International Year of Microcredit 2005

Microfinance and the Millennium Development Goals

A reader's guide to the Millennium Project Reports and other UN documents

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Introduction - This document provides information from key reports on the importance of access to microfinance in achieving the Millennium Development Goals (MDGs).

The MDGs are globally-adopted targets for reducing extreme poverty by 2015. They address income poverty, hunger, and disease; lack of education, infrastructure and shelter; and gender exclusion and environmental degradation (see Appendix for details).

While the MDGs do not formally sets targets for financial sector access, low-income countries need microfinance to achieve the MDGs. Microfinance underpins the achievement of many MDGs and plays a key role in many MDG strategies. Microfinance fosters financially self-sufficient domestic private sectors and creates wealth for low-income people. Indeed, the General Assembly designated 2005 as the Year of Microcredit to underline its importance. By emphasizing access to microfinance in its recommendations, the UN Millennium Project[1] seeks to focus country strategies and programs to build inclusive financial sectors that will catalyze achievement of the MDGs. A good financial sector efficiently manages assets and creates economic wealth for those who have access. If low income people are to manage and grow their assets, they need access to *financial* services. Microfinance is only “micro” because the assets of those living in poverty are micro.

Other high-level development agendas that emphasize microfinance as a critical means to reduce poverty include the G8 Declaration of 2004; the Commission on Private Sector Development, the Brussels Programme of Action; and the Africa Commission Report. This document provides a guide to the relevant microfinance and financial sector access text in these reports.

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[1] The United Nations Millennium Project is an independent advisory body commissioned by the UN Secretary-General to propose the best strategies to meet the MDGs. Ten thematic task forces comprising more than 250 experts from around the world contributed to the analytic work. A synthesis report entitled “Investing in Development: A Practical Plan to Achieve the Millennium Development Goals” captures the main findings and recommendations of the Task Force reports.

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PART ONE - Microfinance and "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals"

> *"Microfinance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half."*[2]

Indeed, microfinance is interwoven into many of the recommended strategies to achieve the Millennium Development Goals. It is an important means of halving poverty by 2015.

Below are key findings and recommendations on microfinance and financial access issues found in the UN Millennium Project's "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals".

Emphasized is the role of savings, credit, remittances, pensions and insurance, and the need to develop private sector and financial sector infrastructures in support of international and national strategies to reduce income poverty by half.

This document's writers advocate that "access to finance" rather than "poverty eradication' should drive the strategies governments adopt to build inclusive financial sectors. Evidence suggests this approach results in more prudent financial sector policies and decisions, while simultaneously and decisively aligning financial sectors to achieve the MDGs. Nevertheless, broad and deep financial sectors that promote access to finance, in particular microfinance, are the bedrock of poverty eradication. Microfinance directly provides low-income people the tools to protect, diversify and increase their sources of income.
Chapter 8 (Investing in Development - Civil Society's Contribution to the Millennium Development Goals): Box 8.5 highlights the

[2] Investing in Development, UN Millennium Project

experience of Bangladesh's Grameen Bank, which has now loaned more than $4.3 billion to nearly 3.4 million borrowers in Bangladesh – half of whom have now crossed over the poverty line. This experience has been transplanted to 35 other counties and cross-fertilized with local communities to meet the needs of millions of families. The box underlines the role that microfinance institutions and international society groups can play in providing technical and policy assistance around the world (page 135).

Chapter 11 (Investing in Development - Investment Priorities for Reaching the Goals in Other Regions): Microfinance can be used to smooth income fluctuations. "During drought, for instance, employment guarantees, microfinance schemes targeted at the hungry, and the protection of livestock-based livelihoods can all play a role in protecting communities exposed to crisis" (page 182).

I. The Role of Microfinance in Reducing Poverty: Strategies Recommended in "Investing in Development"

1. Engage the Informal Economy
Up to 80% of people in developing countries derive their incomes from the informal sector, thus the need for good financial mechanisms to support wealth creation and financial services in this sector.

Chapter 3 (Investing in Development - Why the World is Falling Short of the Goals): "Most of the urban population operates in the informal economy without security of tenure and without formal employment (page 32)…The population is afflicted by low human capital" (page 33).

"Employment is heavily informal, in services and small workshops, and in domestic food processing" (page 33).

Chapter 5 (Investing in Development - Public Investments to Empower Poor People): "Equally important are measures to support the informal sector, where most of the urban poor work in low paid, low productivity, and low security jobs. To facilitate the shift into the formal sector, local authorities should adjust their laws and regulations to lower the costs and increase the benefits for people to formalize their enterprises. They should also provide assistance to small enterprises to upgrade skills and increase access to productive resources and market opportunities" (page 76). Access to quality financial services, in particular microfinance, to bring informal enterprises into the formal economy is critical.

2. Grow Domestic Deposits: Mobilize Micro-saving
Cost effective, secure and accessible microsavings services feed impoverished, cash-strapped economies, and improve the lives of those living in poverty.

Contrary to some beliefs, low-income people save their money. In fact, their savings represent a higher portion of their net assets than those of their counterparts in society's upper income segments. Even in the poorest countries, such as Bangladesh, research indicates that poor households save an average of more than $800USD per year. With access to well-designed savings products, low-income people can accumulate wealth. When aggregated and invested properly, these small, sometimes seemingly insignificant amounts can add fuel to country economic growth.

Chapter 3 (Investing in Development - Why the World is Falling Short of the Goals): Microfinance promotes not only credit, but also inculcates savings that accumulate assets for poor people and benefit country reserves. A low saving rate is one of the serious resource constraints developing countries face. "With low domestic saving there are limited possibilities for indigenous private investment" (page 35).

"With a low saving rate, the amount of capital per person declines, and this leads to economic decline and even more poverty…The finding that saving rates are low in impoverished countries and rise with per capita income is well established" (page 36).

"A big push of aid-supported investment that puts the country on a path of increased savings and self-propelling growth is far more efficient than low quantities of aid that do not change the fundamental growth potential of the economy" (page 52).

"The Least Developed Countries show the lowest saving rate, just 6.7 percent of GNP. This very low level would result in a sharply negative growth rate of per capita income if not offset in part by official development assistance equal to around 11.2 percent of GNP" (pages 37-8).

Chapter 10 (Investing in Development – Africa's Special Needs): "The national income accounts indicate that tropical Sub-Saharan Africa has an average saving rate of about 11 percent, compared with 20 percent in Latin America, 18 percent in South Asia, 19 percent in the Middle East and North Africa, and 34 percent in East Asia and the Pacific" (page 148).

3. Invest in Women

Because of the interconnection of financial power, poverty and women, microfinance has an active role in improving economic equality. Increased economic power enables women to improve other areas of their – and their children's – lives.

Chapter 3 (Investing in Development - Why the World is Falling Short of the Goals): Microfinance can support voluntary approaches to empower "women with skills, literacy, numeracy, and economic rights to engage in off-farm employment" (page 38).

Chapter 5 (Investing in Development - Public Investments to Empower Poor People): Recognizes that "Girls and women usually receive less schooling than boys and men, have poorer access to health care, are at greater risk of contracting sexually transmitted diseases, including HIV, and are less able to start businesses, obtain credit, or enter higher-level occupations" (page 87).

In addition, women have little ownership rights over assets. "Yet, ownership and control over assets such as land and housing provide economic security, incentives for taking economic risks which lead to growth, and important economic returns including income" (page 87).

"To improve women's economic opportunities, governments need to guarantee women effective and independent property ownership and access to security rights, especially land and housing, both in law and in practice" (page 88). Women's rights to own and accumulate assets are enhanced by their access to financial tools, such as microfinance, for housing renovation and development. Furthermore, property rights can impact women's ability to leverage their assets through credit and invest in opportunities to grow their wealth.

4. Facilitate National and International Remittance Flows

National and international remittances and payment systems as important financial tools for those living in poverty are highlighted as key drivers to achieve the Millennium Development Goals.

Chapter 3 (Investing in Development - Why the World is Falling Short of the Goals): "These remittances can increase household income and saving, especially if they can be channeled through a formal financial system, as is now beginning to happen in some countries in Latin America and Asia" (page 48).

5. Develop Local Private Sectors and Invest in Innovation

Microfinance is the progenitor of local private sector development. Microfinance feeds small and medium enterprise development, both propelling the growth of micro enterprises but also fueling the expansion of suppliers and vertical infrastructure needed by larger businesses. Because microfinance creates increased wealth for low-income individuals, it also creates new consumers and markets for businesses of all sizes.

Chapter 5 (Investing in Development - Public Investment to Empower Poor People): "In addition, governments should adopt policies and invest in infrastructure that stimulates small (micro) and medium-size businesses, improves access to credit and other forms of capital, increases participation in international trade, and promotes the integration of regional markets" (page 93).

Chapter 7 (Investing in Development - Governance to Achieve the Millennium Development Goals): "The private sector requires functioning, competitive markets for both inputs and products. Well developed financial markets, which channel resources to entrepreneurs, help reduce the cost of and increase the access to capital. In many countries, the formal banking sector needs to be strengthened through regulatory reform and increased accountability of financial institutions" (page 124).

"The informal economy needs government support in several ways. The government can enable easier access to financial capital by simplifying rules for collateral, increasing flexibility for informal entrepreneurs" (page 124).

Chapter 9 (Investing in Development - Contributions of the Private Sector): Microfinance institutions are successful examples of how private can provide innovative services for poor farmers and entrepreneurs. "Rabobank International has also worked in Uganda and Tanzania and developed financial instruments (risk management tools such as swaps and derivatives) to help small farmers protect themselves against price fluctuations" (page 138).

6. Improve Slum Conditions

Microfinance increasingly supports purchasing living space, home improvement and home building in slums through special savings and loan products. It generates wealth for slum dwellers, enabling them to obtain improved housing.

Chapter 5 (Investing in Development - Public Investments to Empower Poor People): Models must engage those living in poverty in the solutions to poverty eradication and provide them with the financial tools to achieve their goals. "Without the support and participation of the poor, such resettlement programs can lead to the mere relocation of slums –- or much worse. Community organizations can help mobilize the resources of the urban poor to co-finance improvements in housing and investments in basic urban services (including financial)" (page 77).

Chapter 6 (Investing in Development - Key Elements for Rapid Scale-Up): Box 6.1 "Transforming the lives of slum dwellers in Brazil": "In April 2003 significant national government support for the items in the Slum Action Plan was secured when President Lula established a housing fund of $1.6 billion for financing new housing construction and upgrading favela or slum neighborhoods. The fund was also charged with providing direct credit support to families investing in home improvement. A variety of financial instruments, ranging from microcredit to assisted loans, are available to low- and middle-income families" (page 97).

7. Develop Rural Areas and Invest in Food Output

Financial sector access and microfinance are essential for growth in impoverished rural areas.

Chapter 3 (Investing in Development - Why the World is Falling Short of the Goals): The importance of developing and diversifying rural economies is clearly a top priority. "First, it (a strategy to achieve the MDGs) would target a rise in rural productivity, a Green Revolution to raise food output. This would accomplish several important objectives and trigger a structural change in the economy. It would enable farmers to feed their families. It would provide low-cost food for the rest of the economy. It would accelerate the transition to commercial agriculture and to urbanization (as fewer households are engaged in food production). The urbanization and movement of human resources into nonagricultural productive sectors would diversify the economy and the export base" (page 33). Financial services to rural populations are critical to enabling this to happen.

Chapter 5 (Investing in Development - Public Investments to Empower Poor People): "Remember that these (rural) farmers also constitute the bulk of private sector economic activity in many developing countries, so improving their economic lot will make a huge difference to their countries' prospects for long-term economic growth" (page 65, 67).

Recommended interventions to jumpstart rural development stress access to microfinance as a key requirement to increase investment in rural development and it is further stated that the: "extension of the formal banking system and provision of microcredit services" is a requirement for sustained growth and rural development.

"To further improve farmers' ability to market their products and access markets, national strategies can focus on building storage facilities, encouraging networks of agrodealers, and improving credit and savings facilities. All these investments will succeed when smallholder farmers and rural communities are empowered to establish their own institutions – for example, farmer field schools to gain access to new agricultural technologies, village banks to gain access to financial services, and farmers' associations to negotiate with market intermediaries" (page 71).

"Equally important are measures to improve access to low-cost transport services. Examples include providing access to credit, ensuring efficient transport markets through legislation, lowering entry costs into the transport market, and improving supply of low-cost vehicles, bicycles, and other means of transport" (page 70-1).

8. Improve Health Services

Microfinance can contribute to financing health initiatives and create wealth for low-income people so that they can afford health services. Healthy clients also reduce credit risk.

Chapter 8 (Investing in Development - Civil Society's Contribution to the Millennium Development Goals): Microfinance is critical to upgrading health services though savings, loans and insurance products for poor people; and by investing in professional medical entrepreneurs. "Care International, working in more than 70 countries, reaches 45 million people with emergency and humanitarian relief efforts in addition to longer term primary healthcare, education, savings and loan schemes, and agriculture programs. Such efforts can be hugely important for achieving the broad range of health MDGs" (page 136).

Chapter 11 (Investing in Development - Investment Priorities for Reaching the Goals in Other Regions): In China, "the public health system is under severe stress, with rural health insurance coverage falling from 90 percent to less than 10 percent between the 1970s and 1998… As a result, the vast majority of people in rural areas must pay out of pocket for all health services, which can result in financial catastrophe for those with serious illness and has been found to be a major contributor to rural poverty in China's villages" (page 159).

II Extending Microfinance: Barriers Identified in "Investing in Development"

1. Lack of Relevant Data

In microfinance, the availability of hard financial sector data to answer the simple question of "who has access to what, and what is the quality of that access?" is nearly impossible to come by.

Chapter 6 (Investing in Development - Key Elements for Rapid Scale Up): Of fundamental importance is the collection of valid and reliable indicators of financial sector access, and the impact of aid and investment dollars on growing or stunting access to quality financial services, and strong, inclusive, stable financial sectors. "Sustainable statistical capacities must be available to run population and housing censuses, conduct household surveys, set up vital statistics and health information systems, and compile indicators on food, agriculture, education, and the economy, among other areas" (page 107).

Of particular importance is the need for data to measure cash flow down-stream into the bottom income segments of countries.

Chapter 7 (Investing in Development - Governance to achieve the Millennium Development Goals) – Box 7.1: "They (the World Bank) evaluate economic management (debt, macroeconomic and fiscal policies), structural policies (trade, financial, private sector strategies), policies for social inclusion and equity and public sector management and institutions (rule of law, financial management, efficiency of public administration, transparency, accountability, corruption)" (page 111). But neither the Bank nor the International Monetary Fund, nor any other major financial sector statistics holding house such as the Bank for International Settlements, monitors the quality and quantity of access to financial services for the bottom income segments of the world in an on-going, systematic and cross-comparable way.

Chapter 6 (Investing in Development - Key Elements for Rapid Scale Up): "Of 56 countries and areas in Africa, 19 have not conducted a population census in the last 10 years, nearly twice as many as in the previous 10…The recent Marrakech Action Plan for Statistics recommends a global framework for addressing current gaps in statistical capacity by mainstreaming strategic planning of national statistical development strategies, beginning rapid preparations for the upcoming census round in 2010, establishing an international household survey network, harmonizing donor support for survey programs, and increasing international financing for national statistical capacity building by approximately $150 million a year" (page 107).

2. Financial Sector Infrastructure Support
Access to microfinance is stifled by a lack of fiscal, regulatory and supervisory policies to promote rather than stunt deep, broad and inclusive financial sectors.

Chapter 6 (Investing in Development - Key elements for Rapid Scale Up): "This makes reinvesting in public sector management an urgent need today. Our definition of public sector management includes planning, financial systems, human resource management, reporting and accountability structures, data and information systems…" (page 100).

PART TWO - Microfinance and the UN Millennium Project Task Force Reports

Below are key findings and recommendations on microfinance and financial sector access in the UN Millennium Project Task Force Reports.

Evidence that microfinance can positively affect various dimensions of poverty is corroborated by three separate Task Force Reports, on alleviating hunger; balancing access to education and gender equity; and improving living conditions in urban areas. In addition, the Task Force on Education and Equality stresses the need to go beyond credit to offer a wide range of financial services to women, including savings and insurance.

1. Task Force on Hunger
"Halving Hunger: It Can Be Done"

Key Recommendation - "Increase incomes and make markets work for the poor: improve access to financial services for the poor and food-insecure" (page vii).

Access to quality financial services is central to achieving the hunger reduction goal. "Access to credit and other financial services is a particular problem for food-insecure farmers. A system of loan guarantees could encourage poor people to take the risk of borrowing and financial institutions to lend to poor people. Community groups established to borrow on behalf of their members can mitigate risk and make lending more attractive to financial institutions. A promising possibility is to integrate loans with saving services, allowing members to save regularly in small amounts" (page 20).

2. Task Force on Education and Gender Equality
"Towards Universal Primary Education: Investments, Incentives and Institutions" and "Taking Action: Achieving Gender Equality and Empowering Women."

Gender equity is essential to achieve the MDGs. Microfinance provides women with financial tools to increase their incomes through small businesses. "Another avenue for increasing income for poor women is through microenterprise development. Microfinance programs have become a popular economic strategy over the past two decades to assist poor and landless women to enter self-employment or start their own business" (page 12).

A variety of financial and business tools are needed by women to ensure real wealth creation. "In order to have greater impact, however, microfinance programs need to be coupled with other types of products and services, including training, technology transfer, business development services, and marketing assistance, among others" (page 12-3).

Savings and insurance products, important financial services required to address the full range of financial needs of women, have been neglected. "More attention also needs to be given to innovative savings and insurance instruments for low-income women" (page 13, 100).

3. Task Force on Improving the Lives of Slum Dwellers
"A Home in the City"

Key Recommendation - "Formal and informal private service providers, developers, and domestic financial institutions will be needed to reach scale" (page 9).

Microfinance is a means to invest in small-scale enterprise, informal and self-employment opportunities to increase incomes in cities. "In the final analysis, access to employment is in itself a means toward inclusion and poverty reduction. It can also provide the financial means to adequate housing and related essential services. This requires access to sustainable sources of livelihood (through formal, informal, or self-employment) as well as acknowledging the importance of the informal economy" (page 6).

The financial sector and policy infrastructure must support, not hinder, the growth of enterprises and employment opportunities for slum dwellers. "To facilitate slum dwellers to take advantage of employment opportunities, cities need to eliminate restrictions and unreasonable burdens to local enterprise development. This includes reducing the costs and increasing the benefits of formalization (by, among other means, enhancing security as well as access to public procurement and relevant information on market opportunities, and business development support)" (page 6).

An enabling environment for lifting income levels of slum dwellers requires financing tools. "Finance, business development services, education and skill-training are vital elements for an enabling environment for adequate job creation and income levels" (page 6).

PART THREE - A Guide to Microfinance and Financial Sector Access References in the other Key International Reports

Below is a guide to the specific references to the importance of microfinance and access to finance in key United Nations and other documents.

1. "In Larger Freedom: Towards Development, Security and Human Rights For All"; Report to the Secretary-General

The report to the Secretary-General, in its call for a renewed commitment on the part of the international community to reach the MDGs, cites microfinance as a tool for private sector development and sustained economic growth. According to this report, the road to "freedom from want" must include the ability to access capital.

"Without dynamic, growth-oriented economic policies supporting a healthy private sector capable of generating jobs, income and tax revenues over time, sustainable economic growth will not be achieved. This requires significantly increased investments in human capital and development-oriented infrastructure, such as energy, transport and communications. In addition, small and medium-sized firms require a favourable legal and regulatory environment, including effective commercial laws that define and protect contracts and property rights, a rational public administration that limits and combats corruption, and expanded access to financial capital, including microfinance" (Paragraph 37, page 13).

2. G8 Declaration on expanding Access to Microfinance for Entrepreneurs (2004)

In the final declaration of the 2004 G8 Summit, leaders stressed microfinance's contribution in the continuum of services needed to support the economic fabric of developing countries. They announced their support to far reaching initiatives in the upcoming years: "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 Microcredit" in 2005, G8 countries will:

- Focus on institutional best practices for expanding and mainstreaming sustainable microfinance.
- Reduce barriers for growing microfinance institutions to gain access to domestic and international capital markets.
- Encourage, where needed, the establishment and expansion of self-sustaining microfinance investment funds.
- Assist developing countries to improve their legal and institutional frameworks for microfinance so it can become sustainable and more widely available.
- 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"

3. 2001 Brussels Declaration and the Programme of Action for the Least Developed Countries (LDCs) for the Decade 2001-2010

The Brussels Declaration recognizes microfinance as particularly suited to support poverty alleviation efforts in the context of LDCs, where the informal sector represents the predominant source of employment and income-generating opportunities. The Declaration includes a number of commitments aimed at promoting greater access to financial services for the poor, and calls for integrated policies and strategies to build appropriate mechanisms to deliver these services:

Commitment 1: Fostering a people-centered policy framework
"Building on successful policy reforms and continuing efforts toward sound economic management with a view to attaining levels of

economic growth necessary for reaching the objectives of the Programme of Action, including through focusing efforts in the areas of fiscal and financial sector reform and promotion of microcredit" (Paragraph 24b, page 16).

Commitment 3: Building human and institutional capacities
"Social Integration - Actions by LDCs: Establishing and strengthening microcredit institutions in view of their capacity to make available credit, mobilize savings and provide related financial and business services for an increasing number of people living in poverty, particularly women" (Paragraph 41e, page 29).

"Social Integration - Actions by development partners: Supporting the strengthening of existing and emerging microcredit institutions in LDCs" (Paragraph 41c, page 29).

Commitment 4: Building productive capacities to make globalization work for LDCs
"Enterprise Development / Actions by Development Partners: Complementing the domestic efforts of LDCs by supporting programmes to improve access of informal, small and medium-sized enterprises to financial and business services, inter alia through public and private venture capital funds and partnerships as well as microcredit mechanisms" (Paragraph 53(ii)a, page 34).

Commitment 7: Mobilizing financial resources
"Domestic Resource Mobilization - Actions by LDCs: Promoting innovative financial mechanisms such as microcredit programmes to mobilize savings and deliver financial services to the poor, including smallholders and the self-employed, particularly women, within an appropriate legal and regulatory framework" (Paragraph 80(i)d, page 55).

4. Report of the International Conference on Financing for Development (Monterrey, Mexico)

The Monterrey Consensus notes the importance of strengthening domestic financial sectors to include underserved markets. "Microfinance and credit for micro-, small and medium-sized enterprises, including in rural areas, particularly for women, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector" (Paragraph 18, page 4).

It further underlines the critical importance of: "enhancing the coherence and consistency of the international monetary, financial and trading systems" (page 12) and pledges a commitment to "mobilizing domestic resources" (paragraph 4, page 2). The security and engagement of the savings of poor and low income people in the economy, and diversification of country cash flows are crucial both for the populace and country economic growth. However, these savings must be efficiently and prudently invested back into development.

The need for a range of financial instruments and institutions is underscored. "Development banks, commercial and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises, as well as an adequate supply of medium- and long-term credit. In addition, the promotion of private-sector financial innovations and public-private partnerships can also deepen domestic financial markets and further develop the domestic financial sector." (Paragraph 18, page 4)

PART FOUR - Microfinance in “The Commission for Africa Report: Our Common Interest”

Recognizing that microfinance constitutes a vital component of many African households’ survival strategies, the Commission for Africa offers a detailed analysis of the many constraints to financial services, access and the link between restricted financial access and poverty. It calls for a series of actions in the areas of institution building, regulatory reform and partnerships. Key areas where microfinance and access to financial services are highlighted are outlined below.

“Small enterprises suffer most from a poor investment climate. Access to credit and other financial services is important to growth and investment, yet few small businesses or individuals are able to get the access they need” (page 46).

“Africa needs a strong and vibrant small enterprise sector that operates in the formal economy, and is heard in policy discussions. One of the key messages of the Economic Commission for Africa’s Big Table meeting in Addis Ababa in October 2004 was that each government in Africa should develop a small enterprise development strategy, as part of or alongside their national poverty reduction strategies” (page 100).

“In most African countries, domestic demand is low and market opportunities are few and far between. But even where market opportunities exist, small enterprises may not be able to take advantage of them: constrained by a lack of access to finance, to business know-how and information, and to infrastructure and technology – what can be collectively referred to as poor ‘market linkages’” (page 105).

“Small enterprises cannot grow in isolation and need access to a range of financial and non-financial services to take advantage of market opportunities. Access to credit is a constraint facing many small enterprises, especially farmers. Micro-finance institutions (MFIs), from *susus* in Ghana to *tontines* in Francophone countries like Cameroon, have grown under the pioneering work of non-government organizations. But much more needs to be done in this area. Levels of financial exclusion – the number of people without access to bank accounts – can run as high as 90 per cent in some African countries. The UN General Assembly has designated 2005 as the International Year of Micro-Credit. The importance of microfinance was also raised in the 2004 G8 Summit in Sea Island. We welcome this renewed focus and stress the importance of all aspects of finance (credit, savings, deposits, insurance services and pro-poor mortgage mechanisms) for the successful development of enterprises in Africa. Governments should encourage development of a variety of financial intermediaries that serve poor people with diverse financial services, not just loans” (page 106).

“MFIs alone are not the answer. Banks and other financial institutions, domestic and international, have far greater resources to take up the challenge of enterprise financing and come up with innovative financing schemes. In this area, there is a need to build on existing efforts of partnership between MFIs and commercial banks, as already observed in some countries, like Guinea and Tanzania (page 107).

“African countries also need a regulatory framework that supports microfinance and its integration into the financial sector. The need for comprehensive reforms in the financial sector was discussed earlier, and is a focus of the proposed Investment Climate Facility” (page 108).

Recommendation: “Fostering small enterprises through ensuring better access to markets, finance, and business linkages, with a particular focus on youth and women, as well as the family farms that employ so many people in Africa.”

PART FIVE - Microfinance in “Unleashing Entrepreneurship: Making Business Work for the Poor”; Commission on the Private Sector and Development (2004)

The report presented by the Commission on the Private Sector and Development gives microfinance and financial sector development significant roles in the growth of the private sector and its contribution to poverty alleviation and economic justice. The report analyzes the many different channels through which financial sector deepening provides the impetus for private sector-led poverty reduction. It also presents a number of concrete examples that illustrate how reliable access to financial services for the poor can be achieved through innovation and strategic partnerships:

Highlights

“Small and medium enterprises can be engines of job creation—seedbeds for innovation and entrepreneurship. But in many poor countries, small and medium enterprises are marginal in the domestic ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on” (page 1).

Recommendations

“In the public-private sphere, facilitating cooperation and partnerships between public and private players to enhance access to such key factors as financing, skills and basic services” (page 2).

“Facilitate access to broader financing options. We envision continuing development of domestic financial markets coupled with skill-building for regulators and private financial institutions” (page 3, 40).

Chapter 1: Examples of Private Sector Involvement

ICICI Bank, also in India, is applying technology and a comprehensive approach to the full range of its client base — particularly in rural markets and to small and medium enterprises and microentrepreneurs. In Mozambique, a farmer bought an oilseed press on credit. Now as the owner of four presses, he has organized nine other press operators into a small cooperative association, bargaining with local banks and customers as a group.

Chapter 1: Women Microentrepreneurs

“In many developing countries, women constitute the majority of microentrepreneurs in the informal economy and a significant percentage of the formal sector. Many of them are illiterate and live in poor rural communities. And setting up their own enterprises—generally microenterprises—is usually the only possibility for them to be employed and earn an income on their own” (page 9).

“Frequently, the only option for access to capital is through illegal moneylenders who charge high rates and who may be able to lend only small sums relative to the needs of a growing enterprise” (page 12).

Chapter 2: Constraints

“Entrepreneurs also see little benefit in going formal. While formal businesses in developed countries can raise capital by mortgaging their assets, this is often not possible in many developing countries where mortgage laws are weak and banks prove reluctant to finance small players” (page 13).

“Perhaps most important, small and medium enterprises lack access to financing and long-term capital, the base that companies are built on. High risks associated with small and medium enterprises, whether real or perceived, exist in the absence of financial instruments that manage and diversify the risk” (page 14).

“Banks also face high costs or cannot acquire information that they can trust, even when small and medium enterprises are creditworthy. These factors raise interest rates and reduce lending volumes, setting up price and quantity barriers to small and medium enterprise growth” (page 14).

“Many countries lack rules for sharing credit information, which makes it virtually impossible for creditors to check how indebted a potential client already is. In addition, creditors have limited protection in the case of default, significantly lessening their willingness to assume the risks associated with small and medium enterprise lending” (page 18).

Chapter 3: Reforming finance and access to capital

“Governments should play a key role in creating and building long-term and sustainable financial institutions and infrastructure, strengthening the banking system to make it competitive” (page 26).

“Policymakers should concentrate on reducing barriers to access to finance, recognizing that access is generally more important than the cost of financing. They should recognize that subsidized credit programmes are unsustainable and unnecessary and that reducing transaction costs and increasing innovation and productivity among financial service providers are more important” (page 26).

Chapter 4: Engaging the private sector in development

“Many private actors outside the traditional development community are addressing the challenges of development:
- Large corporations (both multinational and local) are leading private ecosystems that develop and strengthen the capabilities of local small and medium enterprises and microenterprises.
- Global financial institutions and emerging local financial institutions are developing innovative approaches and technologies to improve access to credit for the poor and for small and medium enterprises” (page 30).

Chapter 4: Examples of Microfinance Successes

“**In the financial sector:** ICICI Bank-India is offering innovative ways to deliver financial services to the poor” (page 32).

“**In the retail sector:** Casas Bahia, the largest retailer in Brazil, focuses almost entirely on poor consumers. It uses a carne, or passbook, system of financing that allows poor customers to buy on credit” (page 32).

“**In the cement sector:** CEMEX, Mexico’s largest and the world’s third largest cement company, created two key programmes to tap the large poor population of Mexico, where 60% of the people survive on less than $5 a day” (page 32).

“**In the cellular network sector**: GrameenPhone is the largest cellular operator in Bangladesh. Vodacom is a South African subsidiary of Vodafone and the largest operator in South Africa. Both companies work with local entrepreneurs who acquire cellular phones and resell phone services within their villages” (page 32).

Chapter 5: Recommended Actions

“Public-private sphere: Partner and innovate: Facilitate access to broader financing options. We envision continuing development of domestic financial markets coupled with skill building for regulators and private financial institutions. We see great promise in facilitating the South-South transfer of expertise between financial institutions and public regulators. Broad alliances for microfinance, as part of the United Nations International Year of Microcredit 2005, and for small and medium enterprise lending could develop financially sustainable models. Innovative schemes are also needed to transform financial flows from the many Diasporas into long-term productive investment in their home countries” (page 40).

PART SIX - Monitoring the MDGs through Microfinance Indicators

The following are examples of potential measures of access to financial services.

Goal 1 - Eradicate extreme poverty and hunger
Indicator:

- Percentage of the households of all countries with access to quality financial services (including credit, savings, insurance and transfer and other services)
- Percentage of households with life, health, motor vehicle or household insurance
- Percentage of enterprises reporting credit refusal in last year
- Percentage of country households able to access appropriate, secure, wealth-growing pension products
- Percentage of country households with a residential mortgage

Goal 2 - Achieve universal primary education
Indicator:

- Percentage of students able to access appropriate financial services for education needs
- Percentage of financial institutions offering secure and reasonable education savings services to poor and low income people
- Availability of education savings incentive programs
- Percentage of the children of microfinance clients attending school
- Percentage of women reporting refusal of credit for education purposes in last year

Goal 3 - Promote gender equality and empower women
Indicator:

- Percentage of women able to access appropriate financial services for business, consumption and wealth creation needs
- Percentage of financial institutions that permit poor women sole title on savings accounts
- Percentage of financial institutions that permit poor women to take out loans in their own name
- Percentage of financial institutions that tailor their products specifically to meet the needs of women
- Percentage of female children of microfinance clients attending school
- Percentage of women reporting credit refusal in the last year

Goal 4 - Reduce child mortality
Goal 5 - Improve maternal health
Goal 6 - Combat HIV/AIDS, malaria and other diseases
Indicator:

- Percentage of poor people able to access appropriate, affordable and quality health insurance
- Percentage of poor people able to access appropriate, affordable and quality credit in times of medical crisis
- Percentage of households with secure and quality savings services to use in health emergencies
- Percentage of microfinance clients with loan insurance in the event of medical emergency
- Percentage of financial institutions providing credit to private doctors and medical clinic start ups that intend to serve poor and low income client groups
- Percentage of households with poor credit history resulting from family health issues

Goal 7 - Ensure environmental sustainability
Indicator:

- Percentage of financial institutions offering microfinance and other financial services that promote environmentally sustainable businesses and alternatives
- Percentage of slum dwellers, and other poor and low income people who can access microfinance for home improvements

Goal 8 - Develop a global partnership for development

Indicator:

- Percentage of Least Developed Countries receiving adequate support to develop inclusive financial sector infrastructure
- Percentage of countries with statistics on access to financial services by households
- Percentage of foreign owned financial institutions serving the bottom income population segments with financial services.

International Year of
Microcredit 2005

APPENDIX – Millennium Development Goals

Goal 1 Eradicate extreme poverty and hunger

Target: 1 Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Goal 2 Achieve universal primary education

Target: 3 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Goal 3 Promote gender equality and empower women

Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015

Goal 4 Reduce child mortality

Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

Goal 5 Improve maternal health

Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Goal 6 Combat HIV/AIDS, malaria and other diseases

Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

Goal 7 Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation

Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers

Goal 8 Develop a global partnership for development

Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development and poverty reduction – both nationally and internationally)

Target 13: Address the special needs of the Least Developed Countries (includes tariff- and quota-free access for Least Developed Countries' exports, enhanced programme of debt relief for HIPCs and cancellation of official bilateral debt, and more generous ODA for countries committed to poverty reduction)

Target 14: Address the special needs of landlocked countries and small island developing states (through the Programme of Action for the Sustainable Development of Small Island Developing States and the twenty-second General Assembly provisions)

Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

Target 17: In cooperation with pharmaceutical companies; provide access to affordable essential drugs in developing countries

Target 18: In cooperation with the private sector; make available the benefits of new technologies, especially information and communication technologies