

Achieving
Millennium Development Goals

The Promise of
Microfinance





Microfinance is not a mere financial instrument but a powerful tool for development to address multiple dimensions of poverty.

INAFI: *International Network of Alternative Financial Institutions*

Capital is a key factor of production in the sense that for poor people, it is a big constraint in pursuing their livelihoods, so we see microfinance as part of a broader livelihood approach. We think that in terms of empowering women, savings and credit programmes at the micro-level, particularly self-help based ones, are extremely important.

Salil Shetty, *Director UN Millennium Campaign.*

1. BEYOND FINANCIAL ASSISTANCE: INTRODUCTION TO THE MILLENNIUM DEVELOPMENT GOALS AND MICROFINANCE

1.1. The Millennium Declaration and the Millennium Development Goals

At the United Nations Millennium Summit in September 2000, 189 heads of state adopted the Millennium Declaration, which outlines the Millennium Development Goals (MDGs) as the commitment pledged by governments of sovereign states to achieve 18 development targets and 48 indicators by 2015.

The MDGs consist of eight specific goals to eradicate extreme poverty and hunger, ensure all boys and girls complete primary education, promote gender equality, improve the health of mothers and children, reverse the spread of HIV/AIDS, protect the environment, and create a global partnership for development. The MDGs are benchmarks for progress towards the overall goal of the Millennium Declaration to eradicate human poverty and fight inequality.

The international commitment to achieve the MDGs was reaffirmed by all Member States of the United Nations at Monterrey, Mexico in 2005. Achieving the MDGs requires strong political will from national leaders. Simultaneously, citizen participation is also a prerequisite for developing and developed countries by holding their governments to account to fulfil their pledges. In line with this international mandate, the United Nations Millennium Campaign Asia-Pacific works throughout the region with civil

society organizations, parliamentarians, local authorities, youth, media and the private sector to support citizens in their efforts to hold governments accountable for the achievement of the MDGs.





1.2. Role of Microfinance Programmes

Globally, microfinance has been recognized as a powerful instrument to address poverty. Perhaps, no other development instrument has generated so much enthusiasm and promise in the recent past in impacting the lives of the poor. Through innovation, microfinance provides microsavings, microcredit, microinsurance, payment and remittance facilities for the poor and disadvantaged population. This type of financial support helps expand their choices and mitigates potential risks of poverty and

social exclusion. In South Asia, India and Bangladesh demonstrated successful microfinance models that have reached millions of poor people over the past three decades. Beyond the instrument of finance, evidence is growing as to the means by which microfinance is helping to organize the poor to intervene in other development issues. Beyond the direct link with poverty reduction, the indirect link to addressing the issues of health, education, gender, and environment has been demonstrated in many contexts around the world.

The International Network of Alternative Financial Institutions (INAFI), a global network of microfinance practitioners, has the shared purpose of addressing poverty through microfinance. Since its establishment in 1995, INAFI has continued to expand its network across three continents: Asia, Africa and Latin America. Currently, INAFI has more than 300 member institutions that serve about 20 million people around the world. INAFI aims to enhance the capacity of member organizations in areas related to microfinance services, including the design of microfinance programmes and management, poverty reduction programmes and policy advocacy for pro-poor policies. Moreover, INAFI focuses on increasing access to microfinance for the poor and disadvantaged population, appropriate pricing, demand-driven products and enabling regulatory framework. In addition, it conducts research studies related to impact of microfinance on people's livelihood.

INAFI envisions a world in which the poorest of the poor are able to attain a life of dignity through basic living standards including food security, health, education and a decent livelihood. INAFI visualizes a world where the poor have the capacity to direct their own development path by enhancing their skills and opportunities through access to financial services.

1.3. Poverty Reduction as a key Element of the MDG Framework and Microfinance Programmes

More than a decade of deepening engagement with microfinance programmes throughout the world has brought home the message that microfinance goes beyond finance and compels attention and action from a larger development perspective. This enabling alternative paradigm seeks the engagement of microfinance programmes beyond credit schemes as a judicious blend of finance and development for addressing the many dimensions of poverty. This unique framework in which microfinance drives specific development outcomes creates a remarkable opportunity for the achievement of the MDGs related to education, health and the environment. The pursuit and success of such an alternative framework hinges on the large swathe of social capital being built through microfinance programmes.

In keeping with this commitment to an integrated development approach, INAFI sees a natural interconnection between microfinance and the MDGs. The work of INAFI members coincides firmly with realising the MDGs. The goals, indeed, are a part of the agenda of INAFI members in the holistic development perspective.

The INAFI network and its members have supported the implementation of this paradigm. In March 2007, INAFI launched a campaign to address MDGs through microfinance by organizing a global conference in Bangkok, Thailand that brought together its members in Asia, Africa and Latin America to share their experiences in working with microfinance to achieve the MDGs. The conference provided a framework for capacity building through transfer of knowledge and experiences. Furthermore, the participants reaffirmed their commitment to improve the linkages between microfinance and the achievement of the MDGs.

2. MICROFINANCE AS A PRACTICAL TOOL FOR POVERTY ALLEVIATION AND THE ACHIEVEMENT OF MDGs

2.1. Direct and Indirect linkages between Microfinance & MDGs

Microfinance brings together communities of the unorganized poor, building their social capital and networks. Building and sustaining social capital requires faith and affirmative action within the alternative paradigm of microfinance, whereby building the capacity of communities to direct their economic and social development is given primary importance and focus. This social capital then sets the stage for other interventions in primary education and health including child mortality, maternal health, HIV/AIDS, malaria and other communicable diseases. Promoting awareness, literacy and leadership among women from poor communities, microfinance paves the way for the empowerment of women, thereby combating gender inequality (see Table 1).

Table 1: MDGs and Microfinance

MDGs	Microfinance
Goal 1: Eradicate extreme hunger and poverty	Access to alternative microfinance institutions: <ul style="list-style-type: none">• Diversifies the livelihood opportunities of poor people making them more resilient to adverse negative shocks• Allows the poor to plan for unanticipated and future expenses• Enhances equitable distribution of national economic growth• Provides an alternative mechanism for poverty reduction
Goal 2: Achieve universal primary education	Microfinance can lead to an increase in family income and therefore enhance opportunities for children to participate in full-time education: <ul style="list-style-type: none">• Increases household budget to cover out-of-pocket school fees such as books, uniforms and transportation

MDGs	Microfinance
	<ul style="list-style-type: none"> • Reduces the economic need to keep children out of school and in income-generating activities • Decreases the likelihood that enrolled children will drop out of school
<p>Goal 3: Promote gender equality</p>	<p>Enhancing of women's access, control and ownership of resources:</p> <ul style="list-style-type: none"> • Increases women's participation in income-generating activities and decision-making at the household and community levels • Strengthens the social and political leadership and livelihood opportunities of women
<p>Health-related goals Goals 4, 5, and 6: Reduce child mortality, improve maternal health and combat HIV/AIDS, malaria and other diseases</p>	<p>Reducing household income constraints can enable the marginalized and disadvantaged population to address other health issues exacerbated by poverty:</p> <ul style="list-style-type: none"> • Provides financial access to education, prevention and treatment measures for HIV/AIDS, malaria and other infectious diseases • Enhances child and maternal health by providing access to health care services and resources • Provides access to health care insurance and protection & improves availability of potable water
<p>Goal 7: Ensure environmental sustainability</p>	<p>Microfinance can help to improve environmental sustainability when it:</p> <ul style="list-style-type: none"> • Includes education in rural resource management which can enhance the sustainability of income-generating activities and natural resources. • Provides access to alternative agricultural inputs which are environmentally friendly.
<p>Goal 8: Global partnership</p>	<p>Alternative microfinance institutions provide a new channel for global collaboration for poverty reduction.</p>

2.2. Microfinance and Its Positive Impact on the MDGs

If the global campaign against poverty and hunger is to be successful, microfinance must be at the centre of the campaign. However, the global MDG agenda should adopt the following universal principle of microfinance:

The poor and the poorest have a right to be serviced affordably, appropriately and accessibly.

Microfinance is neither a charity nor solely a commercial enterprise but rather a business endeavour with compassion and sustainability. Microfinance programmes ensure sustainable access to financial services at affordable prices and appropriate timing. This principle provides a framework for sustainable development and livelihood with the opportunities to improve the standard of living and quality of life for the poor and marginalised population. These opportunities have positive implications for other development issues, such as increasing access to basic health services and education. Furthermore, microfinance must aim at enhancing women's access, control and ownership of resources and therefore promotes empowerment of women.

3. IMPLEMENTATION OF MDGs AND MICROFINANCE PROGRAMMES: GOOD PRACTICE CASE STUDIES

Microfinance interventions across the world have had a direct impact on poverty alleviation, fully demonstrated by the many microfinance practitioners and institutions. The effects of microfinance in combating poverty can be seen through the determined efforts of BRAC in Bangladesh, the Self Help Group (SHG) Linkage Programmes of the Development of Humane Action (DHAN) Foundation and MYRADA in India, K-REP in Kenya and FCPB in Burkina Faso. Generating numerous livelihood opportunities and building entrepreneurial capacity among the poor, microfinance has enabled countless economic achievements through significant reduction in poverty among the most deprived and marginalized communities. Enhancing the income of the poor provides the essential necessities to prevent hunger and malnutrition.

Case Study A: Microfinance and Health Programme

The microfinance programme of DHAN Foundation, known as Kalanjiam Community Banking Programme, provides access to savings, credit and insurance services for more than four millions of poor families in eight states of India.

DHAN's insurance initiative, especially the health insurance programmes address the issues of reproductive health for women and child health programmes, which include health education, preventive measures and affordable healthcare system. The health programmes of DHAN Foundation currently reach more than 100,000 families in the province of Tamilnadu with a clear focus on reducing maternal and child mortality, addressing nutrition problems, anemia for the adolescent girls and women as well as behavioral changes and intervention programme to raise awareness on hygiene, nutrition and sanitation. The health programmes for women and children are connected to clients of microfinance programmes and provide increased access to healthcare for the poor.

Case Study B: Microfinance and Education Programme

BRAC began its Non-Formal Primary Education Programme in 1985 with 22 one-room schools. More than 34,000 schools operate under BRAC Education Programme (BEP). These schools provide basic education for approximately 11% of the total primary school children in Bangladesh. BRAC aims to reduce the number of children out of school. It gives learning opportunity for children that do not enroll in the government programme. BEP designed the school curriculum that offers education and relevant skill training for students. Moreover BEP has been successful in promoting education for girls in remote rural areas. In 2002 BRAC opened first international office in Kabul and its current running more than 90 schools for adolescent girls in rural Afghanistan.

Source: BRAC Bangladesh available at <http://www.brac.net/education.htm>

4. COMMON STRATEGIES TO ACHIEVE MDGs AND MICROFINANCE PROGRAMMES: THE WAY FORWARD

- Globally, the UN Millennium Campaign and INAFI see a remarkable opportunity to capitalize on the economic and social potential of mainstreaming MDGs into microfinance framework. The joint campaign seeks to promote global partnerships with various development actors – governments, civil societies, donors, and philanthropies. The campaign will focus on enabling access to the resources of microfinance to the most marginalized populations. Civil societies should advocate and campaign at the grassroots level to sensitize local governments and orient them through SMART tracking of MDG achievements (Specific, Measurable, Achievable, Realistic and Timely indicators). INAFI and UN Millennium Campaign shall launch a three-pronged action plan to integrate microfinance and MDGs:
- Undertake and publish an annual global report on the State of Microfinance and MDGs
- Prepare regional reports on microfinance and MDGs for Asia and Africa
- Release selected annual country reports to provide focused attention on the core country contexts and their progress towards MDGs.
- Develop a tool kit for mainstreaming MDGs into microfinance.

The global and regional reports will set the stage for an "Alternate Summit", the meeting that goes beyond conventional discussion of microfinance and its service delivery, to define more concrete links between microfinance and the achievement of MDGs. The Alternate Summit aims to bring together key stakeholders on microfinance and MDGs and to seek their commitment and action towards achieving the MDGs by 2015. The global action will include mainstreaming MDGs into the microfinance agenda at various levels, including the local, provincial and country levels.

Conclusion

The UN Millennium Campaign and INAFI share a mission and value to work towards achieving and exceeding the MDGs. Through the microfinance programme and campaigning around them, we aim to help provide greater opportunities for the poor and marginalised communities to improve their quality of life. Simultaneously, the joint Campaign will continue to advocate for pro-poor policies and strive to strengthen people's capacity to define their rights to basic services. Both organisations have strong synergy to enhance greater participation and commitment of governments, civil society, the private sector as well as other stakeholders to reorient and promote microfinance programmes and initiatives towards the sustainable achievement of MDGs by 2015.



INAFI acronym for **International Network of Alternative Financial Institutions** is a global network of Microfinance practitioners / NGOs involved in enabling / supporting microfinance programmes of member organizations in Asia, Africa and Latin America and active policy advocacy for pro-poor microfinance policies and programmes at global and country levels. INAFI was established in March 1995 in Cusco Peru and has more than 300 members in more than 50 countries in Asia, Africa and Latin America with collective outreach of 25 million clients.

www.inafiinternational.org



The **UN Millennium Campaign** was established by UN Secretary General in 2002. The Campaign supports citizens' efforts to hold their governments to account for the achievement of the Millennium Development Goals. The Millennium Development Goals were adopted by 189 world leaders from the north and south, as part of the Millennium Declaration which was signed in 2000. These leaders agreed to achieve the Goals by 2015. Our premise is simple, we are the first generation that can end poverty and we refuse to miss this opportunity.

www.endpoverty2015.org

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