doing so will help the industry grow properly. This, in turn, will mean that clients are better off.

I think it is very important to recognize that there remains a pressing need for quality financial services. Portfolios of the Poor, a book of research, illustrates this clearly. One family in Dhaka, Bangladesh, used thirteen different
informal and formal financial instruments in order to make sure they were able to put food on the table every day. This on an income of just USD 840 per year. Their financial life is complicated not despite being poor, but because they are poor. And because they don't have appropriate and reliable financial tools to count on.

They will borrow in order to have liquidity or due to a health emergency or because cash at home disappears. Needs like these would be better served by simple savings, payment or insurance schemes, rather than loans. This brings us back to inclusive finance, with its emphasis on a range of products to meet a range of needs so therefore away from the initial focus on loans. Savings accounts are especially important.

Yet providing a diversity of financial services is not only a question of meeting demand. We also know that institutions that provide a diversity of financial services including mobilizing local deposits, usually have a stronger financial base and are healthier and more sustainable. They rely less on expensive debt funding and focus less on loan growth for their revenues.

This message no doubt comes as little surprise to those of you who have heard me talk before. Providing the right financial product at the right price in the right place is at the very core of responsible finance. This is why I am so pleased that we are launching today the Principles for Investors in Inclusive Finance.

They carry forward momentum begun by the Smart Campaign, the first Responsible Finance Forum last year in Berlin and many other initiatives. They also reflect the continued evolution of the sector.

Responsible finance rests on three pillars that demand action by governments, consumers and industry. The first pillar is regulation. Countries including Peru and Malaysia have shown us how government can use policies, regulation and supervision to promote the sustainable growth of the financial sector, while also building robust consumer protection.

The second pillar is the ability of consumers to understand choices, products and rights - in other words, consumer capability. This includes financial literacy, which is in everyone's interest. This is best achieved when service providers and governments facilitate it, and clients actively pursue it.

And this brings me to the third pillar, what we call self-regulation by industry. Self-regulation is often in the long-term interest of that specific industry. As a previous banker, I have realized that it is very difficult for companies to have a long-term vision unless their shareholders and investors actively pursue it. I believe in institutions that have such a vision, not only on responsible grounds, but also for their long-term sustainability. It seems obvious to me, and I think to all of us here, that if the loans are bad, business will be bad as well. And I also think that investors hope that any profits today will be maintained in the long run, through the creation of strong institutions. And only with sustainable institutions will we grow a vibrant, strong financial sector but above all, vibrant and strong clients.

This is why I started thinking about some kind of investors principles two years ago. I believe these Principles provide practical guidance to help investors leverage resources, experience and collective voice to build institutions that are strong, sustainable and responsible. Only in this way will we get the right products at the right price to everyone who needs them today, and in years to come.

There are so many people I would like to thank. To begin with, I extend thanks to the Dutch Ministry of Foreign Affairs for its support to responsible finance and for its hospitality today.

I would like to thank the partners who have worked so closely to develop the Investors Principles and advance responsible finance, including IFC, BMZ and CGAP, especially Antonique Koning. And to UNPRI, which will host and support implementation of these Principles.

I extend a special thank you to the investors who are the first signatories to the Principles. I commend you all for your vision and commitment. I would like to acknowledge a few investors in particular. Else Bos, Deputy Chairman Executive Committee from PGGM. Else has shown tremendous leadership to bring us where we are today. And Els Boerhof, from Goodwell; Theo Brouwers from SNS; Ben Simmes from Oikocredit; and Berg de
Bleecker from PGGM.

And finally a special thanks to my friend and leader in financial inclusion, Marilou van Goldstein Brouwers, Managing Director at Triodos Investment Management. From the first moment I spoke to her about this, Marilou has been completely committed to this effort, investing a lot of energy and time.

So, ladies and gentlemen,

Financial inclusion shows tremendous promise in improving lives around the world. But like many things that are relatively new, the sector still requires some nurturing. This means proper regulation and supervision, financial literacy and self-regulation. It means continued development of more diverse products and underlying financial infrastructure. We also need to treat microfinance and SME finance as an inherent part of the financial system framework, not as separate add-ons. It means basically, that we need to do more, not less, to continue to develop and grow inclusive financial systems. With today’s first signatures to the Investors Principles, we send a clear message that to live up to its promise, financial inclusion must be pursued responsibly.

Thank you and I hope you have a fruitful day.