

## **Financing Development: Entrepreneurship, Official Development Assistance and the International Finance Facility**

### **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).<sup>761</sup> 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.<sup>762</sup> 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.<sup>763</sup>

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<sup>761</sup> United Nations, “Daily Press Briefing by the Office of the Spokesman for the Secretary-General and Spokesman for the General Assembly President”, 16 November, 2004.

[[www.un.org/News/briefings/docs/2004/db041116.doc.htm](http://www.un.org/News/briefings/docs/2004/db041116.doc.htm)]

<sup>761</sup> International Year of Microcredit, “Why a Year?”

[[www.yearofmicrocredit.org/pages/whyayear/whyayear\\_learnaboutyear.asp](http://www.yearofmicrocredit.org/pages/whyayear/whyayear_learnaboutyear.asp)]

<sup>761</sup> Ibid.

<sup>762</sup> Ibid.

<sup>763</sup> G20 “Communiqué Meeting of Finance Ministers and Central Bank Governors.” 20–21 November, 2004.

[[www.g8.utoronto.ca/g20/g20-041121comm.html](http://www.g8.utoronto.ca/g20/g20-041121comm.html)]

## Assessment

Score	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Canada	-1		
France	-1		
Germany	-1		
Italy	-1		
Japan	-1		
Russia	-1		
United Kingdom	-1		
United States	-1		
European Union	-1		
Overall: -0.33			

## Individual Country Compliance Breakdown

### 1. Canada: -1

Canada has registered minimal compliance with regards to its Sea Island commitments concerning financing of development. 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 promise was put forward to revisit the matter at a later date.<sup>764</sup> 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,"<sup>765</sup> however; no distinct actions were recommended regarding a microfinance initiative.

In bilateral actions, however, Canada has been a strong advocate of microfinance and microcredit initiatives. Canada has fully endorsed the UN's call to make 2005 the International Year of Micro-Credit and has initiated several program in accordance with it. For example, the Canadian International Development Agency (CIDA) funds programs by the Aga Khan Foundation to set up the first microcredit bank in Tajikistan. CIDA also supports World Relief Canada providing microcredit to the poor in Vietnam, Cambodia, Bangladesh, Mozambique, and Rwanda. Lastly CIDA has long supported Développement international Desjardins in implementing its community finance projects on four continents: Europe, Asia, the Americas,

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<sup>764</sup> World Bank, "Statement by H. E. Nicolas Sarkozy, Minister of State, Minister of Economy, Finance and Industry, France", 2 October 2004.

[siteresources.worldbank.org/DEVCOMMINT/Documentation/20264370/DCS2004-0046\(E\) France.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20264370/DCS2004-0046(E) France.pdf)

<sup>765</sup> Embassy of France in Australia, "Speech by M. Jacques Chirac, President of the Republic, at the opening ceremony of the Tenth Francophone Summit", 26 November 2004. [www.ambafrance-au.org/article.php3?id\\_article=768](http://www.ambafrance-au.org/article.php3?id_article=768)

<sup>765</sup> IMF, "Statement by Mr. Hans Eichel, Minister of Finance of the Federal Republic of Germany, to the International Monetary and Financial Committee", 2 October 2004. [imf.org/External/AM/2004/imfc/statem/eng/deue.pdf](http://imf.org/External/AM/2004/imfc/statem/eng/deue.pdf)

and Africa.<sup>766</sup> Nonetheless, 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 push by Paris to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

France supports the establishment of an International Financial Facility as a potential means of increasing sustained development aid and meeting the Millennium Development Goals, as well as the investigation of global taxation initiatives to further increase such aid, as stated by Nicolas Sarkozy in his former capacity of Minister of Economy, Finance and Industry at the Meeting of the World Bank and the International Monetary Fund in Washington on October 2, 2004.<sup>767</sup>

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.<sup>768</sup> 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: –1**

While Germany continues to raise the issue of microfinance and microcredit in multilateral meetings, there is no evidence, as with the other G8 states, that there has been any push by Berlin 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.<sup>769</sup> While no steps were taken towards the creation or implementation of a global market based

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<sup>766</sup> “2005: International Year of Microcredit!” Canadian International Development Agency (Ottawa) 24 January 2005. Date of Access: 24 January 2005 [www.acdi-cida.gc.ca/cida\_ind.nsf/AllDocIds/B12BCB7C17B8C69A852568EB00694B0B?OpenDocument#3].

<sup>767</sup> Ibid.

<sup>768</sup> IMF, “Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund.” Press Release No. 04/210. 2 October, 2004  
www.imf.org/external/np/sec/pr/2004/pr04210.htm

<sup>768</sup> G20, “Communiqué of the Meeting of Finance Ministers and Central Bank Governors.” 20–21 November, 2004  
www.g8.utoronto.ca/g20/g20-041121comm.html

<sup>769</sup> 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,  
www.italyun.org/statements/2004/Frattini%20poverty.htm

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.”<sup>770</sup> Mr. Eichel, along with the other Governors of the IMFC, promised to return to the issue of microfinancing in the future.<sup>771</sup>

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.<sup>772</sup>

#### **4. Italy: –1**

While Italy has been engaged in the issue of microfinance and microcredit in international arenas and through its own bilateral programs, there is no evidence, as with the other G8 states, that there has been any push by Rome to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

On the topic of microfinance initiatives during the “UN International Year of Micro-credit,” Mr. Franco Frattini, former Italian Minister of Foreign Affairs, in a statement at the Summit of World leaders for the Action Against Hunger and Poverty on September 20<sup>th</sup>, 2004, stated that, “Italy is working on an action plan to strengthen the capabilities and the reach of its micro-credit institutions, which could be an important tool to channel migrants’ remittance towards productive investment.”<sup>773</sup> Mr. Frattini accentuated the importance of multilateral cooperation in achieving desired goals and emphasized “support to the renewed efforts at a multilateral level to identify new financial mechanisms which may complement official development assistance.”<sup>774</sup> Mr. Frattini stated: “Italy can provide valuable expertise in this field, and has already achieved some significant results.”<sup>775</sup> Amongst the results achieved are the creation of the International Network for Small and Medium Sized Enterprises (INSME), which is supported by the Italian government with the aim “to encourage North-South and South-South cooperation and dialogue.”<sup>776</sup>

Italy echoed its support for microfinance initiatives at a Joint Annual Discussion of an International Monetary Fund World Bank Group meeting on October 3rd, 2004, where Hon. Domenico Siniscalco, Governor of the Fund for Italy stated: “We welcome the technical work of the Fund and the Bank on some options for financing the MDG agenda, such as the IFF and the global taxation.”<sup>777</sup> Mr. Sindiscalco proceeded to state that Italy was not in a situation “to adhere

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<sup>770</sup> Ibid.

<sup>771</sup> Ibid.

<sup>772</sup> Ibid.

<sup>773</sup> IMF, “Statement by the Hon. Domenico Siniscalco, Governor of the Fund for Italy, at the Joint Annual Discussion”, 3 October 2004. [www.imf.org/external/am/2004/speeches/pr36e.pdf](http://www.imf.org/external/am/2004/speeches/pr36e.pdf)

<sup>774</sup> Ibid.

<sup>775</sup> Ibid.

<sup>776</sup> IMF, “Statement by H.E. Sadakazu Tanigaki, Minister of Finance of Japan and Governor of the IMF for Japan”, 2 October 2004. [www.imf.org/external/am/2004/imfc/statem/eng/jpne.pdf](http://www.imf.org/external/am/2004/imfc/statem/eng/jpne.pdf)

<sup>776</sup> Ibid.

<sup>777</sup> Ibid.

to the Facility because of its legislative, accounting and budgetary rules and procedures,<sup>778</sup> but they can “support the setting up of the IFF on a voluntary basis.”<sup>779</sup>

## 5. Japan: –1

While Japan has made vocal support for microfinance and microcredit in international meetings and in its development policy, there is no evidence, as with the other G8 states, that there has been any push by Tokyo to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

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.<sup>780</sup> 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 countries should focus mainly on...institution building in the fiscal and monetary areas.”<sup>781</sup> 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.”<sup>782</sup>

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.”<sup>783</sup> 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.<sup>784</sup>

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<sup>778</sup> G20, “Communiqué of the Meeting of Finance Ministers and Central Bank Governors.” 20–21 November, 2004 [www.g8.utoronto.ca/g20/g20-041121comm.html](http://www.g8.utoronto.ca/g20/g20-041121comm.html)

<sup>779</sup> IMF, “Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund.” Press Release No. 04/210. 2 October, 2004 [www.imf.org/external/np/sec/pr/2004/pr04210.htm](http://www.imf.org/external/np/sec/pr/2004/pr04210.htm)

<sup>780</sup> United Nations, “Statement by H.E.Mr. Yuri V. Fedotov, Deputy Minister of Foreign Affairs of the Russian Federation, at the high-level segment of the 2004 ECOSOC Substantive Session on the theme: ‘Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001- 2010’”, 5 January 2005. [www.un.int/russia/statemnt/ecosoc/session/2004/20040629.htm](http://www.un.int/russia/statemnt/ecosoc/session/2004/20040629.htm)

<sup>781</sup> Ibid.

<sup>782</sup> Ibid.

<sup>783</sup> Ibid.

<sup>784</sup> IMF, “Statement by the Hon. Aleksei Judrin, Governor of the Fund and the Bank for the Russian Federation, at the Joint Annual Discussion”, 3 October 2004. [www.imf.org/external/am/2004/speeches/pr57e.pdf](http://www.imf.org/external/am/2004/speeches/pr57e.pdf)

<sup>784</sup> Ibid.

## 6. Russia: –1

While Russia has underscored the importance of microfinance and microcredit as means to improve development through private-sector led growth, there is no evidence, as with the other G8 states, that there has been any push by Moscow to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

In the current “UN International Year of Micro-credit,” Russia has reiterated the support for micro-credit initiatives toward debt aid; however, Russia has also accentuated the strong importance of macroeconomic means to assist the less developed countries.

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 through the United Nations and other international organizations, in creating policies to support the successful progress of the Millennium Development Goals.<sup>785</sup> 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, should focus on “promoting micro credit schemes.”<sup>786</sup> 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,”<sup>787</sup> 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.”<sup>788</sup>

In a statement made on October 3rd, 2004 at the International Monetary Fund World Bank Group Joint Annual Discussion, Alexei 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.”<sup>789</sup> 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

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<sup>785</sup> IMF, “Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund”, 2 October 2004. [www.imf.org/external/np/sec/pr/2004/pr04210.htm](http://www.imf.org/external/np/sec/pr/2004/pr04210.htm)

<sup>785</sup> *ibid.*

<sup>786</sup> *ibid.*

<sup>787</sup> 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  
[www.imf.org/external/am/2004/imfc/index.asp](http://www.imf.org/external/am/2004/imfc/index.asp)

<sup>788</sup> G20, “Communiqué of the Meeting of Finance Ministers and Central Bank Governors.” 20–21 November, 2004  
[www.g8.utoronto.ca/g20/g20-041121comm.html](http://www.g8.utoronto.ca/g20/g20-041121comm.html)

<sup>789</sup> United States Department of the Treasury, Honorable John W. Snow, “Conclusion of the Meeting of G20 Finance Ministers and Central Bank Governors”, 21 November, 2004. [www.treas.gov/press/releases/js2113.htm](http://www.treas.gov/press/releases/js2113.htm)

<sup>789</sup> World Bank, “Statement by Mr. Poul Nielson, Commissioner for Development and Humanitarian Aid, European Commission”, 2 October 2004.  
[siteresources.worldbank.org/DEVCOMMINT/Documentation/20264369/DCS2004-0045-EC.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20264369/DCS2004-0045-EC.pdf)

also other important components of investment climate, such as access to credit, financial sector development, competitiveness, and productivity factors...<sup>790</sup>

While Russia has reiterated the importance of microfinance initiatives, no concrete steps were taken towards the launching of a global market-based microfinance initiative.

## **7. United Kingdom: –1**

While the UK has substantially increased its profile in the field of international development and small-loans assistance through its International Finance Facility proposal, there is no evidence, as with the other G8 states, that there has been any push by London to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

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 October 2, 2004, the importance of microfinance initiatives was reiterated and a commitment towards further exploration of the issue was made. However no specific measures were introduced towards the instatement of a global market-based microfinance initiative. At the conference, Brown stated that the IMFC “looks forward to further work on the financing and modalities of the IMF's engagement with low-income members, including the financing of the PRGF after 2006 to maintain adequate capacity to meet future needs...”

## **8. United States: –1**

The United States continues to express a verbal commitment to assisting the development of micro-financing solutions for low-income countries, however, there is no evidence, as with the other G8 states, that there has been any push by Washington to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

United States' Secretary of the Treasury, John Snow was party to the authorship of a 2 October 2004 communiqué by the International Monetary and Financial Committee which ‘encourages further analysis by the World Bank and IMF of ... financing modalities and mechanisms to augment aid flows, such as the International Finance Facility, ... and looks forward to a further report.’

In his statement following the International Monetary and Financial Committee meeting, Mr. Snow, called for a review of the IMF and World Bank to ensure their continued ability to ‘respond robustly to a country’s financing needs and at the same time providing increased predictability to the borrowers and markets.’

The United States further assents to financing development through its participation in a communiqué released by a meeting of the Finance Ministers and Central Bank Governors of the

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<sup>790</sup> Ibid.

G20 Countries, which ‘welcomed recent work by the World Bank and the IMF on the need and mechanisms for financing for development.’

In a 21 November 2004 statement, Mr. Snow affirmed the commitments made in the G20 communiqué, stating the importance of ‘strong domestic financial sectors’, which promote ‘financial intermediation and competition, implementing international standards and codes, and effective financial sector supervision and regulation.’

## **9. European Union: –1**

While the EU has in recent undertaken to increase its profile in development assistance, in particular in relation to the Millennium Development Goals, there is no evidence, as with the other G8 states, that there has been any push by Brussels to create a global market-based microfinance initiative in concert with the World Bank-based Consultative Group to Assist the Poor (CGAP).

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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