



**2008 Clinton Global Initiative Annual Meeting
Poverty Alleviation Working Group:
Strengthening Livelihoods Through Financial Services for the
Poor
September 24, 2008**

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JANE WALES: Thanks so much for coming back and grabbing your seats. As the folks meet, our elected leaders are meeting in Washington to figure out how to rescue and repair and sensibly regulate our financial services industry, it's easy to forget that much of the world does not have access to financial services at all. And that most in the developing world have never set foot in a bank or had the opportunity to build and protect and save their assets.

We have a remarkable line up of speakers to address the whole question of how to provide the most sensible financial services for the poor, so that they have those advantages.

We're going to follow the usual format of a half-hour panel, half-hour discussion amongst you. Then the panel comes back and reacts to your questions and your themes, and then we will end with some commitments.

First, I want to be able to introduce somebody who I think absolutely the world of, and that's Sylvia Matthews Burwell. Sylvia is a former colleague. Sylvia has worked in the private sector at McKinsey. She's worked in the public sector in the Clinton administration; both in the White House and then the Department of Treasury. And she now works in the philanthropic sector, where she is President of the Global Development Program at the Bill and Melinda Gates Foundation,

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which has made a very substantial commitment to providing financial services for the poor. So I'm turning it to Sylvia.

SYLVIA MATTHEWS BURWELL: Jane thank you, and thanks to everyone for joining our session this afternoon. As you can see, we have a terrific panel, and so I'll keep my opening remarks very brief. We're here to discuss today strengthening livelihoods through financial services for the poor, and this is a priority issue for our Global Development Program at the Bill and Melinda Gates Foundation.

The idea is right now, 90-percent of those who live at 2 dollars a day and under, don't have any access to quality financial services. When you think that's 2.3 billion people; 90-percent of that, those numbers are astounding when you think that those folks don't have an ability to access savings, credit, insurance and ability to move remittances if they would like to do that.

If you think about what your life would be like as you tried to manage risk and opportunity without those tools. It's something that one thinks long and hard about.

The condition exists that banks have a difficult time reaching folks in rural areas, where many of these people are located, though we have two folks on our panel today representing organizations that are reaching those people.

Additionally, traditional banking models have cost

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difficulties in terms of providing the services that the poor need; both in terms of size, and things that they can afford.

Tremendous progress has been made in micro-credit, and we're going to hear about that. One of the anchors of that progress over many, many years is on our panel today, and that progress includes over 130 million people around the world with access to credit. And that access has shown that not only the poor have money and can bank and save, and borrow and lend, but also, that the poor are actually very good.

Some of the premiere organizations—microfinance organizations—have a 95-percent repayment rate, and for those in the banking industry and around, would understand that's a terrific salute to the poor, so there's great possibilities.

So today, on the panel, what I'm hoping we're going to focus on, and then you all in your sessions at your table will focus on, will be what's the need? Why are financial services needed by the poor? What types of needs are there? What are solutions? What are the things that are actually working? And then the big question, how to scale. How do you really get scale in terms of these types of solutions?

Now, I'll introduce the panelists as we go through with our limited time, and we're going to start this afternoon with Secretary Rubin. I think most folks in the room probably know Bob Rubin. Bob Rubin spent many years at Goldman Sachs, before

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he then went on to become the first Director of the National Economic Council for President Clinton. And from there went to the US Treasury, where he was Treasury Secretary. Then, since that time, has been with Citigroup in a number of positions including Chair last November, and is now Senior Counselor.

Bob also has focused on domestic urban issues as well, and Citi where he works now has done a lot in terms of innovative ideas and services and providing for the poor; both domestically here in the US they're doing some great things, as well as internationally.

And so with that, Bob, when we think about scaling financial services for the poor, one very important contextual point is the health of the financial system, and something that I know most people in this room would probably like to hear you speak about, so I am going to try and help with that, because actually, Bob has to leave, and he isn't leaving because when he isn't here on the stage, I don't want anyone to go out and move their 401K or something for fear. It's because he's actually meeting with the Vice Premiere of China after this.

Bob, could you spend a few minutes on the markets and the economy, where you think things are, and where they are going. Because it's a very important context, I think to the development of financial services access around the world.

ROBERT RUBIN: Those are two questions Sylvia, and the

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answer is the same to both, I don't know. Sylvia and I worked together for a long time. Sylvia was Chief of Staff at the National Economic Council when I went there, and then she was Chief of Staff at the Treasury, so our titles—I was Secretary to the Treasury was the title and Sylvia was Chief of Staff—the reality was the reverse, so I'm accustomed to working for Sylvia and doing as she tells me to do.

Let me try to do this very brief if I may. We are in a really an extraordinary situation, it is by far the most extraordinary situation that the US capital markets have faced since the 1930s, though it's not the 1930s. They were multiples worse than this, but this is the most extraordinary situation.

If you look back over the last four or five years, I think there was an increasing awareness amongst a lot of people that risk was being underweighted, assets were being over priced and that was widely remarked upon, and I think most people who saw that, felt that sooner or later there would be a cyclical reaction to that on the downside, because that's how markets tend to work.

But what happened instead, was this really extraordinary phenomenon, a confluence of not only the cyclical over evaluation—which happens periodically—but also, a host of other powerful factors, which when they came altogether,

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created a perfect storm. Alan Greenspan has referred to it as a one-in-a-hundred kind of phenomenon. I don't know if that is right or not, but I think what is right, is it is a perfect storm - it is the most serious set of circumstances we've faced since the 1930s.

Looking forward, I break it into two pieces. Number one, we've got the immediate crisis, the crisis of confidence that really took hold just over the last, say two weeks, and I think Hank Paulson and Ben Bernanke were absolutely right in saying that the first priority is to stem that crisis of confidence, and some of you have lived through crisis of confidence, certainly you did in Mexico in 1995. We worked out with the Mexican government in those days, and we lived through it as well in the Asian Financial Crisis in 1997 and 1998.

The question is: how do you stem the crisis of confidence? There are proposals, as you know, before Congress being debated right now—700 billion dollars—we could have enormous debates if we want to about what the content of that program should be, whether it's optimal or non-optimal, I don't think that's really the issue at the moment. I think the issue at the moment is to put something in place that's responsive to this set of issues, and that we think can make a really significant contribution to dealing with the crisis of confidence dimension of what we're facing, and I think in

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Paulson's proposal or whatever—or some reasonable variant of that that will be enacted by Congress. I think you have that. There are no guarantees in life, but I do think that what's being proposed could help significantly, and I think if it doesn't pass, then I think you greatly exacerbate the chances of this crisis of confidence becoming far worse.

Once you get past the crisis of confidence, then you're back where we've been anyway for the last year, which is a set of short-term challenges to our credit markets, and I think there are a whole host of questions that relate to that and to working our way through it, and I think we actually were in some fair measure, in the process of working our way through it before the problems—really I said two weeks, but it's really been longer than that because it began with the Bear Stearns situation and has increased since then and of course, increased enormously over the last couple of weeks.

But I think we need to work our way through that Sylvia, and my own instinct was before this crisis of confidence began, but never-the-less we had very short-term issues you know over the last year—that the greatest probability was, and probably by quite some measure, that this was going to continue well into next year, perhaps even into the early part of the year after, who knows. Although I did think then and still think that once we get past the crisis,

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conditions are going to remain difficult through that period. Hopefully, as you work your way through that period at some point, conditions will begin to improve, and then gradually, you'll have a gelling of the system.

But there are very serious fundamentals to this that are going to take time and sound decisions, both in the public sector and in the private sector to address. Longer term, whoever gets elected next, the presidency in this election, it seems to me, is going to have to face both—and I'll wind up on this point Sylvia—is going to have to face not only everything I've just described, and act and be deeply engaged and act with deep thoughtfulness. But they're also going to have to engage with the long-term issues that our economy faces. And I think the United States economy for the longer term, has enormous strength with flexibility, that whole range of points. But, we also face an enormously—we're used to consequential challenges, our fiscal imbalances, our many other imbalances, education, health care, equipping the poor to move into the economic main stream, help for those who are dislocated by change and so much else.

So, whoever the next president is going to be, it seems to me he's going to have to work on both tracks at the same time; address everything in the shorter term that I've just described, at the same time, begin putting in place effective

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responses to these longer term challenges. If we do, then I think over the long term we can do very well even in a rapidly transforming global economy.

SYLVIA MATTHEWS BURWELL: Thank you very much for that context Bob.

Why don't we now turn to Fazle Abed, who many of you know, is the Founder and Chairman of BRAC, which is one of the worlds largest and most successful development organizations in the world, and I think at this point, it's 110 million, maybe more by now, clients and people served in nine different countries. It is one of the most successful models and approaches to development that has an underpinning in microcredit as part of its holistic approach to development at the individual level.

And with that, as we were talking about the questions of need, solutions and scale, you've addressed them all in the success of BRAC. And BRAC has been an incredible organization both because you've had measureable impact for individuals as well as tremendous growth of your organization. And often, people can do things in small ways, but not at the scale that you have been able to do it.

Could you talk a little bit about what are the elements of success in terms of your ability to impact millions of lives in the way your model does, as well as your ability to have an

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organization that scales?

FAZLE ABED: Well, microfinance, what we do, when we started, we started small. We try and make it effective. Then you try and make it efficient. And then you expand. So that has been the model that BRAC followed. So wherever we went we started small, and then we tried to become efficient.

The basic model is that in each village, you have a group of people, maybe 30, 40, 50 borrowers or group members, so you have a village organization. They start saving—some credit savings program—and then they among themselves decide who is going to receive what credit and what each of them is going to do with the money and so on.

So our field workers, our loan officers work with these groups in the villages that they operate. So one field officer will cover about 15 groups, three groups in a day they will cover, so approximately 500 group members to one loan officer will cover the world borrowers.

Savings and credit works well in the sense that you get poor people to save small sums of money. And so far we have been able to get about 200 million dollars out of poor people in their small savings. And this also provides the irregularity that they bring in somewhat of a discipline to their approach to borrowing money. So they save regularly.

And then also, what we give them as a loan, is repaid

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in weekly installments, so they know exactly how much that week they are going to repay. So, it's all like clockwork. It happens, so you give somebody 100 dollars as a loan, and you recover it in 45 equal installments, with your interest of 12.5 or 15-percent, whatever you charge.

So that seems to work quite well, and we have got 7.4 million borrowers in Bangladesh. And we have been expanding in Africa and Afghanistan, Pakistan, Sri Lanka and so on. So, there seems to be not much of a problem in getting poor people to organize themselves to access the resources.

But what the problem is, in Bangladesh for example, we can, say, take savings, but most enterprise microfinance organizations cannot take savings in most societies. In India, for example, you have to be a bank in order to mobilize savings. In Tanzania and Uganda, you have to be a bank in order to be a deposit taking institution, requires different kinds of a license. But as an MFI, you cannot take savings. If you can't take savings, that means that you are having to borrow money in order to be able to provide loans. So, that sort of certainly stymies the whole program.

In Bangladesh, we have been able to do it very well, simply because we have been able to collect savings and also borrow money from banks so that we could finance a fairly large program.

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But as I said, there are something like 90-percent of the people rural Africa, do not have any existing credit, or savings. And I think what is needed is a structure, a routine-ized bank microfinance structure, where you can go to villages, form groups, set up offices, have loan officers trained properly.

We have been able to do it in Africa. We went there about two years ago in Tanzania and Uganda. We've been very quickly able to recruit young people with high school education as loan officers, train them for about two weeks, and then deploy them with their supervisors and teach them as they are working. And we have been able to expand our program very quickly in Tanzania and Uganda, and also, we have now gone into Southern Sudan.

I really don't see that there is any great problem in knowing exactly how to go about doing microfinance. Microfinance is one area, but it's not the end of all the solution to the problems of poverty. Back to finances, you start with that, but then there is a question of how much do earn? Do have a livelihood out of that? Or are they earning only a substantial income to not be able to meet the needs of the family?

So, you have to look at many other things apart from microfinance. The financial services is one area, so you start

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with that, but then I suppose you have to go to look at the productivity of the activities that they're doing, so low productivity, low income and so on. So you look at how to improve the livelihood possibilities.

For example, we have gone into livestock rearing, and then we find that many women in the villages can't market their milk because there's no market for milk in the village. So, somebody has to collect this, take them to town and then pasteurize it and then sell them in the towns.

So you have to also look at how to improve marketing of the products of the microfinance borrowers, whatever enterprise that they have invested money in. You have to also look at, I mean, we find that in Bangladesh we have about 500,000 of our borrowers who are doing vegetable gardening. But there's no good seeds. So we have gone into seed marketing business, seed multiplication and marketing, so that we could provide good seeds to women so that they could improve their income through vegetable gardening. So like that.

Financial services is one, and this has a problem in the sense that we have not been able to scale up programs to cover all the poor in the areas that we work in. And secondly, also, once we have succeeded in reaching the poor, we have not been able to also provide them a living income and livelihood.

SYLVIA MATTHEWS BURWELL: That's terrific, thank you so

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much, because I think that highlights a number of issues, including the regulatory challenge around savings. I think that was one thing that you highlighted that is a very real challenge in terms of expansion. Microcredit, you don't have to be a part of the banking system in any number of countries, this was highlighted. The savings is a big deal if you're not a commercial bank and the regulations that follow from that.

I want to remind everyone to please give your questions to your table person with the computer. I'm not sure of the official table person title, but those people will raise their hands at your tables, that's how we'll get the questions for the panel after your session. So I just want to remind you all to do that.

As we're moving from this question of regulation and savings, our next panelist, James Mwangi, is head of Equity Bank. Equity Bank went from basically an underwater building and loan—I think might be fair to say some of the problems being some that Bob just talked about—took this institution, and built it to be Africa's largest, microfinance institution, and now it is a fully regulated commercial bank.

We were discussing before we came out here, I was about to tell you that in Kenya, they have 42-percent of all accounts, they now have 52-percent of all accounts in the country of Kenya, bank accounts in Kenya. Equity Bank is an

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organization that is focused also on serving the poor in the country of Kenya. And so they are able, and making progress in scale and service of the poor.

James, I was hoping that you could spend a little time on a number of things one of those being, you've attended CGI before. And you were here last year, and you might want to say a little bit about what being here—I think that's an important part of what CGI is about—if you could say a bit about that and how that impacted your work.

The other thing is innovation. You are terrific in this space, and a quick mover and a first mover in terms of seeking to serve the poor as well as, using different types of approaches to solve that cost problem of serving the poor.
James.

JAMES MWANGI: Thank you very much. I think commenting on the Clinton Global Initiative, first I was really inspired by the commitments that people are taking. But I was not courageous enough to put my commitment on record. But I opted to go and try what others had tried. And amazingly last year—we were here last year in September—we had 1.4 million depositors. And today we have 2.8 million depositors. We got the courage to go and do.

For me, it's really if all of us would be inspired like we were told in the morning, I think we could make a

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significant difference in the country. We have seen equity contribute the number, or the percentage of savers in the country from 9-percent we are now above 18-percent of the population. And simply, it's taking a bolder step and doing what others have been able to do.

Now, turning on innovations, Equity has been able to build the numbers. Today, like any other day most likely, out of every 10 accounts that were opened in Kenya, seven were opened in Equity. Then there are 45 banks that share the three that remained. Simply, how we addressed that was to see what drives the lives of the poor people and try to remodel the bank to be able to respond directly to the drivers of the needs and livelihoods of the poor.

Let's look at the savings, which we are very strong at, we are very strong in savings. Not as good in credit like Ahmed [misspelled?] here, but what we structured the savings product to be able to be more competitive than the traditional mattress banking. When [inaudible] it didn't have any ledger fees on those accounts, was easy access, fully accredited, no restrictions on frequency or amount. And the ease of access using delivery channels, made it as easy as it could be in the mattress.

And then, insure that the cost of savings is minimal. If you save 1,000 shillings in January you still have your

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1,000 shillings at the end of the year. And if you save at least 10,000 then you even have interest with no charges leveled on the savings account. So it was really a drive of that, because they want a safe, secure place that doesn't deplete their small savings.

In terms of delivery, what we have kept on trying to do is to try and take the bank to the people, and the tag line is 'take banking services to the people.' It's not that people come to the bank, it's the bank that moves to the people, and we pushed that using mobile vans. You just drive a mobile van that goes from one village to the other. And we have a solar panel on top of the roof, we are right on the tropics, on the equator, so the sunlight provides the power. And then a simple laptop as good as this taking the banking software. And wherever you stop, you are able to serve the client online. And particularly the older people really appreciate that type of service.

To do with the support of CGAP and the Gibbs Foundation, we've been able to crack and make the cell phone or the nearest branch to client, where they can be able to transact 17 types of types of different transactions.

Simply, what it means is that Equity then doesn't need to build hefty costs of delivery channels in branch network. The cell phone is owned by the clients, and two, you no longer

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need to employ staff. The clients do the operations of their account, and simply that is good.

The last one, major innovation, is due add ups like insurance. The year we'll be able to do premiums of slightly above 20 million US dollars. This is from small, micro-insurances, starting with things like health, or going to funeral expenses, that which matters to the poor. They don't really want complicated things.

And the last one is making banking very basic. Banking is all about intermediation-savings and lending without any major complications being put on the bank. So, basically, those are major innovations. And then the products are appropriate. In Kenya, the majority of the population is engaged in agriculture, and we are very, very strong in agricultural products including things like receipt warehousing. We saw like last year, when the country went through a time when this year, it was saved by a program that Equity had done with the farmers, where it using a receipt warehouse as [inaudible], farmers could deliver. And since the national cities and produce board could not pay, Equity discounted their receipts.

This year, we perfected by saying, 'okay, the grain belongs to the farmer, not to the national produce board' and it drove the private sector to do receipt warehousing. They

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kept their grains in January, when the prices were 800, and by August, when they were selling, they were selling 2,400 almost three times what the price would have been if they sold. So it's that type of innovative product that makes Equity very attractive to the low-income segments of the population.

SYLVIA MATTHEWS BURWELL: James, thank you, that's a terrific example of that taking advantage of opportunity through financial services in terms of affording farmers the ability not to sell at peak. And that's a very important part of that.

We're going to move now to Julio Frenk, who was the minister of health in Mexico, from 2000 to 2006. During his time there, he started the implementation of a very innovative approach, which was basically health care for all, through health insurance in Mexico, and also oversaw a very innovative program that has to do with cash payments.

He is currently serving in helping a number of foundations, including the Bill and Melinda Gates Foundation—we're colleagues. And in January though, we will lose him to become the head of Public Health at Harvard, a great place to lose him to, though we're sorry to do that.

Julio, I thought you could help us all think a little more deeply about this question of need and the question of financial services for the poor I need. Why do people have

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needs, especially as it relates to health, which is a place that you spent a lot of time—though you spent much time across the development space, but maybe health and anything else you'd like to add in that space?

JULIO FRENK: One thing we know, is that every time you introduce financial services, whether you begin with savings or with loans, immediately the next thing that poor people will demand is some form of health insurance. It's the next big thing. And the reason is very easy to understand. This is the extreme form of insecurity for people. To live not knowing what will happen if your child, or any family member, will become sick. Whether you will need to drive yourself into poverty even further because when it comes to illness, the price elasticity of demand just disappears. And people will go to the extremes of liquidating savings, liquidating productive assets even, when it comes to poor people in the countryside, just to be able to pay for medicines or for a doctor.

This is a huge problem in the world. But what happens, is that even though every one of us over a lifetime will surely have some kind of important disease, because that's human nature. At any given point in time, the number of people who are exposed to this extreme risk is relatively small, so there is a problem of invisibility of people who are suffering catastrophic payments.

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Every time you look into it, in every country, it is much larger than we thought it was. That's what would happen in Mexico. We looked into the problem, everyone thought we had a publicly funded system, and lo and behold, more than half of all payments were out-of-pocket payments. And there were about four million families every year that were being driven into poverty because they had to pay for their health care.

Globally, the best estimates are probably up to half a billion persons are exposed to a financial catastrophe because of health care costs.

This, in my mind, is an unacceptable paradox; one thing we know in development, is that one of the most powerful tools we have to empower people to lift themselves out of poverty, is improving health. And paradoxically, when countries don't have the social instruments for fair financing that spread the risk, then health care becomes a major cause of impoverishment through this kind of poverty shocks.

That's why we need these sorts of innovative programs, which within Mexico was basically developed an insurance scheme for the self-employed - we had traditional insurance for those employed - where you have mechanisms that have been developed over centuries now. But all of those who work by their own, whether it's peasants or the small shop keepers, were simply living in this extreme form of insecurity.

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Let me just mention two very quick things; I believe that most of these programs have to be grass-roots. Our insurance program called [speaking in Spanish], has extended people who were skeptical people, who were saying the poor will not understand the concept of aggregated risk—it's not true. Actually, the up tick has been marvelous.

We had the challenge of insuring half of the population that was uninsured, so in order to achieve universal health insurance, we had to enroll 50 million persons: half of the population—Mexico has about 100 million persons.

We're now half way through that. There's 25 million people right now that have this benefit, and have a coverage that's pretty broad, including drugs, which is a main source of health expenditures among the poor.

So it can be done, but it also has to be part of a nationally organized scheme. Local insurance means you create solidarity of the poor with poor, and at some point, you need to bring this into a broader framework where the National Ministry of Health, and the public resources are actually subsidizing the demand of very poor people for quality services. Then, it not only becomes a financial service, it also becomes a driver for transforming the entire health system, because you shift the incentives, you put the power in the citizen to enroll in an insurance scheme, and you make that

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be the driver for allocating public funding for health.

And that's what's happening in Mexico, a major shift in incentives, a company with a number of structural reforms to assure that the providers are certified, so that they can be part of this scheme. So you use the financial mechanism to actually improve the system.

Once you have all of these marvelous programs you have, like in Equity or in BRAC, you have now the platform to add on this, which I believe is next major service that people need in order to live with a modicum of security and really have the perspective that poverty is something that you can actually leave behind.

SYLVIA MATTHEWS BURWELL: Julio, thank you, and important point for health, in terms of that integration of poor and health in the system, but as we think about financial services for the poor, thinking about that integration. So when you have the heads of ministries of finance in countries thinking about access across, not just their relationships with their businesses and that sort of thing, but access for all their people and how do you create a concept that this is, when we talk about financial services, it's about making sure that there is access to capital for countries as is President Sirleaf Johnson spoke about this morning, but also access for individuals.

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Bob, we're going to lose you, so we'll say thank you. Right now, Daniel Stone from America Speaks is going to come on stage and let us know what follows in terms of our table conversations, and what will follow after that. Bob, thank you very much, because we won't see you.

DANIEL STONE: So, we've been focusing this session about how to provide a range of financial services to people living in poverty, and we've heard from our panel a number of really extraordinary successes as well as some very significant challenges in being able to provide these services and making them effective and extend them.

Clearly, there's more to be done. So we want to shift the conversation to you folks at your tables, to have a conversation for the next 30 minutes. The question we would like you to address at your table is, given the kinds of issues, and given the kinds of challenges and needs that this panel has just explored with us here, and any others that occur to you, what do you believe are two to three actions that should be taken by different sectors, such as government, civil society, industry, others, in order to address these challenges, and what do you believe might be actions that could be taken by individuals such as yourselves, who are in positions to make commitments about them to address these kinds of issues?

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You're going to have 30 minutes for this table discussion, I want to encourage you during this discussion, in order to make it as productive as possible, just to have a single conversation going on at your tables, and also, please make sure that there's space for everybody there to contribute to the conversation.

Have a great 30 minutes, and your panel will be back.

JANE WALES: Thank you. Thank you. Well, hopefully you all have had some very fruitful conversations. And it sounds like it [laughs] as they continue. We also found that you all had some terrific questions for us as a panel and we are going to take just a few minutes. There's not inability [?] to get through all of these questions but some of our panelists are going to attempt to combine in a couple of cases and address them directly. And Julio, why don't we start with you. And I think you're going to try and address a couple of these questions.

JULIO FRENK: Thank you, Sylvia. Yes, there is a set of excellent questions but one specifically for the program I've describe in Mexico asks how has that program been evaluated and whether we actually know if it has had an impact on the behavior of the poor when it comes to health-related issues. And very quickly, I think this is a great question because it allows me to raise a larger issue, which is the need

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to evaluate, to build in systematic evaluation of these large scale social interventions so that we actually know whether they're working or not. And both for cash transfer program that Sylvia referred to which has been a very successful cash transfer program, conditional cash transfer bundled up with attendance to school, a nutritional package, and attendance to a clinic, and then the cash transfer's condition along that.

And also for the insurance program, we took advantage of the fact that the introduction of this program had to be gradual. So, because it had - for financial and logistical research - to be gradual, it was possible to pair communities and then randomly allocate which communities would get the intervention first and which would come later. Everyone participated but it was a question of the timing. And that opens a possibility of a very rigorous design where you can actually, in a very scientific manner, attribute whatever benefits you see to the intervention itself.

I think we need to begin to think of evaluation not as an afterthought of some of these interventions but something that's built in. And very often, the design of the intervention itself lends itself to a rigorous evaluation. It is important. A, because for example in the case of the cash transfer program, it was possible to measure actually, even gaining height and weight from children due to this conditional

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cash transfer and the nutritional supplementation. And then it was possible to argue with very solid evidence for resource allocation to expand the program nationally. But that knowledge also became a global public good, and now a large number of countries had adopted similar programs because it was so rigorously evaluated. So evaluation is not a luxury, it's a necessity and it's actually a duty so that we actually know what's working or not.

In the case of the insurance of the insurance program, because we did a similar thing, I can tell you this has been published that there are very significant improvements. First, a huge financial protection effect so the amount of out-of-pocket payments from the poor actually dropped substantially in the relatively short period of time. This program, the law was passed in 2003 and it started in January 1, 2004. It has expanded rapidly because in four years it's now covering 25 million people. And you do see a substantial drop in out-of-pocket payments in the number of families that are incurring catastrophic expenditures. But then you begin to see other consequences like much higher utilization of preventive and early detection services. So, as I was saying before, in addition to the financial side of it, it also becomes a driver for inducing healthier behaviors and also for changing the whole way that the health system is run to be more responsive

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to what people need. Because of the logic of insurance, it is in the interest of the provider to stop people from getting sick. So because it's not a reimbursement insurance, providers obtain a capitative payment. So it is in their interest. So providers themselves begin to stimulate much more preventive behavior on the part of people. So, the answer is, yes, we have seen actual change and the primary thing is to always evaluate and build that into some of these innovations.

SYLVIA MATTHEWS BURWELL: Thank you, Julio. And I had forgotten to mention, Julio was the Director of Impact Information and Evaluation at the World Health Organization. So maybe the person that gave us that question knew that. [Laughs] So thank you. What technically was measurement and change? James.

JAMES MWANGI: Thank you. I want to take the question that leads, 'what minimum central capital markets are required for local microfinance institution to flourish?' Sometimes it's up years to see if a microfinance institution is independent of financial assistance. In an ideal market environment, it is important that micro-financing be mainstreamed and become part of financial system of a country. And at such circumstances then, it is important to try and have at least to the minimum aspects that include one debt market because, ideally, as microfinance institutions grow, even if

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they are taking savings, you will find regulatory frameworks that restrict how much they can use savings in lending. If you look at the traditional regulatory frameworks, they take savings as much you have in deposit and so you can't lend again as to savings on long-term.

So you need this long-term debt but it has two options. You can mobilize it from foreign loans, which then brings in a major list of all dealing with foreign currency risks, and most microfinance transactions in local currency. So you know it would go to hedge, and if you try to hedge, then the cost of hedging becomes difficult. So they provide a very good alternate in lacing [misspelled?] that debt.

The other one is basically in terms of liquidity where you have huge pools of savings and you are not able, by law, to lend the whole of it. You want to participate in patches of things like a government paper. But the best instruments are that which are tradable so that as the need arise, then you are able to liquidate them in the market.

And lastly, the markets can be also very significant—or capital market is significant—in building alternative assets. As the poor build the assets, they tend to diversify, they tend to move from a most liquid form of assets, to fairly liquid assets as they move up and the markets all then turn to provide.

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And lastly, as the microfinance institutions become bigger and bigger, because of the gearing ratios that are imposed by regulatory framework, they find themselves building huge capital base. I look at Equity; we have now a capital base of 450 million U.S. dollars. We don't want to create such type of capital base when the shareholders are tied permanently based on liquidity. We want to create a form that the shareholders would be able to keep on moving from the shares among themselves or to other parties.

And then, how do you also discover the true value of such an investment, again, if it is not in the market. So there is a need to integrate the whole aspect of financial markets for the industry to fully flourish.

SYLVIA MATTHEWS BURWELL: James, thank you. After those thoughtful comments on liquidity, you maybe testifying before the U.S. Congress before you know it. [Laughter]

And now, Abed, we will turn to you.

FAZLE ABED: Right. But I have got a question here. It says, 'how can lessons of micro-credit be applied to financing for small and medium enterprises?'

I'll try and explain this from my own experience. I have done microfinance organizations and I'm also on a bank which is doing small and medium enterprises. And our bank in Bangladesh is probably the only bank which is doing small and

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medium enterprises in a big way and this is because we have learned from microfinance as to how to finance small and medium enterprises. Now, when we started our bank to do small and medium enterprises, we decided that it's not going to be bank managers sitting in their own offices and small entrepreneurs will come to them. We need to go to them ourselves.

So, basically, when we started with five branches in the year one, we started 300 small unit offices all over the country and we had about a thousand loan officers with motorcycles going around the countryside as well as small towns, trying to find small businesses. So instead of the bankers sitting in their offices and small entrepreneurs were going to come, you have to scout out and find out what the needs are in the small businesses. And then also, most of them lack collateral and the banks mostly need collateral. So we basically went on for without-collateral loans up to 15,000 dollars.

So all we look at there for small enterprise lending is cash flows and the business, and the individual who has borrowed. So, basically, we are looking at the character of the individual, how long he has been in business, what kind of cash flow he has. And on that basis, we provide loans. So that's the reason why this year we are going to disburse 600 million dollars from our bank to small businesses.

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But then the medium businesses are slightly different in the sense that most of the medium businesses have probably borrowed from banks before and they will have some collateral. But most banks don't want to touch them because it's too expensive in the sense that they want to lend money to corporate borrowers who need millions of dollars, and these people need maybe 100,000, 200,000 dollars. So you have to set up a small unit where they'll look at small enterprises, but all the due diligence that one has to do is more or less like corporate lending. So medium enterprise lending is slightly different from small enterprise lending.

So small enterprise lending without collateral is very similar to microfinance in that you have to go out and find your clients and help them to get a loan and get business going.

So that is one question. The other question was, is microfinance is growing but scaling at the rate needed? If you had a magic wand, what settings would you change to enable microfinance for all poor people globally? And I thought many of you know [chuckles] the answers. Some of you are involved in microfinance. But I thought one of the problems is finance. Not enough money is available. We are trying to raise 75 million dollars. We are trying to raise it this month.

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Hopefully, we'll close it this month for our [inaudible] program or expansion.

It is very difficult to find funds at reasonable interest rate. Investors from developed countries look for very high returns from microfinance. I don't know where they got the idea that microfinance is extremely profitable so you can get 20-30-percent interest rate. So I think a little bit less greed from the investors would be good. [Chuckles] And we need to have much more resources for microfinance.

So the poor people also need money at reasonable rates of interest. Although they have been borrowing money at very high rates from money lenders, that doesn't mean that microfinance institutions also need to lend money at that rate. It has to be reasonable so that one can get a surplus out of the enterprise that that one is doing.

That other thing that I thought would be interesting is, I don't think we have got enough people trained to be able to do microfinance. So we need to really scale up training program for loan officers, microfinance managers and so on. And we don't have enough of these people available in the world to really take microfinance globally all over the place. So I think that is something that we need to do.

And the third thing is regulation. Good governments make things a little easier for us to try and get to mobilize

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savings in some countries where it is possible. And many poor people want to save also. Savings is a service, but then because you don't have the license. And the problem with license is that, when you are licensed as a bank, then of course you need to have a branch. Branch is very expensive. In one rural area, you don't need to have a branch, you only need to have a small office with five loan officers. But if you need to have a branch, then of course this becomes very, very expensive, and also it becomes prohibitive or probably not very profitable. So in order to serve rural population for microfinance, you don't need branch offices. You only need small microfinance outfits where you could provide loans and collect savings and use other banks for servicing your financial needs. Thank you.

SYLVIA MATTHEWS BURWELL: Thank you very much. And Jane, I'm going to welcome you back for themes and gems that have come from your conversations throughout all the tables in the half an hour you have spent together. Jane?

JANE WALES: Thank you. What a wonderful panel. You're going to get another chance to respond to the themes and gems. I've just found out what happens when the quality of the audience matches the quality of the panel because these are really exceptional.

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They've picked up on a lot of the themes in our earlier panel, our luncheon panel discussion. The first one speaks to both Fazle Abed's point and Elizabeth Littlefield's point about regulation, that we should develop new regulations that allow microfinance institutions to be more flexible especially to be able to accept savings deposit.

The second speaks to standards point that Maria raised, and that is that we encourage cross-sectoral collaboration to decrease fraud in existing and developing financial services.

The third takes us to food security which is an issue that we have touched upon, and that is to develop financial instruments for improving livelihood and agricultural productivity especially irrigation and water availability.

And then finally, one related to education that keeps coming up and that is the need to increase financial literacy especially among the extreme core.

Now we also had some gems, so you get to respond to these themes to the extent if you haven't already. But here are just four gems. One is to strengthen the availability of financing for homes—Habitat for Humanity will like hearing this—in a way to help the poor build assets and pull people out of poverty long term.

The second is to rethink delivery services, delivery systems for microfinance systems including savings and

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financial education and literacy, and not just access to credit as our kind of initial core offering.

The third is to develop innovative instruments for credit ratings for small entrepreneurs.

And then finally, to develop a device that can service a phone cash payment device, a bank account. That's a whole panel that we're going to have on Friday, but let me give you a chance to respond.

SYLVIA MATTHEWS BURWELL: Terrific. James, we will start with you and go this way.

JAMES MWANGI: Thank you very much. Looking at the themes, be as its exact word, almost Abed said that, regulation is really a great thing that we all need to go by and address. And I think this is not an issue that individuals can take because we'll be taking with the regulator and there's a limit to which you can push your regulator. We need to come up together and have [inaudible 00:17:41] that would be enable that to be. And of course, cooperation is the only way because this, as I said, if you look at the magnitude of the problem at the bottom of the pyramid. If you look at Africa for instance, it's only 4 percent of the population of Sub-Saharan Africa that has bank account.

We're talking about 96-percent of the population is excluded. And they're excluded from a system that allocates

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the resources. So once you exclude them from the system that allocate resources, you are really condemning them to poverty perpetually in a vicious cycle. So let me make those comments. So I'll allow my colleagues to make a few comments. But I think those are the main themes.

SYLVIA MATTHEWS BURWELL: Thank you, James. Julio?

JULIO FENK: I'd like to follow up specifically on the theme of a cross-sectoral collaboration because I think we need to start thinking of social and economic policy, two sides of the same coin where the objective is to improve the livelihood, particularly of the poor, and close social gaps. And we have tended to divide these two. There's a huge divide. I'm not an economist but I am an economoid because being a physician I learned that I needed to speak the language of the Minister of Finance to convince him that good health policy was also good development and good economic policy.

And if we look at this instruments, and the paradox was we had this very successful cash transfer program but poor people were spending their cash transfer to pay for the doctor and medicines because there was no health insurance. Or you build microfinance as savings and the savings were being depleted in the presence of one incident of health that was sufficiently serious to actually lead to that. Or you were

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starting micro-enterprises but they would go broke because there was no—

And we haven't talked about remittances, which obviously are going to be affected by the current financial climate here. But as a major source of financing in— surely— certainly, I can tell you—in my country, we found that about half of remittances were being used to pay for health care in the poorest communities which are receiving that. So those were monies that were being diverted from investments, for example in homes—that's one of the gem's proposals—or were being diverted from investments in human capital through education of children. Because I mean, just imagine where there is a huge proportion just being used to pay for health care bills.

So that's why I think that we need to build this more comprehensive set of interventions. And as I said, once you have the platforms, once you organize the communities around the microfinance entities, then you have already this platform where you can add on a number of services that really make that the total is much more than the sum of each individual party.

SYLVIA MATTHEWS BURWELL: Strengthening livelihoods.

Thank you, Julio. Abed?

FAZLE ABED: Well, cross-sectoral collaboration, I completely believe in that in the sense that livelihood

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potentials for, or improving livelihoods for people, just financial services doesn't do it. You have to work on agriculture, horticulture or fisheries, livestock if they are rural people. You have to work on food processing and all kinds of things that you are involved in. So we have been trying to do all these things, trying to help microfinance clients to improve their income and livelihoods. So I completely agree with it that there's cross-sectoral collaboration, that's to say.

The other issue that Julio mentioned about: health insurance. But there are societies in Africa and so on where health, even if you have health insurance, there is no doctor, there is no hospital, there's nothing going on. So what do you do with that? How can you do health insurance when this whole system of health system doesn't exist?

So I was going to say that what we do in BRAC is that every group that we have, we have got about a network of 280,000 groups. And each of the group, we have got 17,000 health workers. Each of the group has a nominated person whom we train as health promoter so that basic curative and preventive care is taken cared of within leverage, so that at least the basic health care is available within leverage. Then if they require slightly higher level of care, then they're referred to a place in the district. So instead of just

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looking at trying to solve the problem in terms of insurance, sometimes in societies, you need to probably create conditions in which poor people have access to some kind of care and basic care. So basic health services, primary health care, we want to make it available within leverage itself if we can.

SYLVIA MATTHEWS BURWELL: Thank you, Abed. And I'll only add on the questions of collaboration regulation now, which is sort of talk about the idea of second generation banking. You know, banking as we currently know it must change in order to meet the poor in terms of the distribution mechanisms that will be economically viable and approaches like the things that James talked about. So that's a part of it.

And also technology and other services, there's going to be a whole other session on mobile phones and that sort of thing, and that was one of the questions we didn't have an opportunity to cover today. But this idea that there is a new approach and a new way to banking that will involve collaboration of whether it's banks and telecom institutions, or commercial banks and microfinance institutions in order to do distribution. But this idea that there is a new way to think about banking that's not the traditional bricks-and-mortar approach that we have, most of us in this room have grown up with.

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The other comment I'll make is the point about agriculture and its importance. I think many of you know that at the Bill and Melinda Gates Foundation, we've done large investments in agriculture, increasing agriculture for the small holder farmer, that small farmer across the value chain. And this issue of credit availability is incredibly important because when you think of the issue of the farmer, it's not just credibility but the example James used when you actually have a crop coming and you want to be able to get a better price than having to do everything right now. And so for a farmer, it's increasing agricultural productivity, which is a base of many livelihoods in the poorest parts of the world.

So that was a point I would like to highlight. It's a tough issue though. It is the biggest thing for farmers is managing risk. That's the toughest thing that a farmer has to do, is manage risk in a way that can afford them the opportunity to take advantage of any opportunities they might have, whether it's new seeds, fertilizer, or anything else. So I think that was a very important point in our gems and our themes to highlight.

Jane, before I turn it back over to you for our commitments, I just want to thank our panelists for terrific diversity and expertise in this base. It was a wonderful

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conversation. I appreciate all of your role's contributions.
Thank you. And, Jane, back to you for commitments. [Applause]

JANE WALES: I'm going to invite you to stay on stage so that you'll get to see these wonderful commitments and invite Jonathan Redford from Habitat for Humanity to come on up. Hi, Jonathan. How did you like that theme they put in there—

JONATHAN REDFORD: I was delighted!

JANE: —just for you. Just for you! Just real quick, you all know Habitat for Humanity and over a three-year period, they've had a housing finance innovation program creating assets for the poor and to mobilize investment capitals, or this is what they're projecting, to mobilize investment capital for housing microfinance to meet the growing need throughout the developing world, I mean in every continent. But they're going to be investing eight million dollars in housing microfinance and unlocking 13 million dollars from other investors for capacity building. This commitment doesn't just support housing, it supports all that that goes with housing, that is to say water, sanitation, infrastructure, and technical assistance to 10,000 households, and it's going to include three regional workshops to help people make use of these opportunities. So let's have a great certificate for you, and

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a round of applause. Why don't you have it right side out?

[Applause]

Thank you. Thank you so much. Habitat does such extraordinary work. Now, I'm going to invite to the stage Deborah Holmes, who is Global Director of Corporate Responsibility at Ernst & Young, a wonderful company and Premal Shah, who is president of Kiva. You all know Kiva as one of the great innovators in the microfinance base, and so welcome to you both. Don't fall off though. We can't lose you. You're too important to this. We refer to this as a but-for [misspelled?] commitment, that is to say it was a commitment developed as part of their CGI membership. Ernst & Young commits to partner with Kiva to facilitate the transfer and flow of information and funds between individual lenders and microfinance institutions.

Kiva is one of the world's first not-for-profit person-to-person micro-lending organizations. And in this commitment, it will be serving even more entrepreneurs in the developing world. It's a one million dollar commitment from Ernst & Young to initiate transparency procedures to strengthen the accountability of microfinance loans that are distributed by Kiva's network of partners. For Kiva, it's a three-year commitment to provide microfinance loans to 2.7 million entrepreneurs in the developing world. So, please, congratulate

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them both. [Applause] How do I do two? There are two photographs, I think. Thanks.

JANE: And then finally, I would like Uli Frey [misspelled] Executive Director of Funtas [misspelled?] to come up. Welcome. [Applause] Yeah, good to see you. This is in collaboration with Mexico's Ministry of Economy, Funtas International commits to increase the income of 20,000 poor families in Latin America by enhancing performance and competitiveness of traditional retail stores. Now, this is what I mean by that the mom and pop stores, which are so much the backbone of many economies. They provide the jobs and the income for lower income families throughout Latin American. And sometimes they are threatened by the emergence of supermarkets and larger distributors and producers. So you are expanding on the successful pilot. As I understand it, Funtas International is committing to help smaller retail shops remain competitive in a global economy, and they'll be equipping them with modern business practices, financing strategic management training. And so please join in celebrating Funtas.

[Applause]

Thank you so much.

JANE WALES: And so it's time for Paul Rice then. Sorry for doing that but I just couldn't believe that it was time for Paul. Paul is the CEO of TransFair, we all know Paul

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Rice, and Paul is coming up to share with us his progress report on an existing commitment. So, Paul, please come on up.

PAUL RICE: Thank you, Jane. It's great to be here and it's great to be a part of this stimulating conversation about the important of access to capital for the task of sustainable livelihoods. Of course, those of us who work in the fields know that access to market is just as important and that is the core logic behind my work in the fair trade movement here in the United States.

For those of you who don't know fair trade, in essence, fair trade is a standard, a rigorous standard for social and environmental sustainability. When farmers around the world step up and implement those practices, which include better wages, more sustainable agricultural practices and so on, they get certified.

And, similarly, when companies here in the United States and other parts of the world buy directly from those certified farmers, those companies are allowed to use to fair trade label on their products. So, with that label we are able to educate consumers and harness the power of consumer demand to the task of helping to lift farmers and communities out of poverty. It is that fair trade-certified label and the growing demand for it, which has spurred the explosive growth of fair trade here in the United States.

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In Europe, fair trade has been around for 30 years. In United States, as usual, we're a little slow to catch on. In the last nine years since the fair-trade label was introduced, we've seen over 700 major brands join the fair trade movement and offer fair trade products. 1.5 million farmers now around the world in Africa, Asia, and Latin America are participating. They're growing coffee and tea. In fact, there's fair trade coffee from Rwanda being served on the first floor. These farmers are growing bananas and sugar and a whole host of products. And it is the success of those products, not only from a moral and ethical perspective if you will but also from a business perspective for the retailers and for the brands, which is driving growth and driving the expansion of the category.

Fair trade sales last year in the United States were over a billion dollars, so I think the skeptics at the beginning of this journey have been proven wrong and, clearly, American shoppers do care about where their products come from and want to make a difference.

So our commitment last year here at CGI was to launch fair trade flowers. Most of us here in the United States may not be aware, most of the flowers that come to us here in the United States are imported. They come from Columbia, they come from Ecuador, and Kenya. And the conditions on those farms

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are typically quite hard for the workers. Average wages in the Columbian flower sector three dollars a day, maybe four. These are products that use a lot of agrochemicals and exposure to agrochemicals is one of the chief problems for the workforce which, by the way, is 90-percent women. So environmental degradation, worker safety and health, wages, these are the issues that the fair trade addresses.

So what do we do? We went out and developed a standard for fair trade flowers. Then we went out and certified eight farms as part of this pilot in Ecuador, in Columbia, and in Kenya. These farms employ about 10,000 women. And then we went out and found the market for the product and we were able to get 10 companies here in the United States including Whole Foods Markets, and 1-800-FLOWERS and Sam's Club and other leading retailers to step up and join us in this pilot to see if we could put fair trade flowers on the map, to see if it would fly.

So we launched on Valentine's day, which is a great day to launch flowers. And I'm happy to report that in the six months since the launch, we've certified over 2.5 million stems of fair trade roses here in the United States. [Applause]

Thank you. So that volume represents a significant income increase. The workers on those farms are now making 20-percent more than they were making before, and that is the

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current wage rate in the surrounding areas. They are also getting premiums which allow them to invest in community development projects, and this is a hallmark of the fair trade model - an above-market price which allows these communities to build their own schools, to build their own clinics. And I happen to visit a number of these farms a few weeks ago in Ecuador, and already we're seeing the impact of this additional revenue. One of the farms has built a daycare center on the farm, accessible to everyone who works on that farm.

Another farm, the workers on that farm have set up a home loan program so that they could provide small loans to help build their homes to all the workers there. Another farm had supported the local clinic by providing a permanent health care staff in their clinic. So, very concrete examples of small but important steps forward in terms of livelihood and well-being on these farms, add thanks to nobody's charity. At the end of the day, thanks to a very simple concept of a fair price for a great product.

So, I'm happy to say that the Clinton Global Initiative was in my mind very much a part of this success because we took the fact that we announced this commitment, that we made this commitment last year in the context of CGI. We took that to the retailers and we said, 'we want you to be a part of this partnership and this commitment.' And that was a very

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compelling pitch and these companies are finding that fair trade is working for—fair trade flowers is working in terms of not only of sourcing more sustainably and more ethically, but also in terms of their business.

Before I step down, I've been invited to share with you that after nine years of focusing on certifying only fair trade food products, our commitment here at CGI this year is within the next 12 months, to expand the category and adopt the fair trade model to the apparel industry. We will be certifying fair trade garments in 2009. Thank you. [Applause]

JANE WALES: So, on that note, let's throw some bouquets to Sylvia, to Abed, to Julio, and to the missing James Mwangi, and Bob Rubin.

SYLVIA MATTHEWS BURWELL: James left to make a commitment in another CGI event. [Laughter]

JANE WALES: That's right. James has got onto another panel and we look forward to seeing you at the plenary. So thank you so much. [Applause]

[END RECORDING]

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