Financing Development: Private Entrepreneurship

Commitment

“In anticipation of the UN-designated “international year of micro-credit” in 2005, G8 countries will work with the World Bank-based Consultative Group to Assist the Poor (CGAP) to launch a global market-based microfinance initiative.”

G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty

Background

The UN General Assembly designated 2005 as the International Year of Microcredit and has invited Governments, the United Nations system, concerned non-governmental organizations and others from civil society, the private sector, and the media to join in raising the profile and building the capacity of the microcredit and microfinance sectors. Through a concerted, collaborative and spirited effort by all stakeholders, microcredit can assume an even larger role in the global strategy for meeting the international pledge of the Millennium Development Goals (MDGs). In September 2005, the UN General Assembly will hold a special session to look at progress towards the United Nations Millennium Development Goals, which include halving by 2015 the proportion of people living on less than $1 a day. Giving the poor access to such basic financial tools as credit, savings, insurance and money transfers will help meet those goals. At the 2004 Sea Island Summit the G8 has answered the call of the UN and has called upon its members to explore microfinance initiatives. In particular, the G8 countries agreed to work with the World Bank-based Consultative Group to Assist the Poor (CGAP) to launch a global market-based microfinance initiative. Despite considerable efforts of these countries towards creating bilateral micro-credit initiatives and even some multi-lateral or regional-based ones, to date there has been no indication of progress on a global micro-finance initiative whether in concert with the World Bank or any other development agency. As such, all countries receive a score of –1 for this priority issue-area commitment.

Microfinance is an important area in which most, if not all, G8 countries are engaged. But an examination of only microfinance does not provide a proper assessment of G8 aid flows, contributions to debt relief, involvement with innovative financing proposals, private sector flows, remittances, and so on, in other words what is generally understood as required for financing development.

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929 G20 “Communique Meeting of Finance Ministers and Central Bank Governors.” 20–21 November, 2004. [www.g8.utoronto.ca/g20/g20–041121comm.html]
Assessment

<table>
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<tr>
<th>Country</th>
<th>Non-Compliance</th>
<th>Work in Progress</th>
<th>Full Compliance</th>
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<tbody>
<tr>
<td>Canada</td>
<td>–1</td>
<td>0</td>
<td>+1</td>
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<tr>
<td>France</td>
<td>–1</td>
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<td>Germany</td>
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<td>Italy</td>
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<td>Japan</td>
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<td>Russia</td>
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<td>Overall:</td>
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Individual Country Compliance Breakdown

1. Canada: –1

There is no evidence that there has been any further steps taken by Ottawa to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP). In his 16 April, 2005 statement following the meeting of the IMFC, the Honorable Ralph Goodale, Minister of Finance of Canada, focused on the importance of achieving the aims of the Millennium development goals and the Fund’s poverty reduction efforts through debt relief.\(^9\)\(^\text{30}\) No mention was made of micro-finance solutions in Mr. Goodale’s statement. The Honorable Ralph Goodale, Minister of Finance of Canada attended the International Monetary and Financial Committee meeting in Washington in October, 2004. There, the IMFC Governors reiterated the importance of microfinance in the development framework and a promise was put forward to revisit the matter at a later date.\(^9\)\(^\text{31}\) Similarly, at the G20 Finance Ministers’ Meeting in Berlin, Germany in November of 2004, Canada “welcomed recent work by the World Bank and the IMF on the need…for financing for development,”\(^9\)\(^\text{32}\) however; no distinct actions were recommended regarding a global, market-based microfinance initiative.

Despite this, Canada has been involved in a variety of microfinance development scheme outside of the 2004 Sea Island commitment.

\(^9\)\(^\text{30}\) Statement by The Honourable Ralph Goodale, Minister of Finance of Canada,’ 16 April, 2005. International and Monetary Fund Committee


In bilateral actions, however, Canada has continued to be a strong advocate of microfinance and microcredit initiatives. The Canadian International Development Agency (CIDA) currently funds several bilateral microcredit related initiatives in conjunction with NGOs. These initiatives include: funding the Aga Khan Foundation in the establishment of a microcredit bank in Tajikistan; supporting World Relief Canada providing microcredit to the poor in Vietnam, Cambodia, Bangladesh, Mozambique, and Rwanda; continuing support for Développement international Desjardins in implementing its community finance projects on four continents: Europe, Asia, the Americas, and Africa. In the interim period, Canada has pledged CAD$6.5 million over six years to OXFAM entreprenuership initiatives in Mozambique; and CAD$11 million ($2.5 million to a World Bank Trust fund) to ‘land management and administration’ in Cambodia, including access to finance for farmers.

None of these none of these constitute support for a global, market-based microfinance initiative and thus, cannot be considered evidence of compliance with the commitment.

2. France: –1

While France has been active in the issue of microfinance and microcredit, there is no evidence, as with the other G8 states, that there has been any further action by Paris to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP). However, France’s development agency, the Agence Française de Développement (AFD), is involved in promoting and supporting microfinance initiatives, including recent projects in Kenya and South Africa,

France has taken some action to encourage more cooperation in this domain. In June 2004, the AFD will attend an international conference hosted by Germany, to be attended by donors and representatives of microfinance institutions, in recognition of the UN-designated “International Year of Microcredit”, with the aim of increasing access to microfinance. In an address to members of the diplomatic corps on January 6, President Chirac expressed his hope that the conference and the international year would increase the number of beneficiaries tenfold, to 600 million people.

With respect to the funding of micro-finance initiatives, President Jacques Chirac pledged to create a loan facility of € 20 million to increase funding of micro-credit ventures at the Tenth
Francophone Summit in Burkina Faso on 26 November 2004 and stated that France would host an international conference in June 2005 to increase general mobilization around the issue. Despite these efforts, France has yet to act with the World Bank-based Consultative Group to Assist the Poor (CGAP) to launch a global market-based microfinance initiative.

3. Germany: –I

While Germany has been active in the issue of microfinance and microcredit, there is no evidence, as with the other G8 states, that there has been any further action by Germany to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

On October 2, 2004, in a statement to the International Monetary and Fiscal Committee (MFC) in Washington, Hans Eichel, Minister of Finance of the Federal Republic of Germany, welcomed “measures to strengthen financial systems” in developing and emerging economies. While no steps were taken towards the creation or implementation of a global market based microfinancing initiative, Mr. Eichel did reiterate that such enterprises are essential in the creation and management of financial market structures in developing countries, stating that “the best way to achieve debt sustainability is to stimulate economic growth, to attract investment, and to implement sound policies.” Mr. Eichel, along with the other Governors of the IMFC, promised to return to the issue of microfinancing in the future.

The G20 Finance Ministers’ Meeting in Berlin in November of 2004 saw the G20 Finance Ministers emphasize the role of microfinancing in development and Mr. Eichel, as chair of this meeting, approved of the World Bank’s and IMF’s stressed importance of such projects.

However, in June of 2005, Frankfurt will host a conference to catalyze new strategic partnerships between microfinance institutions and the private sector in order to grow microfinance and to contribute to the UN Millennium Development Goals. This conference is being held in concert with the World Bank’s Consultative Group to Assist the Poor.

4. Italy: –I

While Italy has engaged in the issues of microfinance and microcredit in international arenas and through its own bilateral programs, there is no evidence, as in the other G8 states, that there has

939 G-20, “Communiqué of the Meeting of Finance Ministers and Central Bank Governors.” 20–21 November, 2004
940 www.g8.utoronto.ca/g20/g20-041121comm.html
940 United Nations, Italy, “Statement by the Minister of Foreign Affairs of Italy Hon. Franco Frattini at the Summit of World Leaders for the Action Against Hunger and Poverty”, 20 September 2005,
941 www.italyun.org/statements/2004/Frattini%20poverty.htm
941 Ibid.
942 Ibid.
943 Ibid.
been any further advances by Rome to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

At the International Monetary and Financial Committee Meeting in Washington in April of 2005, Aldo Mantovani, Deputy Permanent Representative of Italy to the UN emphasized the role of microfinance in development. Declaring that “greater attention should be paid to the importance and implications of trade and foreign direct investment and, more in general, to the role of the private sector as the engine for economic growth.”

Directly addressing the topic of microcredit financing Mantovani stated: “Italy strongly supports the role of the private sector in Developing countries as the main tool of economic development and the main source of employment… In this perspective, micro, small and medium enterprises have been privileged as target groups. They require special attention since, while having a reduced capacity to capture attention from central and local authorities…In the same perspective of creating new opportunities and stimulating growth in Developing countries, in connection with the launch of the International Year for Microcredit, Italy has supported relevant initiatives to facilitate the channeling of remittances for development purposes and to promote microcredit and microfinance. The benefit provided by remittances to local growth and the development of microcredit and microfinance schemes can have fast multiplying effects if they are supported by rationalization of services and reduction of transfer costs both in countries of origin and in countries of destination.”

While Italy endorses the use of microfinancing and microcredit as a development tool through bilateral ventures, there have been no steps taken towards the creation of a global-market based microfinance initiative in conjunction with the World Bank or CGAP.

5. Japan: –1

Japan has not taken any steps to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP). Unlike its G8 partners, Japan has largely ignored the role of microcredit in development initiatives.

In the area of microfinance initiatives, Japan has reiterated the importance that such ventures play in the creation of sound financial market structures of developing countries. On October 2, 2004 at the meeting of the Board of Governors of the IMFC in Washington, H.E. Sadakazu Tanigaki, Minister of Finance of Japan suggested that the “IMF’s assistance to low-income

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countries should focus mainly on...institution building in the fiscal and monetary areas.” While no measures were presented regarding a global market-based microfinancing initiative, Mr. Tanigaki did stress the importance of collaboration with the World Bank and other multilateral institutions. In his statement to the IMFC, Mr. Tanigaki stated that “in order to maximize the efficiency and effectiveness of the IMF’s financial assistance, in particular to low-income countries, it is essential to further strengthen collaboration with other international organizations, including the World Bank.”

Similarly, at the G20 Finance Ministers’ Meeting in Berlin, Germany in November of 2004, Japan supported the IMF’s and World Bank’s latest efforts on “the need and mechanisms for financing for development.” While no concrete measures were presented regarding a global initiative, Japan is in support of such endeavors and emphasizes the importance of collaboration with the World Bank. Along with the other Governors of the IMFC, Japan does promise to return to the matter at a later date.

Japan has reiterated the importance of financial assistance to low income countries through concessional lending programs. In a statement to the IMFC in April of 2005, HH.E. Sadakazu Tanigaki Minister of Finance of Japan and Governor of the IMF for Japan stated that “from a global perspective, the international community needs to extend financial assistance to low-income countries with an appropriate mix of grant and loan financing.” No mention is made of microcredit or microfinancing initiatives.

6. Russia: –I

Russia has not taken any identifiable steps to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP). Unlike its G8 partners, Russia has reiterated its support for the role of microcredit in development initiatives, however in recent dialogue, Russia has focused on the role of macroeconomic development policies.

In a statement by Mr. Yuri Fedotov, Deputy Minister of Foreign Affairs of the Russian Federation on June 29th, 2004, the Russian Federation emphasized the importance of multilateral cooperation though the United Nations and other international organizations, in creating policies to support the successful progress of the Millennium Development Goals. Within the context of multilateral cooperation Mr. Fedotov suggested that Millennium Development Goals should be implemented within national goals and that the individual states, amongst many suggestions,

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947 Ibid.
948 Ibid.
949 Ibid.
951 Ibid.
954 ibid.
should focus on “promoting micro credit schemes.” Mr. Fedotov stated obstacles toward quality of aid by highlighting that the new aid projects “do not provide any guarantee that the poorest countries will be able to resolve the problem of debt burden,” and he further mentions: “A mere writing-off of the debt in the absence of a sound financial, economic and budgetary policy, without structural reforms, strengthening of the state institutions and improvement of the investment climate in the poorest countries, will not bring about the desired results.”

In a statement made on October 3rd, 2004 at the International Monetary Fund World Bank Group Joint Annual Discussion, Aleksei Kudrin, Minister of Finance of the Russian Federation accentuated the importance of macroeconomic stability for the progress of assisting poor countries but he also accentuated “the crucial role of economic growth underpinned by private sector and infrastructure development in attaining MDGs.” Support for microfinancial means to development has been highlighted by Mr. Kudrin when he stated: “These initial studies should be expanded to cover not only the areas pertaining to governance and business regulations but also other important components of investment climate, such as access to credit, financial sector development, competitiveness, and productivity factors…”

In an April 16th, 2005 statement made to the International Monetary and Financial Committee, Aleksei Kudrin reiterated the importance of macroeconomics in development by stating: “We believe that the fund has a key role to play in supporting low-income countries’ efforts to achieve macroeconomic stability and sustainable growth...” He also states: “We consider it useful to focus attention on the role of “broad” institutions. Indeed the level of development of such institutions as the judicial system or the law enforcement system is of great importance for successful implementation of macroeconomic policy and achievement of high rates of economic growth.”

7. United Kingdom: –1

Through the Department for International Development (DFID), the UK is engaging in ongoing support of micro-finance and development in the spirit of the Millennium Development goals.

953 ibid.
954 IMF, “Statement by the Hon. John W. Snow, Secretary of the Treasury of the United States of America, International Monetary and Financial Committee meeting,” 2 October, 2004. pg.2
955 G-20, “Communiqué of the Meeting of Finance Ministers and Central Bank Governors.” 20–21 November, 2004
958 ibid.
959 Statement by Mr. Aleksei Kudrin, IMF Governor for the Russian Federation and Minister of Finance of the Russian Federation, International Monetary and Financial Committee, 16 April 2005. pg. 5
960 Statement by Mr. Aleksei Kudrin, IMF Governor for the Russian Federation and Minister of Finance of the Russian Federation, International Monetary and Financial Committee, 16 April 2005. pg. 5

G8 Research Group: Final Compliance Report, July 1, 2005
However, London has not launched any new initiatives to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP) and have therefore not met the requirements for compliance.

In a press conference by Gordon Brown, U.K. Chancellor of the Exchequer and Chairman of the International Monetary Fund’s International Monetary and Financial Committee on 2005 April 16, the United Kingdom reiterated the importance of market-based initiatives as a means of achieving the Millennium Development goals. Stating that “developing countries must have ownership of country-owned, community-owned poverty reduction plans, sequencing their own development, investment and trade opportunities, and pursue transparent, corruption-free policies for stability,” the UK called on the IMF to build on this and to “work with other partners through the integrated framework to explore further ways of building capacity to trade as well as easing adjustment in low income countries.”

Furthermore, the DFID will participate in the German-led joint European initiative to catalyse new, strategic partnerships between microfinance institutions and to contribute to the UN Millennium Development Goals. The joint European initiative is set to meet in Frankfurt in June of 2005.

8. United States: –1

There is no evidence, as with the other G8 states, that there has been any further steps taken by Washington to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

The United States does however support numerous bilateral microfinance initiatives; the most recent of these have been in the Middle East. In a 2005 February 3 press release, John B. Taylor, Under Secretary for International Affairs of the United States Treasury stated that the “U.S. plans to contribute $125 million to microenterprise in the BMENA (Broader Middle East and North Africa) region over the next 5 years, to further the G8 goal of reaching 2 million entrepreneurs.” However, no distinct steps were taken in concert with CGAP towards the creation of a global market-based microfinance initiative.

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9. European Union: –1

While the European Union recognizes the importance of market-based financing initiatives, it recommends that the focus of the World Bank remain the increase of foreign aid and foreign aid budgets.

The European Union has not complied with its commitment to launch a global market-based microfinance initiative in co-operation with the World Bank-based Consultative Group to Assist the Poor (CGAP). At the 16 April 2005 meeting of the International Monetary Fund and World Bank Development Committee in Washington, Prime Minister Jean-Claude Juncker of the EU Council of Economic and Finance Ministers stated that “EC development policy remains committed to poverty eradication in developing countries within the framework of the Millennium Development Goals (MDGs), notably by promoting sustainable development and integration into the global economy. Innovative financing mechanisms to finance the MDGs deserve careful attention, but should not distract from the primary task of increasing aid budgets directly.” As such, the EU recommends that the members of the World Bank continue to focus on the increasing of foreign aid budgets and has ignored the G8s call for a global-market based microfinance initiative.

The European Union has partially complied with its commitment. On October 2, 2004 at the meeting of International Monetary Fund and World Bank Development Committee in Washington, Development and Humanitarian Aid Commissioner Poul Nielson recognised the Millennium Development Goals (MDGs) as a common mandate and challenge, requiring additional sources of financial aid and innovative ways of delivering it. Commissioner Nielson also noted the importance of developing both infrastructure and the private sector in the developing world, with the aim of reducing poverty and achieving the MDGs.

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