Good morning, Excellency, Ladies and Gentlemen. I am pleased to be opening this symposium. A few years ago, with the founders of TCX we talked about the big risk that banks and MFIs in developing countries face when borrowing in hard currencies. I was very happy that TCX was started in response. I am even happier that so much of the loans that TCX hedges go to MFIs, and some also hedges SME refinancing loans to local banks. At the end of the day, this has worked to strengthen local financial institutions.

Today is a deserved celebration. At the same time, financial flows and SME lending are still constrained in emerging markets. And of course, this is also a good moment to challenge TCX and the broader community represented here once again to look into possible solutions, as it did with exchange rate risks.

In my work as UN Special Advocate, I have heard time and again from Latin, African and Asian entrepreneurs how they cannot get credit. Despite a good history of MFI repayments or a warehouse full of inventory. In fact, about 200 million SMEs in emerging markets cannot get the finance they need. As a result, they use inefficient or expensive informal tools. Or they cut back on growth potential. Considering that SMEs are local engines of job creation and economic growth, this needs to be addressed.

There is a huge demand for financial services in emerging markets. In a number of markets, deposits are far outpacing loans. At one bank in the Democratic Republic of Congo, customer deposits were more than three times as large as the loan portfolio in 2011.

This has created a paradox. While there is huge unmet demand for loans, many local banks have excess liquidity. A banker I met in Liberia explained that he had excess liquidity of 25%, on top of high reserve requirements.

Overall, this imbalance is a symptom of under-developed financial and securities markets. In a country like Nigeria, local banks' funds do not flow to the best lenders because there is not the necessary financial infrastructure for interbank lending.

Or, payment system delays mean banks may not be able to get their money when they need it. So, banks hold extra reserves to cover contingencies.

Weak financial infrastructure also contributes to excess liquidity by making it riskier for banks to lend. Without quality credit bureaus or movable collateral regimes information on borrowers is hard to come by. Weak legal frameworks may add to risks, for example when there are not effective mechanisms to enforce claims or retrieve collateral when loans fail. So, this does not make it easier to channel deposits into productive loans.

And finally, most of the deposits at the institutions I am talking about are short-term. But the loans are longer term. So, the mismatch is not just assets to liabilities, but also in the relative maturities of deposits to loans. Developing asset-liability management strategies and risk management capabilities is important to address this.

Due to these factors banks are willing to offer loans only at very high interest rates. This is more than potential borrowers, especially the small businessmen and women, can afford.

The good news is that governments and diverse partners are working to strengthen financial infrastructure and the enabling environment. This is so important, and needs to happen locally.
What else can help? Assessing risk and financial intermediation requires a lot of institutional know how. Sharing experiences of successful banks in comparable contexts would be a good support. To reduce the maturity mismatch, institutions need less volatile, long-term assets. Can the development of domestic contractual savings contribute to this? Maybe institutional investors and capital markets can help through longer-term direct lending.

Or expanding the use of guarantees, risk insurance, and targeted credit enhancements. If we want to help develop local financial institutions, these are questions we should really address.

Before closing, I would like to acknowledge that there are also significant demand-side challenges to excess liquidity. For example, SMEs commonly lack the kinds of formal business plan, credit histories or collateral that commercial banks require. Different approaches are required. But I will leave this for another conversation.

There is a well-founded saying that success breeds success. TCX has demonstrated that it can innovate and find solutions. I would like to challenge TCX and the community here to look at the issue of excess involuntary liquidity in local banks and the mismatch problem. And hopefully identify solutions that will help local financial institutions in developing countries do the business that all banks should be doing - capturing savings and on-lending them to the real economy. An economy that has healthy growth but is also equitable.

Enjoy your success and keep on being innovative and meaningful!

Thank you.