10th Anniversary Russian National Conference on Microfinance

New Decade, New Challenges: Regulation as a Driver of Development
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Opening ceremony

Remarks by Dr Alfred Hannig, Executive Director, Alliance for Financial Inclusion

Delivered on behalf of Dr. Hannig by Mr. Robin Newnham, AFI Coordinator for the G20 Global Partnership for Financial Inclusion

Thank you honored guests, ladies and gentlemen, event sponsors, and our hosts, for convening us this week in the annual National Conference on Microfinance. Let me first congratulate you, members of the Russian Microfinance Community on your 10th anniversary. We have been honored to be an occasional guest, participant and partner in some of the incredible successes you have accomplished over the past decade and it is a great pleasure for me to be a part of this very special event. I am aware that when you met in 2002 for the First National Microfinance Conference you set the goal of building a strong and sustainable microfinance industry in Russia. Since then, you have managed to create not only a professional microfinance sector covering many regions of your huge country, but microfinance has also become an integral part of the Russian financial system making impact on the international level in terms of lessons learnt. Let me congratulate all of you to this tremendous success.

When a milestone such as this is reached it is a good moment to reflect back on lessons learned, take stock of where we are today, and formulate a vision for an inclusive financial system in Russia in light of national priorities and global realities and commitments .

(Shift from microfinance to financial inclusion)

We are witnessing a changing lexicon globally and here in Russia when talking about providing financial services for the un- or underserved. As an example, the title of this very opening session includes the term ‘microfinance’ as well as ‘financial inclusion’. These are not interchangeable – but do represent a transition. Let me demonstrate with a quick review of some historical facts.

Let us first think about the characteristics of microfinance looking back over its historical evolution. The initial focus was on microcredit, and over time it has broadened to include other offerings. Providers are often informal or semi-formal entities. The main aim has been to find ways to provide financial services to the poor through new low cost, low risk, models. This has caused a transformation on the supply side, and has empowered a generation of household level entrepreneurs.

Looking ahead to financial inclusion we envision financial access through a diverse group of regulated or licensed providers, and a wider range of products for the poor, including financial intermediation. A more inclusive financial sector would mean that policies and products to promote financial access are integrated or harmonized with the financial sector and its overall design and planning. Financial inclusion stresses links to the macroeconomic context and can contribute to national level growth and stability, in addition to reducing vulnerabilities and increasing income at the household level. Finally, with financial inclusion we seek to balance a healthy supply side with a better understanding of demand side needs and services that are optimized for the needs of the underserved.

In the end, the goal is that microfinance be fully integrated into the financial system – not be a replacement or stand alone segment. But this must be done using the same innovative spirit and continuous learning and improvement that has characterized the microfinance movement over all these decades.

(Evolving role of the regulator)

The theme of your annual conference is: New Decade, New Challenges: Regulation as a Driver of Development. And this theme is well and appropriately defined. Just as microfinance is evolving, so too are regulatory roles and approaches. The evolution from microcredit to financial inclusion means a broadening beyond credit to include a wider range of products, offered by both traditional and non-traditional financial service providers, and must come hand in hand with policies that safeguard the financial system – and this has been signaled by the increasing involvement of the regulator.

The main task of the financial sector regulator is to ensure financial stability. But most regulators in emerging and developing markets today understand that financial inclusion and stability are synergistic. To quote from AFI steering committee member, and president of the Mexican Securities and Banking Commission Mr. Guillermo Babatz – “As a regulator, we decided it wouldn’t be worth our work to have a very stable financial system if it wasn’t also serving most of the people in the country.”

If we look back to the 1970’s and 1980’s we generally witnessed an interventionist period of financial regulation – characterized by actions such as directed credit programs, channeling public funds to target groups like farmers and small entrepreneurs, and heavy interest rate subsidies through development banks. These policies turned out to be unsustainable and had limited success.

Learning lessons from that period, the 1980’s and 1990’s saw a shift in focus towards private financial service providers, and regulators were looking to ensure sustainable service delivery. Economic crisis, stagnation and IMF bailouts in emerging markets resulted in limited interventions for regulators. But amidst all of this chaos microfinance emerged and the concept of banking with the poor was born.

In the 2000's we saw microfinance strengthen, and regulators were involved in forging better links to the formal financial sector. Financial access was linked to pro-poor growth and poverty alleviation. But regulators were faced with new challenges due to the introduction of technology-enabled financial services.

Fast forward to today and we find ourselves struggling with an ongoing global financial crisis. This crisis has resulted in calls for policymakers and regulators to ensure better consumer protection and sustainable financial access. It is early days, but we have evidence that countries with broad-based financial inclusion policy and initiatives have indeed weathered the financial crisis better than others.

So, what do policymakers and regulators say today in this regard? A recent survey of the 83 central banks and other regulatory agencies located in emerging markets which make up the membership of the Alliance for Financial Inclusion - found that regulators do recognize their changing role, and the need for them to exert leadership and ownership of financial inclusion. Regulators recognized microfinance as the entry point, but see this as a gateway to a fuller and more formal marketplace of services for the poor. Savings are seen as the cornerstone of financial inclusion by regulators, and of course banks are seen as having a critical role in reaching the poor with new services. Policymakers in emerging markets are embracing the power of new technology and aim to harness its potential for the poor while managing new risks emerging with it. Most importantly, the AFI policymakers are prioritizing evidence-based policy and are putting an increased emphasis on data collection to better understand the state of financial inclusion and actual needs of the underserved.

(Commitments: G20 and Maya Declaration)

At the G 20 Summit in South Korea last year, the G20 group of nations, to which Russia is of course a member, launched the Global Partnership for Financial Inclusion – a platform for G20 and non-G20 countries, and other key stakeholders such as donors, private sector, and civil society to work together to advance financial inclusion. At the G 20 Cannes summit just two weeks ago, the leaders again urged countries to put financial inclusion at the heart of the response to reinvigorate economic growth, create jobs, and ensure financial stability.

Russia is among those nations that has put financial inclusion at the heart of its economic growth plans – with savings as a cornerstone – and is therefore in accordance with these G20 priorities and in a good position to lead by example. As you are perhaps aware, the G20 issued a set of Principles for Innovative Financial Inclusion which capture the trends and lessons learned from emerging and developing country policymaking experience on financial inclusion. AFI members including Russia released a series of case studies and success stories related to some of the key principles, including leadership, innovation, consumer protection and empowerment, cooperation, and proportionality.

We are hopeful and confident that through Russia's leadership during next year's G 20 Presidency under Mexico will have a major impact on lifting financial inclusion to the next level globally. As an implementing partner of the GPFI, AFI is ready to support your activities as a future GPFI Co-Chair.

A further indication of the depth of commitment by policymakers is the adoption of the Maya Declaration by the 80+ regulatory authorities from emerging markets in the AFI membership at their annual meeting in September of this year. Members reaffirmed the urgency and importance of financial inclusion and announced a framework for their individual domestic and collective global commitment for bringing more of the world's poor into the formal financial sector. In the Declaration, members recognize the key role that financial inclusion policy plays in bringing stability and integrity, its role in fighting poverty, and its essential contribution toward inclusive economic growth in developing and emerging countries. The Declaration reaffirms the importance of peer-to-peer knowledge exchange and learning among financial regulators and policymakers to help develop and implement innovative and relevant policy solutions.

Following the adoption of the Maya Declaration at this year's annual membership meeting, 17 AFI member institutions responded by making concrete commitments. Some examples include:

- Central Bank of Brazil agreed to launch a National Partnership for Financial Inclusion before the end of 2011.
- Bank of Tanzania pledged to raise its financial access level to 50% of its population by 2015 through mobile banking and other initiatives.
- The Mexican Securities and Banking Commission committed to establish banking agents or branches in every municipality in the country by 2014.
- Central Bank of Nigeria said it would work to reduce its unbanked rate by 50% by 2020.
- SBS, the Peruvian regulator, pledged to enact a new law regulating electronic money within the next year.

(Example policy solutions)

The reality is that the most innovative and effective regulatory and market solutions for financial inclusion have their origins in emerging and developing markets. The new policies and products that are needed to serve the poor have been and will continue to be invented and implemented by **YOU.**

Two of the most impactful channels to the poor have been innovated in emerging markets – mobile money and agent banking. And regulators have been a key partner in helping to bring these successes to life by creating the conditions for them to thrive while also reducing risk and protecting consumers.

A very unlikely place is at the heart of the high-tech revolution that is sure to change the way financial services are delivered forever – Africa. **Mobile money** is rolling out in dozens of countries and is closing the gap between access to phones and access to banks. And in Kenya we are seeing that mobile financial services, specifically payments, are just the beginning. We are now seeing a deepening of the system, from a policy and service perspective, and payments are fast becoming a gateway to savings and remittances through partnerships between mobile operators and banks, and with the support of an enabling regulatory framework.

A delegation of regulators and policymakers from Russia had the opportunity to visit their counterparts in the leading country where **agent banking** has successfully expanded financial access – Brazil. 13 million unbanked people have been reached and more than 100,000 retail outlets -- post offices, lottery kiosks, grocery stores, and the like -- turned into correspondents since 1999. Payments, transfers and deposits are made in real time using point-of-sale (POS) devices and bank cards. Correspondents are used to distribute welfare payments and other public services, and provide services such as pre-approved credit lines, simplified current accounts, and international remittances are also authorized. Russian regulators have taken the best of what works in Brazil and have built their own framework for agents that will hopefully have the same result here. AFI is very proud to have been able to support this work by the Russian government through a grant that has been given to the Ministry for Economic Development and implemented together with RMC. Under this project, secondary regulations on activities of bank agents have been developed and the existing regulation on new agents has been updated.

Creating the foundations and conditions for a more inclusive financial sector is also the responsibility of the regulator. Helping to ensure **consumer protection and fair market conduct** benefit both service providers and customers.

In **Peru** the regulator ensures all service providers are transparent about their interest rates and other product features – thus reducing fraud, driving down interest rates through healthy competition, and better equipping the consumer to make an informed choice about which financial service to use and what their associated risks and responsibilities are.

In the wake of the Asian financial crisis in 1997, with the overall goal of financial stability and growth, the **Malaysian** regulator introduced initiatives that would help strengthen the capacity of financial institutions, promote financial education among consumers, and ensure that financial institutions adhere to fair market practices.

These are just some examples from around the world where regulators are demonstrating that a new page in history is being written, and that the status quo in financial system design is simply not acceptable as long as there are still 2.5 billion people among us that do not have access to safe and formal financial services.

(Conclusion)

With 10 successful years as a network behind you, there is now the opportunity to brace yourself and redouble your efforts for the 10 years ahead. This network is an important platform upon which you will be able to move financial inclusion ahead in Russia.

Let me take a moment to wish you, on behalf of AFI, well in the coming days, and success as we look ahead to another decade of building a more inclusive financial sector for the benefit of Russia and its citizens. I hope that AFI remains a part of your network, especially as we seek to continuously innovate regulation and the role of the policymaker to help scale up and sustain financial inclusion in Russia and in our ever-more interconnected and globalized economy.