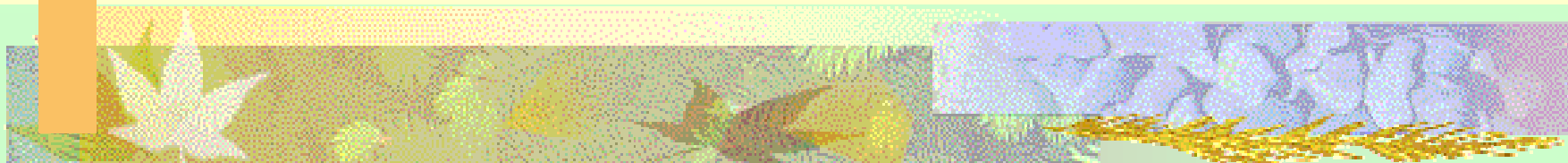


“The Role of the Financial Sector in Poverty Reduction”



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**by: *Octavio B. Peralta*
Deputy Secretary General, ADFIAP**



What is ADFIAP?

- ❖ Regional association of development financing institutions; founded in 1976
- ❖ 60 member-institutions in 30 countries
- ❖ A founding member of the World Federation of DFIs (Africa, Asia-Pacific, Europe, Latin America & the Middle East)
- ❖ An NGO of the U.N.'s ECOSOC
- ❖ ADB is a Special Member
- ❖ Permanent Secretariat in Manila





ADFIAP's Current Initiatives

- ✓ **SME Serv** (a front-end service facility for SME-clients of member-banks – with Canada's CEED)
- ✓ **DFIs for Corporate Governance** (a capacity-building project for Directors and managers of DFIs – with CIPE of the U.S. Chamber of Commerce)
- ✓ **Greening of DFIs** (environmental due diligence in project finance – with US-AEP, a USAID initiative)
- ✓ **DFIs and Lasting Development** (a national consultative forum on the financing of development – with Germany's InWEnt)
- ✓ **Trade Development Project** (an Internet-based trade and banking facility – with East West Electronic Trade Center)

World Facts on Poverty

- 1.3 B live on less than US\$ 1.00 a day;
- 1 B cannot meet basic consumption requirements;
- 840 M are malnourished;
- 880 M lack access to health services;
- Of 4.4 B in developing countries, 1.5 B lack access to sanitation and clean water, 1B do not have adequate housing;
- 850 M adults are illiterate;
- 260 M children are out of school;
- 2 B people lack access to electricity.



****** Richest fifth has 74 times the global income of the poorest fifth.***

Development Finance Poverty Reduction Issues*

There is a CRISIS in development finance:

- ❖ Official development finance and domestic revenue-raising is in decline
- ❖ Growing non-concessional finance is not supporting sustainable livelihoods
- ❖ Conservation finance restricting access to natural resources can be anti-poor
- ❖ While there is growing policy recognition, there are limited formal mechanisms for a focus on:
 - Sustainable livelihood approach
 - Alternative financing models

* *Workshop Report: U.K.'s DEFRA and FCO, October, 2001*



Barriers for International Financial Institutions (IFIs)*

- ✓ Lack of IFI comparative advantage in small-scale projects and in building social capital
- ✓ Limited capacity of recipients and local financial intermediaries to access and use development finance

* *Workshop Report: U.K.'s DEFRA and FCO, October, 2001*



Workshop Recommendations*

- ✓ Create a framework to enable private, non-concessionary finance to reach SMEs
- ✓ Redirect IFIs financial flows down from large-scale projects to providing support for small-scale micro-credit and mini-enterprise lending financial intermediaries
- ✓ Build capacity with local financial intermediaries and recipients
- ✓ Improve transfer mechanisms to compensate poor for the global benefits their natural resources provide.



* *Workshop Report: U.K.'s DEFRA and FCO, October, 2001*

Role of DFIs in Microfinance

Case Study: Microenterprise Bank

- Established in October 2001
- Total capitalization: PHP 100 million (USD 2 M)
- Shareholders:
 - DOEN Foundation (Netherlands) 20%
 - Internationale Micro Investitionen (Germany) 20%
 - FMO (Netherlands) 10%
 - IFC/World Bank 10%
 - Planters Development Bank 40%
- Management: Backed by IPC of Germany
- Area of Operations: Southern Philippines
- Initial Loan Size: PHP 2,000 – 300,000 (USD 40 – 6,000)
- Target Sector: Microenterprises ‘neglected’ by the formal financial institutions



Role of DFIs in Rural Enterprise Dev't.

Case Study: Small Industries Development Bank of India's "Rural Industries Programme"

- ❖ **A comprehensive enterprise support service program for promoting viable rural enterprises leading to employment generation in rural areas**
- ❖ **After piloting the project in a few districts with an aggregate investment of about US\$ 10M, a total of 2,231 units were promoted and 6,700 jobs were generated by the project**
- ❖ **Key to its success lies in the involvement of highly-qualified "implementing agencies" which are being trained, evaluated and monitored by SIDBI and the network of technology institutions, banks, corporates and NGOs which provide professional services necessary for the setting up of tiny enterprises**





Role of DFIs in SME Dev't.

Case Study: Industrial Finance Corporation of Thailand's "Industry Cluster Program"

- ❖ Budgeted at US\$ 125 K, the project was aimed at encouraging public and private parties(PPP) in a locality to join in a linkage industrial development
- ❖ Thus, *"Lampang Ceramics - A Cluster Development Approach"* has been piloted due to the locality's readiness to get involved against industry environment threats, it being the largest production base of ceramics, and its linkage with regional related industry and employment
- ❖ The project is being developed as a prototype from which other industry clusters can be patterned. Other benefits include: (a) bank personnel getting applied knowledge on the formulation of industrial development policy (b) cluster data networking for dissemination of development guidelines and application to industrial development and (c) the financial institutions' risk reduction due to the clients' better financial return, market base expansion with new entrants, and development of new facilities, e.g. pooled raw materials, machinery procurement credits and network lending.

Role of DFIs in Microenterprise Lending

Case Study: National Bank of Uzbekistan's “Dehkan” Enterprises Program

- ❖ **“Dehkan” enterprises are those established through a legal entity which are essentially small-scale family businesses that engage in the production and sale of agriculture products, using personal labor resources of family members themselves, and working on farmlands given to the head of the family as a life-long inherited property.**
- ❖ **The microlending programs of the Bank consisted of loans under the Special Fund for Preferential Lending - microloans for the formation of initial share capital; microloans to family business; microlending in national and foreign currency and microlending on off-budget funds facilities.**





Concluding Remarks

1. There is no doubt that strong demand exists for microfinance services among the poor. More than 19 M of the poorest households around the world now have access. That is encouraging because the number has increased substantially since 1997 when the Microcredit Summit Campaign (MSC) was launched. But it is daunting that there are still 81 million poorest families to be reached before the target of 100 million is achieved. Development finance institutions (DFIs) have also joined the effort for microfinance.
2. Experiences in many countries show the importance of SMEs in the economy. Governments have put emphasis in supporting them through the enactment of laws, provision of enabling policies, and directing DFIs to lead the way in SME promotion and development.

Concluding Remarks (2)

3. International financial institutions (IFIs) may wish to consider working with DFIs in the region, through ADFIAP, on possible joint undertakings on microfinance and SME finance. National DFIs are well-positioned in these areas and have the 'built-in knowledge' of the 'local' business environment.

“If a free society cannot help the many who are poor, it cannot save the few who are rich.”- John F. Kennedy

