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**"Development Needs Access to Finance for All"**  
**Berlin, 3 December 2009**  
9.00-9.15 a.m.

**KfW Financial Sector Development Symposium**  
**KfW Berlin branch**

1. Introduction: creating a future beyond the crisis
2. Escaping the crisis together: development policy and private investors must each play their role
3. Sustainable and inclusive financial systems are vital for growth and development
4. Conclusion

Dr Kloppenburg,  
Ladies and gentlemen

**1. Introduction: creating a future beyond the crisis**

Goethe once wrote: *"Knowing is not enough, we must apply. Willing is not enough, we must do."*

And that is exactly the idea behind the KfW Financial Sector Development Symposium: to apply knowledge. That is its great strength.

In the light of the financial and economic crisis, it is time to rethink our previous actions and adjust accordingly.

We must work together to develop financial systems worldwide and make them more stable.

I completely agree with the German President, Horst Köhler, when he says that "the monster (in other words the financial crisis) has yet to be tamed".

That is why I find the question this symposium has set out to examine so appropriate and so topical: How can we preserve access to finance during the global crisis?

The financial crisis has shaken all the world's economies. Yet particularly in the developing countries it has brought real hardship and great suffering on the people.

Muhammad Yunus put it in a nutshell when he said that, if a billionaire in New York loses half a billion dollars, they still have half a billion left. And if a millionaire loses half a million, they still have half a million left. But if a casual labourer in the Third World loses their job, they lose everything.

Nearly all the sources of external finance that had been open to developing countries and emerging economies have been hit by the crisis.

Worldwide, there has been a drop of some 6% this year in the remittances sent back by people working abroad to support their families back home.

Whilst that is a relatively modest figure when averaged out, the impact varies from country to country: in countries that are particularly heavily dependent on those

remittances, the impact is very noticeable. In 2009, they have experienced a considerable drop in the amounts of foreign exchange flowing into the country.

Foreign direct investment has dropped even further in comparison, and in some cases has been withdrawn altogether. And the cost of credit has risen as a result of poor country ratings and increased risk margins.

This year alone, developing countries have had to face a drop in private direct investment of over 30%. That is over 385 billion US dollars – almost three times total annual development assistance worldwide.

That has been a dramatic collapse in what is a major source of financing for development in our partner countries. The result is a financing gap that will primarily hit small and medium-sized enterprises.

Behind these financial indicators are always the fates of individual people. The crisis is threatening to force 100 million people back into extreme poverty.

100 million more people who will lose the prospect of a making a better life for themselves.

The role of development policy is to offer the chance of a better future to these people and the over 3 billion people in the world who are living in poverty.

The chance of a life that it not overshadowed each day by the worry of how to survive. The chance for people to enjoy living in their own country without becoming resigned or choosing to emigrate.

The chance to beat the hunger crisis, the climate crisis and the financial crisis and for countries, through their own efforts, to achieve economic prosperity.

## **2. Escaping the crisis together: development policy and private investors must each play their role**

*"Knowing is not enough, we must apply. Willing is not enough, we must do."*

If we pursue that principle then we must not only apply knowledge, we must also, above all, do something. Take action. Do the "right thing".

Over recent months, many commentators have blamed the turbulence in the financial systems on banks doing the "wrong thing".

Trading in complicated derivatives or imprudently granting loans to people who will never be able to pay them back – all of that contributed to the crisis.

Now those same banks and financial institutions, indeed the entire financial sector, have a duty to take responsibility.

To take responsibility for a financial system that is there to serve the people. To take responsibility for doing things better. The financial sector should not only be seen as the crux of the problem; it must also be part of the solution.

I now expect private investors to take a bold step forward. It is the banks' job to encourage entrepreneurship and facilitate growth by lending money. Just as in Germany, we must avoid a permanent credit crunch in the developing countries and emerging economies.

As well as private investors, it is above all the development financiers, as represented here today – such as the IFC, KfW or AFD – that have a very special role in tackling the crisis.

They have a clear mandate, which is to contribute to growth, employment and poverty reduction and to do so in places where commercial banks are seldom found.

Their role is to operate in high-risk countries and sectors where they cannot make a quick profit – but where they can reach poor people.

In order to fulfil that mandate they now need to take the lead and invest in places that are attracting even less private investment than before. That is true of many of the partner countries with which Germany is engaged in development cooperation.

In times of crisis, development financiers must not withdraw safely into their shell and steer clear of risks.

In fact they must do the very opposite. Particularly in times like these, when private banks and investors are withdrawing, development policy-makers need to spring into action and provide counter-cyclical financing.

The establishment of stable financial systems is a vital factor in facilitating sustainable growth and development. This is a task that must be tackled by both private investors and development policy-makers.

At this point, I would also like to emphasise that increased official development assistance is absolutely vital in tackling the many global crises we are facing.

I am grateful, therefore, that in her recent policy statement to the German parliament, the German Chancellor once more reaffirmed that the German government stands by the goal of 0.7% by 2015.

### **3. Sustainable and inclusive financial systems are vital for growth and development**

*"Willing is not enough, we must do"* – and quickly!

One important and effective course of action is to improve access to credit for each and every individual. Financial systems are only truly successful if they are open to all sections of society.

A great deal remains to be done in this respect. Worldwide there are some 500 million low-income households with over 3 billion people who have no access to financial services such as savings accounts, loans, payment transactions or insurance.

That is around half of the world's population! Most of these people live in developing countries.

For poor people, gaining access to financial services is one first important step towards establishing a livelihood and escaping poverty.

By having access to financial services, individuals are enabled to take on greater personal responsibility and their potential for development is unleashed. Loans, or even access to secure savings in a savings book or insurance against illness or failed harvests, give people security and confidence.

Access to credit is vital in facilitating economic growth that is driven from within society itself. It is vital in creating independent citizens with minds of their own who have the freedom to realise their potential.

Microcredit is, then, an eminently liberal instrument of development policy.

The financial crisis is also threatening the microfinance success story. We hear reports of microfinance institutions in all regions of the world being, or having already been, thrown into disarray.

It would be a disaster if these microbanks were to go bankrupt or withdraw from fields of activity involving the poor.

That is why, particularly at a time like this, it is important to take action to counter such threats.

Germany has already taken such action in the field of microfinance along with other donors. Together with the IFC, for example, we have established a Microfinance Enhancement Facility Fund, which some of the organisations represented here today have also joined.

By establishing this fund, we have jointly created a framework, supported by a large number of donors and development financiers, that will help to bridge liquidity squeezes.

The German government is contributing to the first loss tranche of the fund. I am pleased that we will be able to sign the relevant contracts this afternoon on the fringes of this symposium. Through our contribution, the Fund will be able to help cushion the impact of the crises.

These emergency programmes, launched as a rapid response to the crisis, were correct and necessary. Now, however, we have reached a point where we need to reflect more fundamentally on the challenges that the financial and economic crisis pose for development policy.

We are all well aware that the crisis presents a massive challenge to the promotion of financial systems in developing countries, even to the tried-and-tested solutions that are already in place.

We must ensure that the crisis does not wipe out the work of many decades.

Our aim is to develop sustainable and inclusive financial systems in our partner countries.

I would like to talk about one challenge that means a great deal to me, namely providing more capital for small and medium-sized enterprises.

We should be clear about one thing: microcredit is important but it is not a panacea – least of all when trying to respond to a global crisis.

You all know the classic microcredit client base: the seamstress who is able to afford her own sewing machine; the baker who can buy a new oven; or the vegetable seller who can buy larger quantities wholesale for a better price.

It is as important as ever to give these people access to loans. But it will take more than that to lay the foundations for long-term recovery from the economic crisis and to provide the funding for business, productivity and jobs!

Access to financial services must be provided not only to these "micro-entrepreneurs" but also to burgeoning small and medium-sized enterprises (SMEs). They are a vital pillar for creating jobs, incomes and, ultimately, economic and political stability.

History has shown that flourishing small and medium-sized enterprises play an important role during times of economic recovery and often act as a safety net.

Many small and medium-sized enterprises in developing countries have no access to credit. They fall right into the gap between microcredit and normal bank loans. These businesses find themselves in what could be termed a permanent credit crunch.

This "missing middle" represents one of the great challenges in financial system development. We must find ways of providing more financing opportunities to SMEs in developing countries so as to close that gap.

The German government will be pressing this issue at international fora. At the G-20 Summit in Pittsburgh, the heads of state and government sent out a signal that improved funding for businesses is key to growth and poverty reduction at times of crisis.

We have founded a Financial Inclusion Expert Group, which is holding its inaugural meeting today in Washington D.C.

What makes this group special is that it includes emerging economies. So there will no longer be discussions "about" these countries but with them, instead.

Global problems demand a global response. In that respect, this G-20 working group – the first of its kind – sets the tone for efforts to move out of the crisis.

## **5. Conclusion**

Ladies and gentlemen,

I very much hope that this conference will help find a solution to the problems that have arisen as a result of the crisis – and that it will underline once more the importance of stable financial systems that serve the people in the developing countries.

I think there is every chance that it will. The event brings together a large number of decision-makers from development banks, central banks and private banks and economic experts. You are here as a community of action and not a community of discussion.

I urge you to work actively on finding solutions.

Be part of efforts to give people in our partner countries a better future and protect them from the consequences of the financial crisis!

Giving all people access to the financial system is one important step towards making that better future a reality. I wish all of you every success in that endeavour.

Thank you very much.