Chapter 3

Microfinance in Global Perspectives

The microfinance movement is bringing hope, prosperity, and progress to many of the poorest people in the world.--

Amartya Sen, Nobel Laureate in Economics (1998)

3.1 UN Mandate

At the Millennium Summit in September 2000, 189 states of the United Nations reaffirmed their commitment to working toward a world in which sustaining development and eliminating poverty would have the highest priority. The Millennium Development Goals (see box on next page) grew out of the agreements and resolutions of world conferences organized by the United Nations in the past decade. The goals have been commonly accepted as a framework for measuring development progress.

The goals focus the efforts of the world community on achieving significant, measurable improvements in people's lives. They establish yardsticks for measuring results, not just for developing countries but for rich countries that help to fund development programs and for the multilateral institutions that help countries implement them.

In 2003, more than 700 parliamentarians wrote to the heads of the World Bank, the regional development banks, and the UNDP about the importance of sustainable microfinance for the very poor in reaching the MDG on reducing poverty, the need
to expand resources going to microfinance, and the need to guarantee that half of the spending reaches those living on less than US$1 a day. Then-World Bank President James Wolfensohn wrote back saying he agreed that “microfinance has been demonstrated as a powerful impact in improving the livelihood of the poor, and a crucial role in reducing poverty” and that the poor’s ability to access financial services “is a critical condition for the attainment of the Millennium Development Goals.”

The Millennium Development Goals

- Eradicate extreme hunger and poverty. Halving the proportion of people living on less than $1 a day and halving malnutrition.
- Achieve universal primary education. Ensuring that all children are able to complete primary education.
- Reduce child mortality. Cutting the under-five death rate by two-thirds.
- Improve maternal health. Reducing the maternal mortality rate by three-quarters.
- Combat HIV/AIDS, malaria and other diseases. Halting and beginning to reverse HIV/AIDS and other diseases.
- Ensure environmental stability. Cutting by half the proportion of people without sustainable access to safe drinking water and sanitation.
- Develop a global partnership for development. Reforming aid and trade with special treatment for the poorest countries.


The General Assembly stressed in resolution 57/266 of 20 December 2002 that the first United Nations Decade for the Eradication of Poverty (1997-2006) should
contribute to achieving the targets of halving, by 2015, the proportion of the world's people whose income is less than one dollar a day.

The General Assembly, at its fifty-third session, adopted resolution 53/197 of 15 December 1998, in which it proclaimed 2005 as the International Year of Micro credit and requested that the observance of the Year be a special occasion for giving impetus to micro credit programmes throughout the world and invited Governments, the United Nations system, all concerned non-governmental organizations, other actors of civil society, the private sector, and the media to highlight and give enhanced recognition to the role of micro credit in the eradication of poverty.

3.2 World Micro Credit Summit

The Micro credit Summit—a civil society-organized summit with a profound commitment to "break with business as usual and dramatically accelerate and scale up action." The World Micro Credit Summit was held in Washington DC in February 1997. More than 2,900 people representing 1,500 institutions from 137 countries participated in the Summit. The Summit announced a audacious campaign and global target of supporting 100 million of the world's poorest families, especially women, with micro credit for self-employment and other financial and business services by the year 2005.

After the World Summit for Social Development in Copenhagen in March 1995, this Summit was in many ways a landmark event which also

1) Broke with the tradition of excluding the poor from access to financial services,

2) Broke with the tradition of excluding the poorest from international development, and
3) Made a commitment to dramatically accelerating and scaling up action in order to reach 100 million of the world's poorest families by the end of 2005.

Four core themes were stressed as part of a 55-page Declaration and Plan of Action.

- **Reaching the poorest**: 1.2 billion people - some 240 million families - in the world are living in absolute poverty. This is the group that is targeted by the Micro credit Summit. The Summit promotes the use of quality poverty measurements to identify the poorest.

- **Reaching and empowering women**: Since women are supposed to be good credit risks, and women-run enterprises yield benefits for their families, micro credit is seen as a tool to empower women.

- **Building financially self-sufficient institutions**: This theme is based on the experience of developing countries which have shown that micro credit programs can improve their efficiency and structure their interest rates and fees to eventually cover their operating and financial costs. The Campaign offered daylong courses at global and regional meetings held from 1999 through 2001, which trained practitioners in this regard.

- **Ensuring a positive, measurable impact on the lives of clients and their families**: Two impact evaluation studies conducted by an NGO, Freedom From Hunger, showed that current clients of its affiliate institutions in Honduras and Mali had experienced positive program impact at the individual, household and community levels. The studies showed the higher levels of empowerment of client households as compared to non-client households in terms of larger enterprises, increases in personal income and household food consumption, savings and a feeling of self-esteem.

These four core themes of the Summit Campaign help to focus on both the targeted poor households as well as on the quality of the practitioner's work. After the 1997
Washington Summit, by December 1999 more than 1600 micro credit institutions joined the Summit's Council of practitioners. In doing so each institution had endorsed the Summit goals and agreed to submit an Action Plan within one year of joining the council. In November 1999, Institutional Action Plan grids were mailed for the year 2000 to the 1,600 institutions.

In India the All India Women's Conference was designated to collect data for this survey. All practitioner-Action Plans submitted were reviewed by the Summit staff. In an effort to verify the data, the fifty largest institutions in Africa, Asia, and Latin America were asked to identify donor agencies, research organizations and networks that could take up this task. The survey findings from the larger survey of 1,065 micro credit institutions were indeed encouraging and discussed below.

Review of summit campaign
Several microfinance institutions, in countries such as Bangladesh, Bolivia and Uganda, have achieved the first two goals and substantially contribute toward the third and fourth goals. These institutions are proving that large numbers of the poor can be reached while also achieving financial self-sufficiency.

The Campaign required a 38.1 percent growth rate per year from its starting point of 7.6 million poorest families at the end of 1997. But it managed to achieve overall growth of just over 36 percent per year

REVIEW OF TARGET "REACHING 100 MILLION POOREST BY THE END OF 2005"

Between 1997 and 2003, data released by the Micro credit Summit Campaign has showed an average annual growth rate sufficient to reaching 100 million of the world's poorest families with micro loans by the end of 2005. This year's report, however, outlines the first decline in that estimate. While it is clear that more than
100 million families will be reached by the end of 2005, the 100 million poorest benchmark may not be achieved until the end of 2006 or 2007. That said, progress to date remains remarkable and is one of the bright spots in the field of international development.

The reason we can say that the 100 million poorest goal will be reached when attempts at reaching other development goals all too often fail is because microfinance uniquely addresses two of the greatest constraints to reaching international development targets: 1) insufficient funds and 2) the failure of many development initiatives to reach the very poor.

Conclusion and Recommendations

- Capitalize on the existing momentum created by the Microcredit Summit Campaign's integration workshops by promoting and supporting the continuation of workshops and other mechanisms for disseminating integration strategies.
- Sponsor trips for donor agencies, journalists, and parliamentarians to visit leading microfinance institutions that integrate sustainable microfinance for the very poor with reproductive and other health education.
- Explicit and vocal support of combined reproductive health education and microfinance services, along with the promotion of microfinance as a key mechanism for poverty reduction, are crucial to realizing our shared human development goals.

Re-launching the Microcredit Summit Campaign to 2015 the Executive Committees of the Microcredit Summit Campaign and of RESULTS Educational Fund agreed to extend the Campaign to 2015 with two new goals. The decision reflects a commitment to deepen the Campaign's contribution to fulfilling the Millennium Development Goals, especially the goal of cutting absolute poverty in half by 2015. The two new goals are:
1. To ensure that 175 million of the world’s poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the end of 2015. (With an average of five in a family this would affect 875 million family members.)

2. To ensure that 100 million of the world’s poorest families move from below US$1 a day adjusted for purchasing power parity (PPP) to above US$1 a day adjusted for PPP, by the end of 2015. (With an average of five per family this would mean that 500 million people would have risen above US$1 a day nearly completing the Millennium Development Goal on halving absolute poverty.)

As exciting as these new goals are, they presents a significant measurement challenge. In fact, twice now the Micro credit Summit Campaign has set goals for which there were no widely-known, cost-effective ways to measure progress. This was certainly true regarding cost-effective poverty measurement tools when the Summit was launched in 1997 with its “100 million poorest” goal. The lack of such tools stood as a critical barrier to achieving the Micro credit Summit’s poverty-focused goal. When a quantifiable goal is set without ways to measure progress, the goal can be rendered meaningless.

The Campaign, however, has worked tirelessly to answer this challenge and this work has been one of our greatest contributions to the field. For example, a Poverty Measurement Discussion Group in 1997 led to the creation of a Poverty Measurement Tool Kit in 1998, which includes the tools discussed earlier: 1) Participatory Wealth Ranking (PWR) and 2) the CASHPOR House Index (CHI), and their dissemination. With the new goal to have 100 million of the world’s poorest families move above US$1 a day adjusted for PPP, we are faced with a new measurement challenge—the need for cost effective tools that measure whether a
family moves from below US$1 a day to above US$1 a day. It is a challenge we will meet over the next several years.

One difference between the 1997-2005 challenge and the 2006-2015 challenge is the new U.S. law that requires development and certification of cost-effective poverty measurement tools that measure US$1 a day poverty. These new tools might both provide reasonable assessment of whether a family starts below US$1 a day and, if applied on a consistent basis, whether the family moves above US$1 a day.20

USAID has commissioned the IRIS Center at the University of Maryland to develop accurate yet cost-effective poverty measurement tools in response to the new U.S. law. A team of researchers has tested over 700 basic indicators against the more rigorous Living Standards Measurement Study (LSMS), the more costly tool used by the World Bank and others to determine US$1 a day poverty, to see which of the low-cost indicators correlates most closely with the more rigorous tool. The accuracy tests have been completed successfully and the practicality tests have begun. More information on the project is available at www.povertytools.org or on the USAID Microenterprise Division's website www.microlinks.org.

3.2.1 Regional and Global Meetings 2004–2006

Micro credit Summit’s Asia/Pacific Meeting in 2004 and Africa/Middle East Meeting in 2004 promoted by the UN as official events of the International Year of Micro credit where government finance ministries Asia and/or Africa participated in the meetings in a special session on creating legal and regulatory frameworks for successful microfinance and on the creation of autonomous microfinance funds.

UNDP Administrator Mark Malloch Brown convened an inter-agency group that included practitioners and the private sector to determine how micro credit can more fully contribute to halving absolute poverty by 2005. Since the relation between
Microfinance and human development has been long researched, acknowledged and documented. There have been a series of meetings and summits that have been held over the last few years, to design an approach that can be followed by all countries across the globe. The meetings worked towards contributing inputs for the World Micro-Credit Summit Campaign held in February 1997, and International Year of Microcredit 2005.

The South Indian Consultation was held in Hyderabad, India on 23-24 August 1996. A meeting of 20 practitioner NGOs, development financial institutions and development professionals arrived at a common position and action plan.

The Dhaka Declaration of the South Asian Coalition for the Micro-credit Summit articulates the collective consensus among 21 networks and agencies delivering financial services to over 4.5 million poor people across Bangladesh, India, Nepal and Pakistan. It endorsed the importance of micro-credit and emphasized that microcredit should be approached as a socially responsible business.

A group of NGOs and development finance institutions met in New Delhi on 23 January, 1997. The objective was to review the progress made and to discuss modifications to the draft documents released by the Summit Secretariat in November 1996.

In 2005, the Microcredit Summit completed the third in its most recent series of regional meetings. In February 2004, more than 1,200 delegates from 47 countries attended the Asia/Pacific Microcredit Summit Regional Meeting in Dhaka, Bangladesh co-hosted by the Palli Karma-Sahayak Foundation (PKSF). In October 2004, 650 delegates from 75 countries participated in the Middle East/Africa Microcredit Summit in Amman, Jordan that was co-hosted by the Arab Gulf Program for United Nations Development Organizations (AGFUND) in Saudi Arabia. And in April 2005, more than 1,100 delegates from 38 countries came to Santiago, Chile for
the Latin America/Caribbean Region Meeting co-hosted by Banco Estado and other leading Chilean institutions.

Regional Conference on Microfinance in South Asia

The World Bank and the Consultative Group to Assist the Poor (CGAP) organised a Regional Conference on 'Microfinance in South Asia - Today and Tomorrow' in New Delhi from December 5-7, 2005 with the objective to highlight and promote ideas and initiatives to build strong national sustainable microfinance sectors. It also aimed to improve the policy and regulatory environment that will take microfinance to the next level and help build stronger regional linkages between stakeholders in South Asia. The Conference brought together practitioners and microfinance experts from around the world, especially from all the countries in the South Asia region. Ela Bhatt, Chairperson, Sa-Dhan gave the keynote speech. Participants included representatives from commercial banks, government, regulators and other stakeholders from India and other South Asian countries. The conference also had senior level participation from the World Bank and CGAP.

High Level Policy Conference on Microfinance in India - 03 to 05 May 2005

After witnessing a massive growth in expansion of the SHG - Bank Linkage in the past few years, NABARD organized a National Level Policy Conference at New Delhi India to take stock of: progress in the field of microfinance, chart out the road map for the future and draw the future role of NABARD. This was a major event after the National level Conference on SHG - Bank Linkage in November 2002 in New Delhi. The present high level policy conference was a combined effort of two key support agencies for the microfinance movement in the country viz. GTZ and SDC. The present conference was attended by 99 participants representing government, banks, para-statal bodies, NGOs, microfinance experts, donors & domain experts and academics from India & abroad.
3.3 International Year of Microcredit 2005

The international year of micro credit 2005 underscores the importance of microfinance as an integral part of our collective effort to meet the Millennium Development Goals. Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care and empowering people to make choices that best serve their needs. Together we can and must build inclusive financial sectors that help people live.

UNITED NATIONS SECRETARY - GENERAL KOFI ANNAN

VISION

The Year of Microcredit 2005 provided an opportunity for the international community to raise awareness about the importance of microfinance in eradicating poverty, and to enhance existing programmes that support sustainable, inclusive financial sectors worldwide.

The vision of the Year of Microcredit 2005 was carved out as a result of realization of the potential of efforts to provide financial services to poor and low income people in helping the achievement of Millennium Development Goals — in particular the goal of cutting in half the number of people living in extreme poverty by 2015. Estimating the unmet demand for microcredit at 400 to 500 million poor and low-income people worldwide, UN was convinced about the underutilization of potential of this sector. However, although the sector has grown and been commercialized significantly over the last thirty years, demand still far exceeds supply and capacity. To guide awareness-building activities for the Year, and to ensure that the Year's activities go beyond promotion to producing substantive outcomes, a well visioned and planned approach was urgently required.

The vision was based on the well demonstrated impact studies which stated

1) Microfinance helps poor households meet basic needs and protect against risks;
2) The use of financial services by low-income households leads to improvements in household economic welfare and enterprise stability and growth;

3) By supporting women's economic participation, microfinance empowers women, thereby promoting gender-equity and improving household well-being; and

4) The level of impact relates to the length of time clients have had access to financial services.

The celebration of IYM2005 sought to basically answer the question “What prudent actions can the global community undertake to increase access to financial services dramatically, thereby ensuring that micro credit and microfinance can effectively contribute to the achievement of the Millennium Development Goals?”

The Year of Microcredit 2005 provides a unique opportunity for the international community to address and answer this question, as well as strengthens its efforts to meet the unmet demand through advancement of private-public partnerships to promote inclusive financial systems, private sectors and self-determining communities.

OBJECTIVES

The objectives of the Year included the following:

(a) Micro credit and microfinance and development goals. Assessment and promotion of the contribution of micro credit and microfinance towards achieving the goals as contained in the Millennium Declaration and the goals of major conferences and summits;

(b) Public awareness. Promotion of awareness and understanding of micro credit and microfinance, their role in poverty eradication, including achieving the Millennium Development Goals, and how they empower people and contribute to communities;
(c) **Pro-poor financial systems.** Identification of critical measures for Governments to optimally stimulate sustainable, pro-poor financial sectors, and build collective visions and strategies that position micro credit and microfinance as integral parts of a country’s financial systems;

(d) **Sustainable access.** Increase of the capacity of micro credit and microfinance service providers to be more effective and efficient at addressing the needs of poor and very poor people, and strengthening the capacity of donors and

Activities and initiatives at the regional, national and international levels

i) **Micro credit, microfinance and development goals**

The following activities may be undertaken to assess and promote the contribution of micro credit and microfinance in contribute towards achieving the goals contained in the Millennium Declaration, as well as the goals of major conferences

- Evaluation of the progress made towards the Micro credit Summit target of reaching 100 million families with sustainable financial services;
- Identification, mapping and promotion of micro credit and microfinance activities of Member States, relevant organizations of the United Nations system and other stakeholders, and the contribution of those activities to achieving the Millennium Development Goals;
- Assessment of current micro credit and microfinance resource allocations, including funding, and evaluation of resources required to achieve the Millennium Development Goals;
- Encouragement of Member States to use the Year as an opportunity to develop strategies for 2005-2015 in the light of the contribution of micro credit and microfinance to achieving the Millennium Development Goals.

ii) **Public awareness**

The Year offers a platform for increasing public awareness and knowledge about micro credit and microfinance, their role in achieving the Millennium Development Goals and how they empower people and contribute to communities.
Activities at the international level

The following advocacy activities may be carried out to create awareness about the importance of micro credit and microfinance in poverty reduction:

- Designation of a “world micro credit or microfinance day”, establish a web site and invite prominent personalities to promote the Year’s objectives and activities;

- Increasing the access of the public to information on micro credit and microfinance by producing and distributing printed, visual and audio materials, such as reports, booklets, newsletters, press releases, press kits, posters, stamps, television and radio programmes, and involve the media and other sources of public information;

- Promotion of new innovations, alliances and other good practices through reports, video, audio and other mediums to highlight the positive impact of micro credit and microfinance on empowering clients; the results of micro credit and microfinance performance assessments; and the contribution of micro credit and microfinance to achieving the Millennium Development Goals;

- Sharing of experiences and lessons learned on micro credit and microfinance as well as strategies and modalities to improve the provision of appropriate financial services to poor and very poor people;

- Launching of a campaign to highlight the excellent performance of micro credit and microfinance clients, particularly women, in repaying loans, managing household incomes, using various financial instruments to build assets; building micro enterprises; investing in communities; and contributing to development, especially in the least developed countries.
Activities at the regional and national levels

Actions may include:

- Organization of regional and national study tours and workshops on micro credit and microfinance good practice programmes and institutions in order to sensitize the public, share expertise, address regional barriers and build collaboration;

- Organization of events to raise awareness about good practices and increase commitment to scale up micro credit and microfinance efforts, for example, by establishing an award of excellence for national institutions offering superior micro credit or microfinance services;

- Production of documents and videos and host events to build public awareness on the role of micro credit and microfinance in reducing poverty and promoting development, on progress made, constraints faced and on ways to expand micro credit and microfinance programmes;

- Expansion of outreach through improved micro credit and microfinance marketing targeted at increasing the information for poor people;

- Encouragement of the involvement of educational institutions in the promotion of micro credit and microfinance concepts and practices.

3. Pro-poor financial systems

The Year provides an opportunity to identify critical measures for Governments to stimulate sustainable, pro-poor financial sectors and build collective visions and strategies that position micro credit and microfinance as an integral part of country’s financial systems.

Activities at the international level

With a view to stimulating sustainable, pro-poor financial sectors, consideration could be given to the establishment of a working group comprising the Bretton Woods institutions, the Consultative Group to Assist the Poor, relevant agencies of
the United Nations system and other key stakeholders to develop recommendations for pro-poor financial policies, regulatory and legal frameworks at the national, regional and international levels. Specific initiatives may include:

- In consultation with Governments, donors, financial institutions, non-governmental organizations, and other stakeholders, and based on research and broad-based experience, identification of critical measures for Governments to stimulate sustainable, pro-poor financial sectors;
- Integration of extensive bodies of work conducted by Governments, donors, educational institutions, non-governmental organizations and financial institutions that have championed an integrated approach to micro credit and microfinance in their countries and regions;
- Based on the findings, preparation of recommendations for stimulating sustainable, pro-poor financial sectors and submit them to the General Assembly at its fifty-ninth session, so that Governments can consider them and set measurable targets leading to pro-poor sustainable financial sectors;
- Organization of training workshops on the critical measures that Government officials and other stakeholders need to adopt for stimulating pro-poor financial systems;
- Establishment of awards for countries with good practices in micro credit or microfinance.

Activities at the regional and national levels

Actions may include:

- Consideration of the need to review regional and national legal, regulatory and institutional frameworks that restrict the access of people living in poverty, especially women, to financial services;
- Provision of training and incentives for improving access and strengthening the capacity of pro-poor financial services;
• Working with the formal financial sector (international investors, local, wholesale, retail, etc.) to expand their involvement in building micro credit and microfinance sectors and outreach to micro credit and microfinance clients.

4. Sustainable access

The Year offers an occasion to build sustainability in the micro credit and microfinance sectors. The foundation of such sectors lies in the capacity of micro credit and microfinance service providers to be more effective and efficient at addressing the needs of their target markets, and the capacity of donors and Governments to support those providers by following good practice micro credit and microfinance principles.

Activities at the international level

The Year could augment and build upon currently available research to enhance sustainable microcredit and microfinance. In addition, an array of new activities could highlight the importance of sustainability and provide stakeholders with tools and knowledge to contribute successfully to sustainable micro credit and microfinance, namely:

• Promotion of working platforms for Governments, donor countries, United Nations agencies, public, private sectors, and non-governmental organization stakeholders to transfer successful strategies (linkages, technical assistance, capacity-building, good governance, product and service development, technology, including information and communications technologies) needed to expand sustainable micro credit and microfinance;

• Augmentation of efforts to implement uniform, sustainability-focused performance measurement standards that are rigorous, transparent and universal and build consensus among stakeholders and report on those agreed measures.
Activities at the regional and national levels
Regional and national actions may play a lead role in advancing sustainable access to micro credit and microfinance services for poor people, namely:

- Building on national financial sector strategies to create national mechanisms to coordinate donor support for micro credit and microfinance which is consistent with the country's vision for sustainable micro credit and microfinance;

- Exploration of obstacles to sustainable micro credit and microfinance and evaluate actions taken to establish and strengthen both, provide prudential saving and insurance and related financial services to poor people and very poor people;

- Assessment of micro credit and microfinance skill-building training programmes to assist national institutions in selecting appropriate, effective and efficient means to increase institutional capacity for offering sustainable micro credit and microfinance;

- Provision of capitalization and institutional development support to sustainable financial institutions that meet high performance standards in transparency and reaching a large number of poor people.

5. Innovation and partnerships
The Year presents an opportunity to promote, support and create innovation and strategic partnerships between Governments, donor countries, relevant organizations of the United Nations system, private, public sectors, civil society, non-governmental organizations and other stakeholders, as well as to further expand the success of micro credit and microfinance at addressing the financial needs of poor people.
Activities at the international level

In an effort to forge strategic partnerships, it is important to build consensus on the distinct and collective purposes, comparative advantages, roles and responsibilities for microcredit and microfinance stakeholders in supporting the successful growth of microcredit and microfinance. This effort will directly feed into other international level activities, namely:

- Organization of activities and events that support and promote partnership initiatives and build innovative and synergistic solutions to key issues in areas such as the needs of the least developed countries, gender disparity, rural isolation, the very poor, lack of infrastructure and health services, as well as basic solutions to increasing capacity and scale of operations;

- Coordination of communication platforms that recognize the role of the private sector in poverty reduction as a positive trend and promote private sector financial innovations and public-private partnerships to deepen domestic financial markets;

- Promotion of capacity-building networks, partnership building exchanges and mentoring opportunities where front-line practitioners can share their experiences and learn from each other. This may include group exchanges, Internet conferences, thematic round tables, networking programmes, and opportunities to link institutions together to build solutions;

- Support and promotion of innovation partnerships between banking, information and communication technology and microcredit/microfinance sectors to use information and communications technology to improve access to financial services for poor people.

Activities at the regional and national levels

At the regional and national levels, a coordinated approach to microcredit and microfinance that encourages and supports innovation and strategic partnerships
will enhance efforts and create opportunities to transfer successful practices between partners. Coordination, partnerships and innovation sharing could be the trademarks of the Year, and the value of these strategic linkages needs to be promoted. Initiatives may include:

- Collaboration with regional networks to expand the depth, scale effectiveness and efficiency of micro credit and microfinance within the regional context and to use collaboration and partnership to enhance the access of disadvantaged women and other marginalized groups to financial services by strengthening links between banks and intermediary lending organizations, including legislative support and training;

- Building of collaboration initiatives to address unique micro credit or microfinance needs through organizing meetings of donors and least developed countries to address obstacles encountered in developing micro credit or microfinance in the least developed countries context; donors, agricultural and rural financial institutions in the region to adapt micro credit and microfinance good;

- Practices to the reality of poor rural households; national and regional women's groups to establish and expand innovative financial services adapted to meet the needs of poor women;

- Development of platforms to research, document and showcase national good practices, success stories, new partnerships in micro credit and microfinance that may include examples of client-focused products and service strategies, financial delivery mechanisms that meet marginalized groups and in-country donor staff collaboration that results in expanded reach and innovation.

E. Institutional and funding arrangements

Past experience with international years and other similar events indicates that the General Assembly usually designates a United Nations entity to serve as the lead
agency for coordinating and implementing the activities of the United Nations system for the observance of the year.

The role of lead entity for the International Year of Microcredit, 2005 may be undertaken jointly by the United Nations Capital Development Fund and the Department of Economic and Social Affairs of the Secretariat. The Fund, as the policy advisory and technical assistance centre for microfinance within the United Nations Development Programme group, is well positioned to participate in the joint coordinating entity, as it supports a variety of initiatives that facilitate the provision of financial services for the poor, through microfinance programmes.

The Department of Economic and Social Affairs is well positioned to participate in the joint coordinating entity by virtue of its role in the implementation of the outcomes of the major United Nations conferences and summits, in particular the World Summit for Social Development and the Twenty-fourth session of the General Assembly, as well as the implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006). The joint lead entity can collaborate closely with the members of the Consultative Group to Assist the Poor and other relevant agencies of the United Nations system involved in microcredit and microfinance.

Coordinated activities and initiatives at the national level through partnerships and participation of all relevant actors in society are essential for the observance of the Year. This approach can be facilitated through setting up national coordinating mechanisms responsible for promoting the related activities. The Economic and Social Council guidelines for the observance of international years encourages countries to establish national committees or other mechanisms for preparing for and conducting the year at the national level.
F. Conclusions and recommendations

Micro credit and other financial services for poor people are important instruments for poverty reduction and for empowering poor people, especially women. The observance of the Year provides a significant opportunity to raise awareness of the importance of micro credit and microfinance in the eradication of poverty, share good practices and further enhance programmes that support sustainable pro-poor financial sectors around the world. Expanding outreach can contribute to achieving the goals of major conferences and summits as well as the Millennium Development Goals, particularly targets related to halving the proportion of the people living in extreme poverty by 2015, and promoting gender equality and empowerment of women.

KEY MESSAGES OF THE YEAR OF MICRO CREDIT 2005

The International Year of Micro credit 2005 is a key acknowledgement from the world community of the importance of micro credit for overall economic development. GDRC is proud to be part of this community, raising awareness and building capacity on micro credit.

- Sustainable microfinance ensures greater outreach to the economically disenfranchised and a lasting impact the reduction of poverty and the social and human development process.
- Microfinance is an integral part of a well-functioning financial sector. Nearly half the people in the world do not have access to basic financial services – not because they can’t afford them but because they are not available to them.
- Microfinance positively affects individuals and households and strengthens economies by investing in the productive capacity of local communities.
- Microfinance facilitates the inclusion of poor people in economic flows, supporting the growth of local markets and extending economic opportunities through new jobs, investments and infrastructure.
Microfinance helps empower the economically disenfranchised by increasing their options and building their self-confidence through the greater economic participation.

3.4 Microfinance operations of World Bank and other Development banks

3.4.1 The World Bank

The World Bank has paid increasing attention to microfinance operations in recent years. The World Bank's microfinance portfolio from FY1991- FY1996 included 55 projects, with a total investment of $713.0 million. Analysis of world bank projects indicate that the number of projects approved with microfinance activities grew from 6 in 1995 to 12 in 1996 for a total of $88.0 million, indicating the growing interest. A microfinance loan of $90.0 million was approved for Pakistan in 1999. The World Bank is recently showing a high level of interest in microfinance operations in very poor countries in Africa, Europe, and Central Asia.

The World Bank supports microfinance operations in two ways: first being the non-lending approach which include (i) technical assistance, (ii) policy dialogues, (iii) grants for pilot operations, and (iv) economic and sector work. Secondly the World Bank also emphasizes the role of coordination among funding agencies through the Consultative Group to Assist the Poorest (CGAP) which recommended that country departments and regions develop more coherent approaches to microfinance. In 1997, CGAP also reviewed the World Bank's microfinance operations, and made five strategic recommendations to improve its microfinance operations which are:

(i) strengthen the experience and skills of staff working on microfinance;
(ii) improve coordination and product development within the World Bank Group;
(iii) coordinate with other funders experienced in microfinance;

Information taken from the website, www.worldbank.org
The CGAP also recommended that the World Bank’s microfinance strategy “focus on borrower countries with appropriate financial sector policies, strong demand, and a commitment to long-term financial sustainability of retail microfinance institutions.”

The World Bank is making an effort to move away from lines of credit as the primary instrument of its microfinance operations, shifting the focus to the fundamental policy framework and well-performing institutions. The World Bank also recognizes that development of a flexible enabling environment is critical to avoid overregulating MFIs.

Institution-building efforts of the World Bank focus on helping MFIs develop sound commercial operations and increase outreach and sustainability. To improve the quality of its microfinance assistance, among other things, in September 1997 the World Bank created the Small Enterprise Development Unit in the Private Sector Development Department. The unit’s goal is to be a center of expertise in small- and medium-scale enterprise development, microenterprise development, and microfinance.

3.4.2 The Inter-American Development Bank

The Inter-American Development Bank (IADB) is a pioneer and leader in microfinance and micro enterprise development. IADB’s support for microfinance began with the Small Projects Program in the late 1970s, and has steadily increased since that time. In recent years the micro enterprise sector has constituted a significant growth area for IADB. IADB estimates that its micro enterprise programs have reached over 600,000 micro entrepreneurs, and have created and strengthened over 1.8 million employment opportunities.
To respond more effectively to the changes in the micro enterprise sector, IADB prepared a micro enterprise development strategy in 1997. The strategy focuses on promoting the conditions necessary for the growth and development of micro enterprises in Latin America and the Caribbean. IADB launched a five-year program, MICRO 2001, to implement the strategy. This program is expected to promote policy and regulatory reform to create an enabling environment for micro enterprise development on a sustainable basis. During the five years of implementation, IADB expects to increase its investments in micro enterprise development to about $500 million. IADB will also make a concerted effort to catalyze private and other resources to micro enterprise development in the region. The Micro enterprise Unit in IADB's Department of Social Programs and Sustainable Development is responsible for coordinating and monitoring the MICRO 2001 program.

In 1998, IADB, with grant assistance from the Government of Norway, established the Norwegian Fund for Micro enterprise Development. The purpose of this fund is to support IADB in strengthening the implementation of the micro enterprise development strategy. The resources in the fund may be used, among other things, to

a) meet cost of workshops, publications, and related activities;

b) provide technical assistance to local organizations for development of micro enterprise development projects;

c) finance activities that directly or indirectly support institutional strengthening of local organizations involved in micro enterprise development; and

d) finance applied research and information gathering and dissemination, especially best practices, that will benefit local organizations working on micro enterprise development.
3.4.3 The African Development Bank

The African Development Bank (AfDB) has recognized the importance of microfinance for poverty reduction in recent years. To address the problems posed by the lack of access to financial services by micro entrepreneurs, especially women, AfDB established a pilot program, the African Development Fund Microfinance Initiative for Africa (AMINA), in 1997. AMINA assists a wide range of MFIs including national and international non government organizations to build the capacity needed to manage a growing financial services program oriented to the poor, help them acquire needed equipment, and obtain funds for on-lending to support the expanding portfolio that their additional organizational and technical capacity will make possible.

AMINA focuses on capacity building because the strengthening of MFIs is crucial to their ability to expand the outreach and to limit the risks involved in their lending. AMINA provides funds for on-lending by MFIs that have demonstrated their ability to manage on-lending operations.

3.4.4 Asian Development Bank

ADB has engaged in an increasing amount of microfinance activity over time. The number of projects and the total amount of loans for microfinance have increased since the first project was approved in 1988.

A. Technical assistance has been an important element in ADB's microfinance activities. ADB approved technical assistance between 1988 and March 1999, covering a wide array of activities. Project preparatory technical assistance have effectively helped to develop a pipeline of bankable projects. Advisory technical assistance have been used primarily for social mobilization of the poor, training of potential clients, and institutional strengthening of MFIs.
Recent advisory technical assistance also addresses supervisory and regulatory issues.

B Policy dialogue and sector work have received increasing attention. While microfinance policy issues did not figure importantly in the general policy dialogue on the financial sector in the late 1980s and early 1990s, ADB has recently been paying more attention to these issues. ADB's microfinance operations include sector work in selected countries. The early projects in general (a) focused on micro credit delivery, (b) allowed subsidized interest rates, (c) paid little attention to financial viability, and (d) were poorly targeted. The lending operations in recent years support a wider array of institutions, go beyond credit services to promote voluntary savings on a limited scale, emphasize market-oriented interest rates, and pay more attention to financial viability than did earlier projects.

C The projects have shown a distinct bias toward reaching women in poor households and most included social mobilization components to enhance women's capacity to access financial services delivered through project supported mechanisms. More recent microfinance projects, such as the Rural Microfinance Project in Nepal, have been designed to encourage greater participation of the private sector in microfinance.

ADB's Microfinance Development Strategy²

Goal and purpose

The goal of ADB's proposed Microfinance Development Strategy is to ensure permanent access to institutional financial services for a majority of poor and low-income households and their microenterprises. The purpose is to support the development of sustainable microfinance systems that can provide diverse services of high quality. Therefore, the strategy focuses on

(i) creating a policy environment conducive to microfinance,
(ii) developing financial infrastructure,
(iii) building viable institutions,
(iv) supporting pro-poor innovations, and
(v) supporting social intermediation.

Strategy
A large amount of financial resources is required to provide institutional microfinance services to over 95 percent of the potential clients who are currently outside of formal finance in the Region. Given the amount of resources needed, ADB and other agencies cannot meet the demand individually or as a group. However, without reaching a large number of the poor households on a permanent basis, microfinance is not likely to generate a significant overall development impact. Hence, ADB will catalyze expanding the supply of microfinance and strengthen the capacity of the potential clients to access the services. On the supply side, the strategy focuses on building financial systems that can grow and provide financial services on a permanent basis to an increasing proportion of the poor, and promotion of pro-poor innovations. On the demand side, the strategy supports investments in social intermediation.

To play this catalytic role effectively, ADB must (i) provide and leverage its assistance to bring about policy reforms essential for development of microfinance, (ii) support development of critical financial infrastructure, (iii) support development of viable MFIs that can set in motion a process of commercialization of microfinance services, (iv) support social intermediation required for sustainable microfinance development, and (v) support innovative programs and financial technology to ensure that the poorest of the poor will also have access to the financial services.

ADB needs a broad strategy because of the diversity of microfinance issues in its member countries, most of which are developing and thus flexibility is required to
address these issues in different country contexts. However, the strategy emphasizes selectivity in application due to the constraints on ADB's resources for microfinance, the various stages of microfinance development in DMCs (Developing member countries) and the relative priority of microfinance in the context of ADB's overall strategy for poverty reduction and country operational strategies. The focus on the rural sector is justified mainly by the overwhelming concentration of the poor in rural areas.

However, given the increasing recognition of potential for microfinance development in urban areas, ADB will also explore the opportunities in and build its capacity for extending support to urban microfinance. ADB's strength for supporting microfinance in general stems from its extensive involvement in agriculture and rural development focusing on low-income groups, urban development involving low-income groups, the institutional knowledge base of informal microfinance operations, and accumulated experience in a wide range of rural and microfinance institutions. The considerable involvement in financial sector reforms also provides ADB with ample opportunities for providing support for microfinance in a coherent manner. These factors, together with the type and extent of involvement of other agencies, will be taken into account in selectively determining ADB's assistance for microfinance.

STRATEGIC FOCUS

Policy environment

Financial sector reform programs have resulted in a general improvement of the policy environment in the Region. However, in many countries, lack of an enabling policy environment for microfinance continues to be a major constraint. Thus, ADB will broaden the scope of financial sector reform programs to include issues concerning microfinance. The policy reforms will focus on interest rate reforms relevant for micro credit and savings within the broader financial sector reforms, creating an environment sufficiently flexible to accommodate a wide range of MFI's
and OFIs to meet the diverse demand, and redefining the role of the state and the central banks in microfinance development to facilitate participation of private sector financial institutions. When policy reforms are built into specific projects, exit conditions will be clearly spelled out and enforced in the event of noncompliance. Policy reforms may be effectively carried out when commitment to and ownership of reforms are generated within DMCs and a long-term partnership is established between ADB and the DMCs. Thus, it is necessary to closely consult with all major stakeholders in formulating microfinance policy reform programs for DMCs.

Financial infrastructure

Underdeveloped financial infrastructure continues to constrain the deepening and broadening of microfinance services and participation of private institutions as service providers. While MFIs in some DMCs, such as Bangladesh, have grown without a proper financial infrastructure, such growth, based partially on public deposits, can pose a systemic risk within the microfinance subsector. MFIs can develop sustainable commercial services on a permanent basis, and expand their scope of operations and outreach, only if they operate within an appropriate financial infrastructure. The improved financial infrastructure contributes to the development of the entire microfinance subsector, not just one specific institution.

Therefore, ADB's assistance will focus on critical elements of financial infrastructure, such as information systems and training facilities necessary for microfinance development. In some countries, legal barriers also prevent banks from establishing business relationships with informal or semiformal bodies such as community-based organizations or self-help groups. The legal framework and supervision and regulation of MFIs are important mainly because they facilitate sound growth and improve the capacity of MFIs to leverage funds in the market and provide competition. However, ADB will ensure that legal and regulatory systems will not discourage financial innovations, stunt institutional growth, and prevent emergence of a diverse set of dynamic institutions. Depending on country contexts, ADB will
also support development of self-regulation and performance standards for MFIs.

Institutional development

ADB, in consultation with its DMCs, has identified institutional capacity building as an important requirement for sustainability and expanding outreach. Strong institutions with good governance are required to provide quality services to the poor on a permanent basis. A good MFI with a commitment to provide microfinance services to the poor should have the capacity in particular to

a) mobilize resources in the market, including public deposits, to meet its resource requirements;

b) provide products and services that are attractive to the poor at minimal transaction costs to the clients and the institution itself; and

c) offer competitive prices to the clients.

Financial viability is critical for expanding the outreach. Only viable financial institutions involved in microfinance can ensure permanency of services to an increasing number of the poor and contribute significantly to poverty reduction. Thus, financial viability of the institutions committed to serve the poor is seen as a tool to achieve the primary objective of outreach. For the same reasons, the strategy emphasizes institutions providing a broad range of financial services to the poor and low-income households, and micro enterprises.

These diversified institutions have a better chance to (i) achieve viability within a short period than the institutions that focus exclusively on the poorest clients, and (ii) reach more of the very poor than exclusively-focused institutions. However, ADB needs to support institutions to develop and offer products and services compatible with the socioeconomic characteristics of the poor to improve their access to permanent services and to reach the poorest of the poor.
ADB’s institutional development activities will focus largely on existing MFIs and other financial institutions with a commitment to provide microfinance services to the poor. In countries where state-owned agricultural and rural development banks continue to undermine development of sustainable microfinance operations, ADB will explore possibilities for and support reforms of such banks. However, in some circumstances, especially in transitional economies that lack appropriate institutions to efficiently provide microfinance services, new institutions may be needed. The establishment of such new institutions will be based on the potential for financial viability and capacity to expand the outreach to a significant number of the poor. ADB will also support development of apex microfinance organizations where necessary conditions for their sustainable operation exist.

The institutional development activities also need to encompass

a) development of training facilities for the microfinance sector,

b) ownership and governance of financial institutions involved in microfinance,

c) development of a diversified menu of products and services attractive to the poor, management information systems and accounting policies and practices,

d) management of portfolio quality and growth, and

e) systems and procedures and financial technology for reducing transaction costs.

**Pro-poor innovations**

The development of sustainable financial institutions will contribute to the expansion of their outreach to the poor. However, while improving the institutions' capacity in general to serve a wide spectrum of the poor is important, this is not sufficient to ensure that their services are made available to certain categories of the poor, such as those in resource-poor and low-population density areas, the poorest of the poor, and ethnic minorities. Often, financial institutions tend to exclude these categories due to risk-return considerations, although the social returns to reaching these clients
may be high. Private institutions are, in general, reluctant to invest in financial technology and innovative programs oriented to the poor because they tend to believe that the market among the poor is limited and externalities will not allow them to profit from their investments. Therefore, to ensure that the financial institutions will continue to expand the services to these categories, ADB will support innovative programs and development of financial technology that contribute to breaking these barriers through pilot projects and other measures that aim at establishing sustainable linkages between formal financial institutions and informal service providers. ADB will also support development of pro-poor products and services and delivery mechanisms because these are essential to attract the poor into the formal sector.

Social intermediation
Social intermediation is necessary to increase the capacity of the majority of the poor to access and productively use microfinance services. Hence, the strategy emphasizes supporting investments aimed to improve the capacity of the poor to actively participate in microfinance markets. Such investments will cover, among other things, (i) awareness building programs on a broad range of microfinance services; (ii) information dissemination on service providers; (iii) basic literacy, numeracy, and skills training for women, ethnic minorities, and other disadvantaged groups; and (iv) social mobilization for formation of community-based organizations and solidarity groups to actively participate in microfinance markets.
Review of International Policies and Experiences
Chapter 4  Review of International policies and experience

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