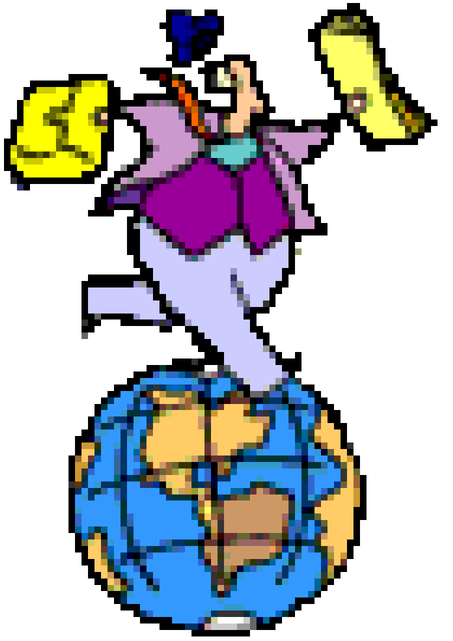
WRAP UP:
WHERE HAVE WE BEEN AND WHERE DO WE GO FROM HERE?



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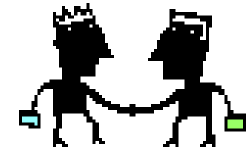
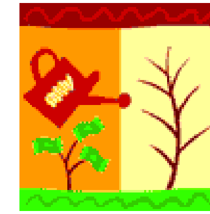
What Do We Agree On?



There is a growing consensus that:

- There is a positive relationship between financial sector development, economic growth, and poverty alleviation
- MSME finance is a critical component of overall financial sector development
- Access to financial services for low-income households and family businesses is essential to reduce vulnerabilities and increase opportunities

Financial Sector Development, Economic Growth, & Poverty Alleviation



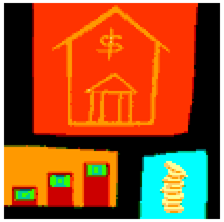
- Many cross-country and time series studies
- Most show a positive relationship between financial development and economic growth, and between economic growth and poverty alleviation
- No consensus on the details of this positive association:
  - Under what conditions and in what sequence this might occur
  - Whether financial development is a function or a determinant of economic growth
  - Direction of causality and endogeneity of variables
- Consensus cannot have sustained economic growth unsupported by financial development and vice versa

MSME Finance and Financial Sector Development

- Link between MSME finance as a contributor to financial sector development is important because of the next links in the chain:

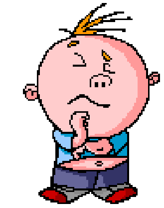
  MSME finance → financial sector development → economic growth → poverty alleviation
- If MSME finance is to have a significant impact on poverty alleviation, it must be an integral component of a nation's broader financial development strategy (demarginalized)
- Financial development can perpetuate or worsen inequity through unequal access to financial services
- Development of inclusive financial sectors strengthens the link to reduction of poverty (capital accumulation reduces the vulnerability of low-income households and there is usually a higher marginal return to capital for family businesses)
- MSME institutions are often a bridge to conventional banking, as they facilitate the process of economic formalization

Access to Financial Services for Low-Income Households & Family Businesses



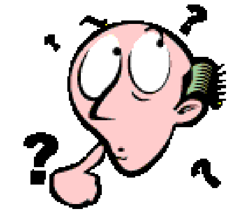
- Savings: consumption smoothing, risk mitigation, asset accumulation
- Credit: cost reduction + productivity gains → revenue growth from core business; firm expansion and diversification → even more revenue
- Payments: lowered costs and increased security of domestic and cross-border transactions; wider distribution of risk and expanded social safety net
- Ancillary Services: reduced vulnerabilities and expanded opportunities

What Are We Currently Re-Evaluating?



- *Macro*: Metrics for assessing financial inclusion
- *Savings*: Access vs. self-imposed restrictions; regulatory implications of virtual money creation
- *Credit*: Enterprise finance vs. consumer loans; lender abuses and need for borrower protection
- *Payments*: Relative importance of domestic transfers vs. international remittances; role of non-banks in linking to savings, credit, and insurance
- *Ancillary Services*: Loan vs. life insurance; traditional (indemnity) vs. index (derivative) insurance; role of financial literacy, better HH financial management

Further Questions for Your Consideration



- What is the most effective intervention point for increasing financial inclusion? How can it be linked to complementary financial services?
  - Savings?
  - Credit?
  - Payments?
  - Financial Literacy?
- What are the implications of a focus on domestic payments as the “connective tissue” for the business model of banks (and SWIFT)?