



Building Financial Systems for the Poor

The Role of Government in Microfinance

The 1st Dubai Microfinance Forum

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DUBAI, UAE

Global resource center committed to build more inclusive financial systems for the poor by:

- Setting standards & guidelines
- Acting as a knowledge center
- Providing advisory and training services
- Improving aid effectiveness

Overview

- **Governments and the three levels of an inclusive financial system (micro, meso and macro)**
- **For each of the three levels:**
 - ✓ How can governments support an inclusive financial sector?
 - ✓ What government interventions can harm the development of microfinance?
- **How can donors support an enabling role for governments?**

What parts of government are involved in MF?

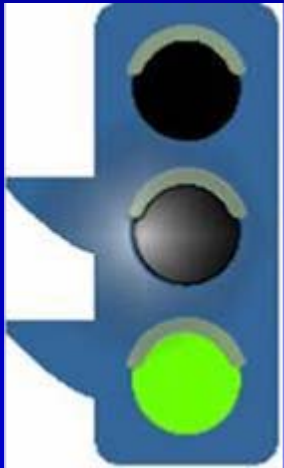


- **Parliament**
- **Prime Minister & Cabinet**
- **Ministry of Finance**
- **Central Bank**
- **Other ministries (agriculture, planning, social affairs)**
- **State banks, specialized gov't agencies (e.g., postal savings services, Social Funds, Development and Employment funds)**
- **Local authorities**

The three levels of the financial system

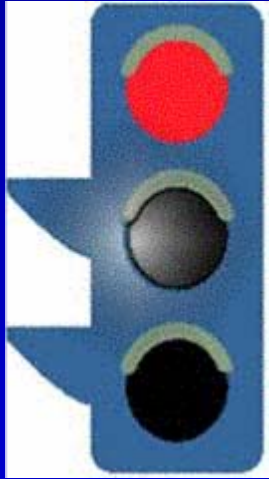


MICRO: Constructive government actions



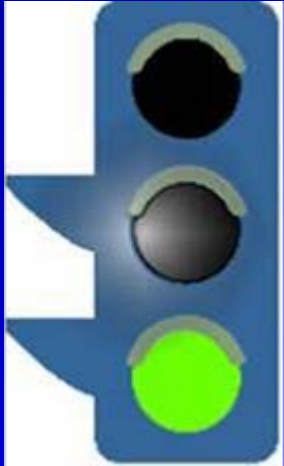
1. Promote private MFIs : best thing governments can do is get the macro level right!

MICRO: Non-constructive government actions



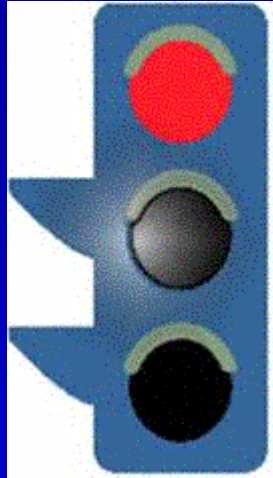
1. Provision of credit at the retail level
2. Political influence in non governmental institutions

MESO: Constructive government actions



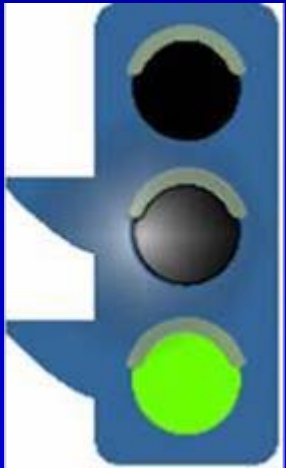
1. Promote private sector development
2. Enable and support the emergence of private credit bureaus

MESO: Non-constructive government actions



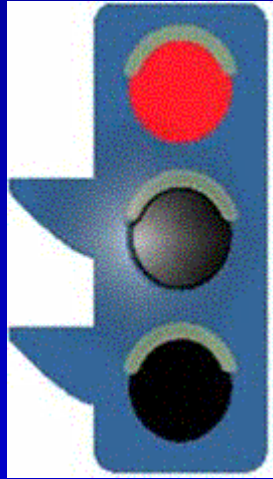
1. Political influence in public wholesale facilities
2. Crowding local bank loans or deposits out through subsidized apex funding

MACRO: Constructive government actions



1. Maintain macroeconomic stability
2. Involve the private sector in formulating poverty reduction strategies
3. Adjust regulatory frameworks to permit different types of financial institutions to offer services to poor people
4. Invest in supervisory capacity

MACRO: Non-constructive government actions



1. Interest rate ceilings
2. Premature and poorly targeted regulation
3. “Template” microfinance strategies/policies

Appropriate donor support (1)

1. Micro:

- Support building strong private retail institutions
- Use instruments flexibly and in performance based manner

2. Meso:

- Be cautious about funding apexes
- Avoid proliferation of wholesale funds with different government agencies

Appropriate donor support (2)

3. Macro:

- **Support interest rate liberalization**
- **Don't rush governments to regulate and to adopt template strategies**
- **When appropriate help governments adjust “reg & sup” framework**

Discussion – Your Turn

- ✓ What is government doing in your country (at any of the three levels) that helps microfinance to develop?
- ✓ What is government doing in your country (at any of the three levels) that hurts the development of microfinance?



Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung



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Building Financial Systems

for the Poor

Thank you!



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