Good afternoon, Your Excellency, Dr. Ziad Bahaa Eldin, ladies and gentlemen, dear students,

I would like to thank the American University of Cairo for this occasion, and Dean Kamel and Provost Anderson for your warm welcomes. This is my second time in Egypt looking at these issues. The sector has progressed so much in recent years.

Now, I am here as the United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development. Some of you may ask, what does this really mean, financial inclusion?

Financial inclusion is universal access, at a reasonable cost, to a wide range of financial services, provided by a diversity of sound and sustainable institutions. Services include savings, insurance, payments and remittances as well as loans. Financial inclusion is about individuals and also small and medium enterprises, which are local engines of job creation.

So, we are not talking any more about only microcredit. But more about financial inclusion, which includes microfinance, SME finance and other provision of financial services to poor individuals - people that nowadays are excluded from these services.

Also important in the definition of financial inclusions is that financial services are a means to an end, and not an end in itself. So, we really have to think how these financial products will make a difference in people’s lives.

One of the most striking characteristics of being poor is not only little income, but also irregular income. There is a fantastic book that I recommend you read called ‘Portfolios of the Poor’. People have complicated lives precisely because they are poor. You might earn four dollars one day and then nothing for a week. This is even more complicated in rural areas where you sell the harvest and need the cash to last the whole year.

Financial services can help poor people manage their cash flow, invest in opportunities and strengthen resilience to setbacks. This, in turn, helps them to make more with what they already have. Financial inclusion also means economic inclusion, which means being part of a country’s economic development. And this contributes to improved incomes, vibrant communities and equitable development.

Financial inclusion is about providing every Egyptian with the right product in the right place - where they need it - at the right price. This can only be achieved when it is included in the bigger framework of the whole financial system. This system includes a diverse range of providers, such as banks, cooperatives, post offices, microfinance institutions, mobile phone operators and others. Now this financial system should be competitive and transparent, and should protect consumers. And it should lie upon the right infrastructure. I will go through these parts in more detail now.

To begin with, let me touch upon microfinance. It is one of the important elements of financial inclusion, but only one part. Microfinance has transformed many lives. In Egypt, 1.3 million people are being served by microfinance institutions. But we know that the demand by microentrepreneurs for finance is much greater, at least three times.

In order to meet this demand, we need to keep developing the microfinance sector in a regulated manner.

And in the long term, clients need much more than loans. They especially need savings, the most empowering tool of all. Poor people do save. Yesterday I was visiting farmers in the Delta region. Through an interesting discussion, it became clear that only a few have a bank account. But they do have savings. They have cows, crops in the field, add to their house as soon as they can afford materials and put cash under the mattress. But these informal means involve costs, such as food for the cow and sometimes the cow dies unexpectedly.
So poor people do save. And savings has impact, especially for women.

I've spoken about services for microentrepreneurs. But small and medium enterprises, also need financial services. So, an inclusive financial system provides therefore access to finance across the entire value chain. So often, people talk about micro-enterprise in one silo, and small enterprise in another. In reality, the borders between them are blurry. Not every entrepreneur starts by being a mid-sized or small company, but often as a micro-business. But, as a micro-entrepreneur starts growing, her financing needs change. So we need to cater to change. And ask, are we giving the right products? For example, a small farmer in the delta will need financial services specific to crop inputs. The owner of a small store in central Cairo will need services to help with marketing, inventory and payments.

According to one survey, less than 10% of SMEs in Egypt have access to formal loans (1). This tells me there must be a lot of informal arrangements and self-financing. We know informal finance is very often expensive and unpredictable. Not to mention that it doesn't always meet the needs. In order to make the right financial products available, some of the micro-suppliers and small enterprises will be served by MFIs through up-scaling. Others will be served by commercial banks that reach down the market.

Thus, an inclusive financial system in Egypt will be one with many different kinds of institutions providing services and products that clients need, all across the value chain.

Now, an inclusive financial system must be responsible, trustworthy, and protect consumers. This begins with good information and financial education, so clients can choose what products are right for them. Transparency and good customer service also help build trust, as well as good collection practices. And trust is an important factor when it comes to dealing with other people’s money.

There is an important role for government in promoting financial literacy and providing business training. Financial literacy begins at childhood. Schools should include this in the curriculum. NGOs and financial service providers are now training some women and entrepreneurs. This is something that should be extended to more entrepreneurs. Just to give you an example, ProCredit is a bank active in more than 15 developing countries. It has offered financial literacy services, including educational events and brochures as it opens branch offices, especially in remote areas.

When providing financial services, we also have an obligation to ask, does the client need this? Is it the right product for this person? Is it good for the health of the system? If not, and if the product is not sustainable, we should not offer it.

For all these reasons, it is welcome news that draft guidelines for MFIs explicitly address consumer protection. These guidelines, which Dr. Ziad will present, are to promote growth of microfinance while protecting consumers.

Finally, Egypt needs the right financial infrastructure to make all this happen. By infrastructure I mean the essential platform that all services rest upon.

A national electronic payment system is an important part of this infrastructure. In order to get to the people who are currently unbanked, we need to think outside the bank branch system. In this way, for example, a local village store can become a place where clients can deposit and withdraw cash from their bank account. Or, they could do this through mobile phones. This could facilitate welfare, pension payments, bill payments, domestic remittances and much more.

What else do we need in this financial infrastructure one may ask? Deposit insurance and credit bureaus are essential.

The worst thing that could happen to a poor person is to lose her savings, or become mired in debt.

For example, we know of a case in another country where up to 80% of microfinance clients in an area have loans from multiple lenders - banks, microfinance institutions and NGOs. Therefore it is very important to have
one credit bureau with all the information from all service providers, for all sizes of loans and clients.

And that is the reason I am happy that the draft guidelines for microfinance institutions will be presented today. I hope the biggest microfinance providers will be converting into non-bank financial institutions, and therefore complying with the regulations of EFSA. I also hope that this example will be followed by many others. These are all steps that further bring all the players into the financial sector framework, where innovation and healthy competition reduces costs and spurs development of products that meet specific needs. All of which will contribute to making the right product available at the right place and the right price for those who need it in Egypt. I wish Dr. Ziad much luck with the guidelines. I hope all the players will provide good feedback.

I look forward to hearing of continued progress in Egypt as you move toward financial inclusion for all. I wish you all great success and the students lots of luck with their studies.

Shokran.

(1) According to the Investment Climate Assessment Survey of 2008, out of all SMEs surveyed, only 7.5% have access to loans compared to a much higher percentage of 22.5% for all large firms surveyed.