SEA ISLAND
Summit 2004

G8 ACTION PLAN: APPLYING THE POWER OF ENTREPRENEURSHIP TO THE ERADICATION OF POVERTY

The UN Commission on the Private Sector and Development has stressed that "poverty alleviation requires a strong private sector. It is the source of growth, jobs and opportunities for the poor." The Monterrey Consensus also made clear that achieving lasting development requires the use of all relevant resources, including the role of the private sector as a vital engine of economic growth, job creation and poverty reduction. Enabling the private sector to help poor people prosper should become systematically integrated into development assistance efforts. Developing countries need to create the conditions in which entrepreneurs can build successful businesses and families can access formal financial markets at reasonable prices.

G8 countries have agreed on the following set of actions to encourage and support national policies and programs that promote effective private sector-led development to help alleviate poverty, thereby helping to achieve the international development goals of the Millennium Declaration. G8 countries will work to ensure that bilateral and multilateral assistance help to mobilize capital and expertise to accelerate growth and free up resources for productive use by people in developing countries. These innovative programs are intended to support the efforts that developing countries are undertaking themselves. This approach complements official development assistance, which remains crucial for poverty alleviation.

To highlight and disseminate best practices in this private-sector approach to development, the G8, together with relevant international organizations, will sponsor a conference in the fall of 2004 involving private sector representatives and developing and developed country governments.

Facilitating Remittances to Help Families and Small Businesses

The flow of remittances across international borders, mostly a few hundred dollars at a time, is growing rapidly and now totals nearly $100 billion per year. This money is the fruit of the work of immigrants and plays an increasing role in the financing of development in the workers' home countries. Remittances can therefore play a key role in private-sector development efforts, enabling families to receive needed capital for, for example, education, housing and small business start-ups and expansion. But transaction costs can be high – as much as 10 to 15 percent even for flows to large, urban markets. Attracting remittance flows into formal channels can strengthen financial systems in developing countries and reduce the risk that remittances will be diverted for illicit purposes. G8 countries will work with the World Bank, IMF, and other bodies to improve data on remittance flows and to develop standards for data collection in both sending and receiving countries. G8 countries will also lead an international effort to help reduce the cost of sending remittances. The developmental impact of these flows may be fostered by increasing financial options for the recipients of these flows.

To accomplish this, we will take actions, including through pilot partnerships and programs, with developing countries on remittances. The G8 programs listed in the attached annex, and others that we contemplate, will:

1. Make it easier for people in sending and receiving countries to engage in financial transactions through formal financial systems, including by providing access to financial literacy programs, where appropriate, and by working with the private sector to extend the range and reach of these services.

2. Reduce the cost of remittance services through the promotion of competition, the use of innovative payment instruments, and by enhancing access to formal financial systems in sending and receiving countries. In some cases, remittance costs between sending and receiving countries have been reduced by up to 50 percent or more. G8 countries believe that similar reductions of high costs could be realized in the case of other countries.

3. Promote better coherence and coordination of international organizations that are working to enhance remittance services and heighten the developmental impact of remittance receipts in developing countries.

4. Encourage cooperation between remittance service providers and local financial institutions, including microfinance entities and credit unions, in ways that strengthen local financial markets and improve access by recipients to financial services.

5. Encourage the creation, where appropriate, of market-oriented local development funds and credit unions that give remittance-receiving families more options and incentives for productively investing remittance flows.

6. Support dialogue with governments, civil society, and the private sector to address specific infrastructure and regulatory impediments. For example, governments should ensure non-discriminatory access to payment systems for the private sector, consistent with strong supervisory standards, and work together to modernize overall financial infrastructure.

Improving the Business Climate for Entrepreneurs and Investors

Businesses can thrive only if countries provide transparent regulatory and legal frameworks, lower the barriers to starting and operating companies, and provide adequate infrastructure. G8 countries endorse and will seek to supplement the good work that the UN and its Commission on the Private Sector and Development, the World Bank, IDB, IFC, the OECD, and other institutions have been doing to improve the climate for enterprise and investment in the developing world. In particular, we support the work of the World Bank to identify quantitative indicators for the costs and benefits of business regulations across countries.

G8 countries will work with the multilateral development banks (MDBs), UNDP, and other UN agencies and international organizations to:

7. Support coordinated, country-specific MDB action plans to address key impediments to the business environment. The action plans should have timetables to achieve measurable results.

8. Encourage the MDBs to incorporate these action plans into their country strategies and budgets, and report annually on the progress made in conducting investment climate assessments and action plans.

9. Encourage the MDBs to enhance their lending and technical assistance programs for small and medium-sized enterprises (SMEs) over the next three years with clear, results-based objectives, and to develop these plans by September. For example, the EBRD has introduced a successful small business program, combining technical assistance and capital, which has resulted in five hundred thousand loans to SMEs over the last ten years.

The G8 will work with developing countries to develop pilot projects and support actions to:

10. Assist committed countries to launch comprehensive programs and reforms to improve their business and investment climates, working with the MDBs and other international bodies such as the OECD.

11. Help drive down the cost and time to start businesses in developing countries.

12. Support efforts highlighted in the UN Commission on the Private Sector and Development to assist the evolution of informal businesses into the formal sector.

13. Help promote investment compacts, similar to OECD work in the Balkans, in which countries commit to implement structural policy reform in order to help attract increased private investment.

14. Support the work of international bodies, such as the World Bank and African Development Bank, in promoting macroeconomic, legal and regulatory reforms to establish an efficient and transparent business climate appropriate to the unique challenges faced by poorer countries.

15. Help develop business-to-business links to promote commercially viable projects and to match investors, exporters, and service providers through entrepreneurial conferences and smaller sectoral meetings.

16. Support developing countries' ability to attract knowledge-based investment and promote innovation by working with them to curb piracy and counterfeiting, which increasingly damage domestic as well as international business.

17. Promote good corporate governance, including through cooperation with the OECD/World Bank Global Corporate Governance Forum, and through technical assistance to develop or improve financial regulatory bodies.

18. Promote adoption of measures to improve transparency in fiscal policy and public procurement, to improve the climate for investment and responsible use of government resources.

19. Promote and facilitate investment opportunities in developing countries, including through the negotiation and implementation of investment treaties.

20. Promote credit bureaus that enable responsible borrowers to improve access to credit and other financial services.

Providing Housing and Clean Water by Supporting the Development of Local Financial Markets

G8 countries recognize that strengthening local financial markets is fundamental to promoting a vibrant private sector in developing countries. This year, the G8 will concentrate on two aspects of financial market development by carrying out pilot projects to meet the needs of people for housing and clean water. Specifically, we will:

21. Work with the MDBs and other organizations to facilitate the establishment of the fundamental components of mortgage markets, including property rights, title transfer, credit risk management, legal and regulatory frameworks, funding sources, and the operational capacity of mortgage lenders.

22. Seek to provide opportunities for recipients of remittance inflows to utilize that income efficiently in domestic financial markets, including for building and improving their homes.

23. Help develop sub-sovereign bond markets to provide water and sanitation by building on relevant commitments in the G8 Evian water action plan, including technical assistance to design instruments and the legal and institutional frameworks necessary for market acceptance. We welcome the ongoing work of the World Bank on this issue.

24. Provide assistance for selected viable sub-sovereign bond issues for water projects by utilizing and expanding existing programs.

25. Promote the development of pooled funds, backed by homeowner associations, to pay for local water projects.

Expanding Access to Microfinance for Entrepreneurs

Entrepreneurs, no matter how small, need access to capital. Microfinance programs have provided small amounts of capital to entrepreneurs for many years -- benefiting women in particular. Sustainable microfinance can be a key component in creating sound financial market structures in the world's poorest countries. It is often the first step in launching SMEs, the beginning of what should be a continuum of credit access necessary to support the maturation of companies in developing countries. 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. To assess the status and effectiveness of current microfinance programs, G8 countries will work with CGAP to promote best practices in microfinance for developing countries. We endorse the "Key Principles of Microfinance," compiled by CGAP and its members and will work with CGAP on ways to implement these key ideas with microfinance donors and practitioners. G8 countries will also launch pilot projects to increase the number, scale and effectiveness of microfinance institutions in selected countries. These pilots will:

26. Focus on institutional best practices for expanding and mainstreaming sustainable microfinance.

27. Develop a microfinance institution code of conduct based on CGAP's efforts to identify key principles for microfinance lending.

28. Reduce barriers for growing microfinance institutions to gain access to domestic and international capital markets.

29. Encourage, where needed, the establishment and expansion of self-sustaining microfinance investment funds.

30. Assist developing countries to improve their legal and institutional frameworks for microfinance so it can become sustainable and more widely available.

31. Enable growing microenterprises to continue to access capital by reducing barriers for bank lending, promoting innovative bank-microfinance institutions (MFIs) linkages, and removing disincentives to business formalization.

REMITTANCES ANNEX TO: G8 ACTION PLAN: APPLYING THE POWER OF ENTREPRENEURSHIP TO THE ERADICATION OF POVERTY

Canada: Canada is exploring the scope for more cost-effective remittance arrangements with a number of partner countries in Asia and the Caribbean. These partnerships will encourage financial institutions to broaden access to their services and pursue increasingly innovative products. Canada also intends to focus efforts on increasing financial literacy and improving the quality of remittance data.

France: With a view to supporting the individual strategies of migrants from Morocco, Mali, Senegal and the Comoros for investing in their home countries, France is conducting a joint co-development policy with 2 objectives, namely reducing the cost of remittances and prompting banking partners to allocate loans for productive investment locally. Projects are also co-financed, with associations of migrants living in France, in their villages and regions of origin. Finally, aid in the form of financial support and training may be granted to Malians and Senegalese wishing to go home to carry out a rehabilitation project.

Germany: Recorded remittances flows out of Germany reached € 3.3 billion last year. The major beneficiary country is Turkey with € 1 billion. Germany is already successfully working together with Turkey and has significantly reduced the cost of remittances. For years, this cooperation has improved services to migrants and their families and has offered efficient transfer opportunities in the formal sector while maintaining supervisory standards.

Italy: Over the last few years, remittance flows from Italy have significantly increased (to €6 billion in 2003). Italy has developed an Action Plan aimed at attracting immigrants' remittances into official financial channels and promoting the development of innovative payment technologies; addressing statistical issues; encouraging the use of remittances as a tool for economic growth and development in countries of origin. Several initiatives have already been launched or are under consideration, such as pilot projects on "microfinance–remittances," especially with countries in North Africa (Morocco in particular), the Balkans and Sub-Saharan Africa.

Japan: Remittance flows out of Japan amounted to ¥335 billion in 2002. Innovative products have enhanced accessibility to banks, and significant reductions of remittance fees have been realized. Japan will work together with major recipient countries, such as Malaysia and the Philippines, to conduct joint surveys on remittance flows, to formulate concrete plans to increase access to financial institutions in the rural areas of receiving countries, to promote educational programs for migrant workers traveling to Japan, and to explore other measures to facilitate remittances.

Russia: Remittances from the Russian Federation play an important role in the development of a number of CIS countries, including Moldova, Georgia, Azerbaijan, Armenia, Kyrgyz Republic, and Tajikistan. Russia will explore with one or several of these countries partnerships to improve the framework for remittance flows, to encourage diversification of operations of local cost-effective money transfer services, to increase financial literacy of migrant workers and to improve quality of remittance data.

United Kingdom: The UK is developing remittance partnerships with, initially, two countries that receive significant remittance flows from the UK. These partnerships will build on current UK-supported programs, such as those with the FinMark Trust in southern Africa, to strengthen the financial sector, reduce barriers to remittance flows, and improve access to affordable and efficient remittance services.

United States: The United States and the Philippines, the third largest recipient of remittances globally ($8 billion last year with approximately half coming from the U.S.), have agreed to work together to: reduce the cost of sending remittances by fostering competition and the adoption of efficient transmission mechanisms; expand access to remittance services and saving and investment vehicles; and ensure compliance with counter-terrorist financing and anti-money laundering standards.

European Commission: The flow of workers' remittances from the EU is an important source of financing for third countries, including countries neighboring the EU. The Commission is preparing a new legal framework on EU payment services designed to increase the choice of services, make remittance transactions more secure, and enhance transparency and competition in the market. An EU program also assists third countries in the area of migration and asylum, supporting initiatives to reduce remittance transfer costs and to facilitate the use of remittances for productive investments and development initiatives.