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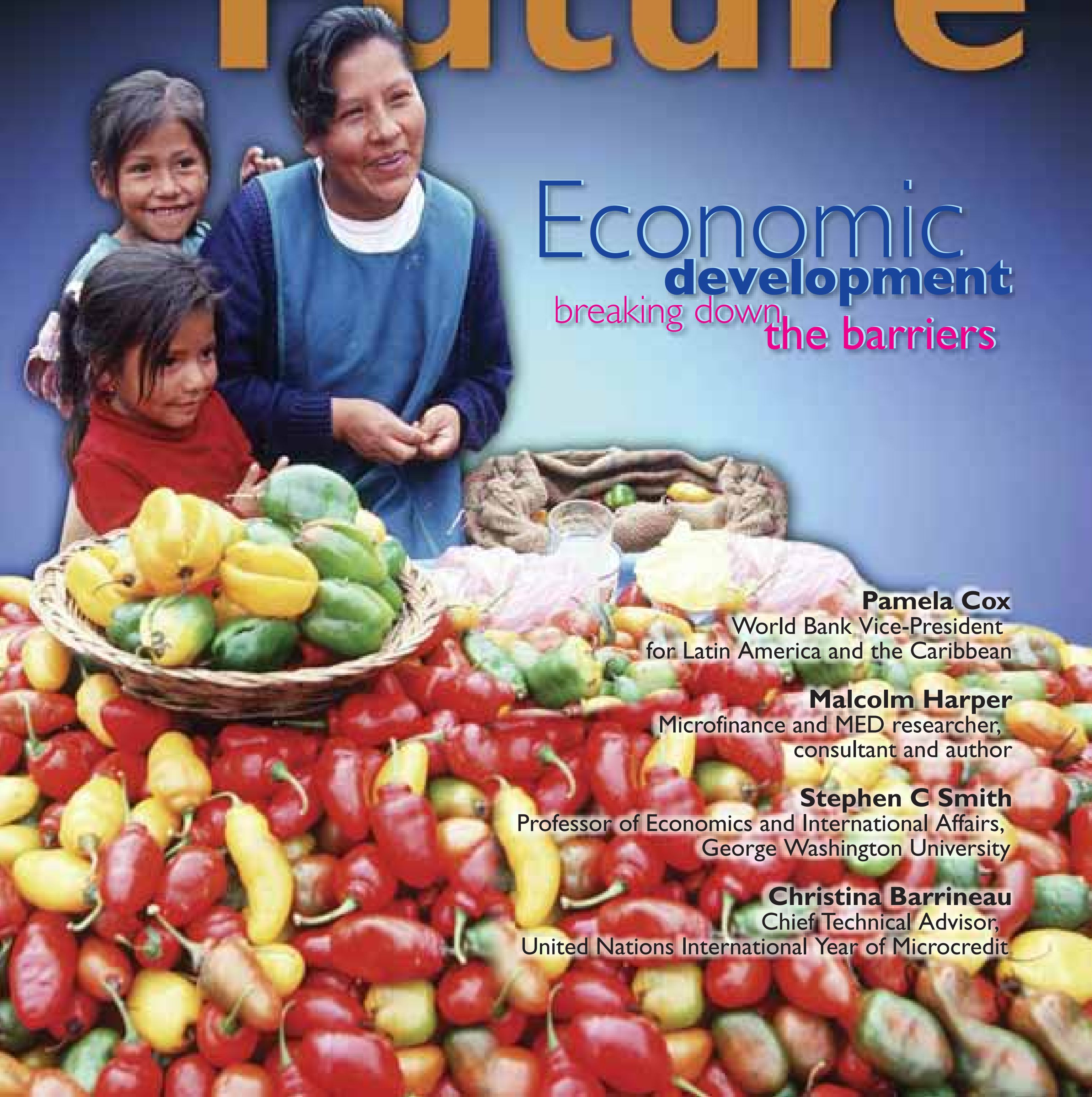
Global Future

Fourth Quarter, 2005



Economic development
breaking down the barriers

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Macro, micro and the in-between

2005 has been a critical year for global development with the G8, the United Nations Summit reviewing the Millennium Development Goals, and the World Trade Organisation Ministerial in Hong Kong addressing access to global markets. It also has been International Year of Microcredit.

The trade debate has rightly focused on the benefits to developing countries of increased access to Northern markets. However, people in poverty face the dual obstacles of lack of access to markets and lack of acces to credit. This edition of *Global Future*, in bringing together some recent thinking in these two important areas of poverty alleviation, seeks linkages between them.

The development community recognises that micro-level initiatives are key to economic development at local levels. But what is the potential, and what are the limitations, of micro-enterprise development, and in particular microfinance, for solving poverty in a sustainable way?

Contributors to this edition concur that microfinance alone will not solve poverty – though they point to ways to surely maximise its impacts to that end. Clearly it must be part of a multi-faceted, multi-level approach, and be ready to deal with extreme contingencies (such as pandemics). One intriguing question that emerges is the degree to which it is empowered people or people's movements – rather than microfinance *per se* – that is the "secret ingredient" for breaking local poverty cycles.

On a global level, the Global Call to Action Against Poverty (another people's movement) has emphasised action on aid, trade and debt to solve poverty. Where does microfinance fit into this picture? Few make it across the gap from micro- to small/medium enterprise, and our Brazil case study reports on the sustained effort that is required to seriously bridge the local–global gap. How can we ensure that any advances in trade policy agreed in Hong Kong and beyond will really impact the lives of people in poverty, including the millions of hard-working micro-entrepreneurs? Questions remain, but we hope that this edition offers some key elements for this critical global debate.

– Heather Elliott

COVER DESIGN BY : FRIEND CREATIVE (Melbourne, Australia)
Front cover image: Peruvian micro-entrepreneur Yelanda Ccopa, with her two daughters, selling chilli peppers at her market stall
Photo: Jon Warren / World Vision

Pro-poor market access – one eye on the tide, another on the boat

Eduardo Nunes & João Diniz

PHOTO - JON WARREN / WORLD VISION

Organic farmer João Farias in Alagoas, Brazil, checking his bananas

LET'S DO A PREDICTION exercise about the World Trade Organisation (WTO) 6th Ministerial Meeting.[1] Probably, the media will be full of news about security details, measures to restrain protests and showing imaginative anti-globalisation demonstrations such as naked people hanging from high buildings. Northern leaders will announce new steps to help poor countries and ask for increased access to their markets. Southern delegates will demand an end to rich country agriculture subsidies. All of them will be afraid of being targets of some activist-pie. Research findings will be released, some of them validating trade as the most powerful way to overcome poverty, others demonstrating that globalisation and free trade are leading the world into deeper poverty and inequality. The players will make statements, some of them applauding the steps forward in Hong Kong, most saying that the WTO will not make any significant progress.

Even if we could accurately predict the outcomes of the Ministerial, what would this achieve? Hungry people, refugees, unemployed, dying children and billions of people living below the poverty line do not have time for endless non-conclusive discussions, but their destinies are tightly linked to the resolution of the issues on the table in Hong Kong.

The answers they need are closely related to trade, the main global process for transferring and allocating resources. And the market is the "place" where this process happens. Thus, any sustainable and significant action on poverty alleviation will include a trade/market access agenda.

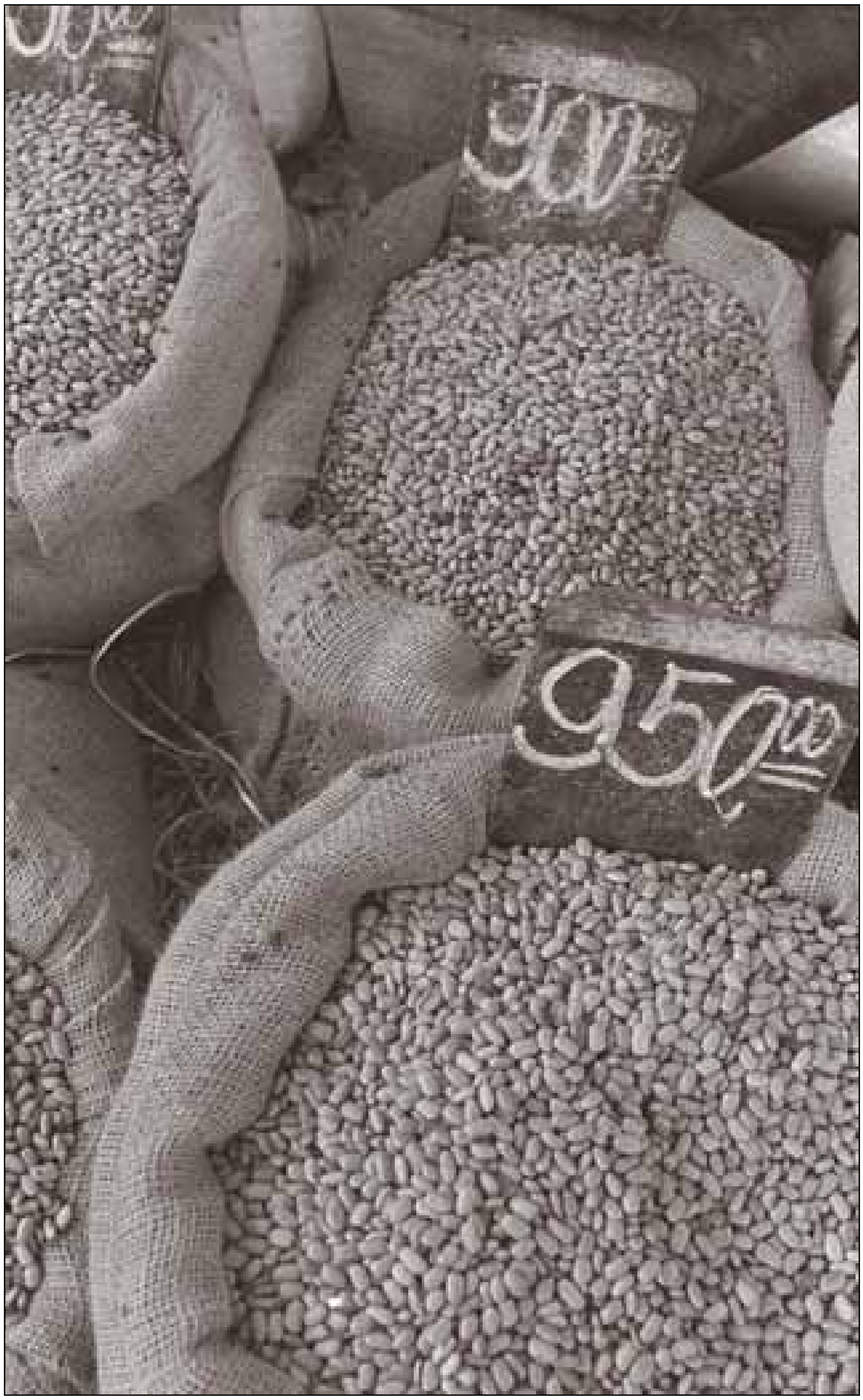
Market access and development

In line with the Millennium Development Goals, World Vision Brazil has pursued "*working with people and organisations to fight causes of poverty and improve income security and sustainable livelihoods"*. Alongside World Vision Brazil's focus on increasing social capital, breaking the poverty cycle called for a strong micro-economic development dimension that would increase productivity and income. Yet as poor communities improved their productivity, they faced a structural constraint: access to markets. To overcome this constraint, World Vision Brazil began to include market access in its development programme agenda. (Read the story of what happened in the Brazil case study on pages 14 & 15.)

It simply is not possible to deal with the causes of poverty without coming up against market inequality. Our goals are achievable only if we act earnestly in two areas:

- invest in highlighting injustices in the international economic system (trade, finance and so on) and reducing it through advocacy actions involving local poor communities in world decision-making arenas; and

- at the same time, refine and disseminate our best local development model as one of the possible guidelines for poverty reduction, so that global resources applied to poverty reduction will be based on efficient pro-poor models, and will maximise the effectiveness of the resources freed up by advocacy action.



Producers in poor communities who improve their productivity often then face barriers in accessing markets.

We believe that an integrated advocacy and development agenda has the best potential to respond to the challenges – more so than any economic growth rate could.

A pro-poor agenda

Research[2] has shown that any effort in the direction of opening Northern markets to fair competition from Southern economies benefits the poor in those countries only marginally. The present agenda for market access led by the G20 (or GX) is relevant, but it is far from sufficient for significant poverty reduction. If we want to use trade to really benefit the poor, we need to insert a new pro-poor agenda that addresses:

Poor populations within developing countries. It must pay attention to the internal complexities of developing countries. In Brazil's case, the export sector (soybeans, orange juice, sugar, shoes, leather, cars, jet planes) is concentrated in the country's richer areas, and its profits are concentrated in few hands (three companies control 92% of the orange juice market, for instance). So, when we see well-intentioned people advocating against the tariff and non-tariff barriers faced by these modern sectors, we see it as positive, but it is not enough. The Brazilian Government and others' efforts are already focused on those sectors. We need to advocate for the **marketless** ones. We need to put the interests of poor people in the picture – not the so-called interests of their countries only.

We must address the interests of poor people within poor countries, not of their countries only

All levels – international, national, but mainly local. This is not only about Geneva, and WTO Ministerial meetings; it must include local market access issues, such as laws, credit access, infrastructure. The goal here is not only to make changes in agreement texts and schedules; it is to create an environment to really insert the poor as trade players.

Reduction of numerous barriers. The costs involved in the trading process for small producers are much higher than those applicable to big ones, even if done on a large scale. The reasons are many: lack of credit access; market traders in destination countries who are not prepared to deal with small exporters; finance systems; cash flow needs; dumping at lower prices, and so on. All these barriers are added to those facing regular exporters. At the same time, we need to reduce the legal, credit and infrastructure barriers to increasing and expanding markets, which can be achieved largely through voluntary, market-based instruments. WTO trade liberalisation may have little or no effect without additional policies (national, regional and international ones) aimed at creating additional demand and increasing poor supply and absorption capacities.

Sustainability. Market access will be sustainable only if we can establish a trade based on:

- a redistributive approach: trade acting as a tool to integrate more players in the game, to invite the poor to the globalisation party – rather than being concentrative;
- fair remuneration for work: the market as a tool to reverse the global competition in search of lower labour costs that is leading the world back to the early days of the Industrial Revolution; and
- balanced use of natural resources: low prices, high subsidies and non-tariff barriers leading to an irrational race for lower prices can contribute to the exhaustion of natural resources (current examples being water mismanagement and the export of pollution); when a country needs to produce in this model, environment protection will be the last concern.

Experiences with fair trade, with a trade based on fairness and solidarity, prove that this agenda is not an impossible dream. Indeed, it seems the only alternative to stop the growing struggle between the ones "invited to the globalisation party" and the ones who remain outside. We can stop this struggle through trade and development that promote well-being and build bridges; or we can continue to deal with the results of the present unequal system, building walls.

From local to global

Trade programmes provide evidence that improvements in market access can deeply impact the development process. At the same time, market access has non-programmatic dimensions, mainly related to barriers that can be addressed only through advocacy. The local development agenda must include structural changes in market access from the bottom up.

The pro-poor market agenda must be built from local through to international level. Trade is not a panacea; trade liberalisation and strengthening of trade rules must be accompanied by appropriate domestic steps – in some cases to create a friendlier business climate; in others to ensure that structural adjustment is conducted in a socially acceptable way. Enhanced technical assistance and capacity building, particularly for the least-developed countries, are also key. For this to happen, trade needs to be incorporated more fully into national development strategies. It will also be essential that initiatives and action on trade and development taken by different international organisations are coherent, complementary and, in particular, consistent with the basic WTO principles of free trade (truly free), access to better goods and services, and access to better markets. ■

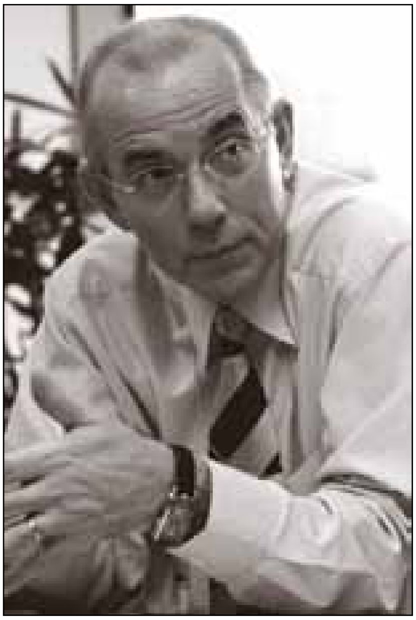
Mr João Diniz is Economic Development Director and Dr Eduardo Nunes is Strategy and Policy Director for World Vision Brazil – www.visaomundial.org.br/visaomundial/. The opinions expressed in this article are the authors' own.

[1] "Round" is the period for agreement implementation. The present round was established at the Fourth Ministerial Conference in Doha, Qatar, in November 2001. There, WTO member governments agreed to launch new negotiations, and to work on other issues, particularly the implementation of existing agreements. The entire package is known as the Doha Development Agenda (DDA). [2] *World Development Report 2004* www.econ.worldbank.org/wdr/; *Trade and Development Report 2003*, UNCTAD www.unctad.org/en/docs/TDR2003_en.PDF

Towards sustainable finance for the poor in Asia and the Pacific

Geert van der Linden

PHOTO - ASIAN DEVELOPMENT BANK



Geert van der Linden

THE MICROFINANCE INDUSTRY in Asia and the Pacific is extensive, serving about 100 million poor households in the region. The region is home to not only the world's best-known microfinance bank (Bangladesh's Grameen Bank), the most successful institution in deposit mobilisation from low-income households (Bank Rakyat Indonesia's Unit Banking System), and the world's largest non-government microfinance institution (BRAC, formerly known as Bangladesh Rural Advancement Committee), but also the world's most efficient large-scale microfinance institution (the Association for Social Advancement in Bangladesh). The region also includes a large number of small rural banks and financial co-operatives providing services to poor households.

Despite this remarkable outreach, the stark reality, as noted in the theme chapter of the Asian Development Bank's *Annual Report 2004*,[1] is that more than 200 million poor and low-income households in the region do not have access to financial services.

This is due to a number of factors. First, despite more than two decades of progress, the costs of microfinance remain too high for most of the poor. Second, without profitable investment opportunities, most poor households find it difficult to participate in formal and semi-formal financial markets. Third, the capacity of institutions at the retail level remains limited and most retail institutions are unable to offer demand-driven products and services, suitable for the majority. Fourth, mainstream financial institutions – with access to vast amounts of financial, human and technological resources and capabilities – have not yet entered this business in a big way.

A financial system that serves only a minority of a country's population is simply unacceptable

Supply–demand gap

Asia is home to a huge number of poor people – 690 million by the US$1-a-day poverty yardstick and 1.9 billion if the $2-a-day yardstick is used. Microfinance is by no means a magic bullet that can lift these people out of poverty. But financial services can enable poor and low-income households to take advantage of economic opportunities, build assets, and reduce their vulnerability to external shocks that could adversely affect their living standards. Access to financial services can also make a potentially significant contribution to achieving the income and non-income Millennium Development Goals. Therefore, closing the huge gap between the demand for financial services from the poor and its supply is one of the biggest development challenges facing Asia today.

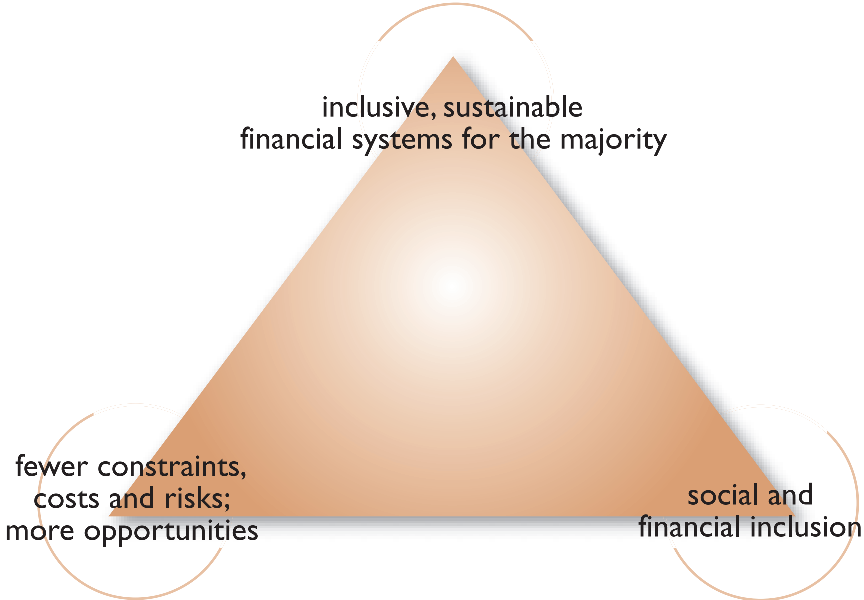
Finance does not **create** economic opportunities: it enables people to take advantage of them. Recognition of this simple and basic point about the role of finance is crucial for the design and implementation of effective policies for expanding sustainable financial services to the poor and building financial systems that serve the majority of the population in developing countries. Recognition of this leads to what could be called a "triangular approach" to sustainable financial services.

Triangle of sustainable finance

At the top corner of this triangle are policies and actions at international and national levels to build inclusive and sustainable financial systems that serve a majority of the poor. The policies address core issues and constraints to creating the right policy environment, financial infrastructure, and retail institutional capacity to provide a broad range of financial services.

At the international level, there is inadequate attention paid to building financial systems that rely on domestic capital to serve the poor. This has to change. More attention is urgently needed to build domestic capabilities at macro, meso, and micro levels within developing countries and to mobilise and use domestic resources to serve the poor.

At one bottom corner of the triangle are the policies required to ease constraints on poor households and expand the economic opportunities available to them, and those required to reduce transaction and other costs of providing and accessing services and to reduce risks associated with taking advantage of the opportunities.



These policies aim at enhancing the size, scope, and profitability of opportunities and poor households' ability to participate in financial markets.

For example, much greater attention is needed to improve rural infrastructure, markets, and pro-poor new technology. These will open up new economic opportunities and reduce transaction costs and risks associated with investment opportunities. Finance cannot do much to reduce poverty if more profitable investment opportunities are not created. (This explains to a large extent why Bangladesh remains one of the poorest countries despite having experienced rapid growth in microfinance outreach and very successful microfinance institutions.)

At the other bottom corner are the policies and actions that cover what is commonly known as social inter-mediation. These are essential because social exclusion needs to be explicitly recognised and addressed to facilitate the process toward financial inclusion. Policies and actions for promotion of financial literacy, primary education, and adult education, for example, are needed particularly in those countries where social development is low and women suffer disproportionately.

Access for the majority

It is time to declare internationally that a financial system that serves only a minority of a country's population is simply and totally **unacceptable**. This should be one of the major outcomes of 2005, the United Nations International Year of Microcredit.

Nationally, inclusive financial systems that provide access for the majority should be made a central goal of every developing country.

The international development community must stand firm in supporting a range of policies and instruments to assist developing countries to build inclusive financial systems, expand economic opport-unities for the poor, and improve social intermediation. ■

Mr Geert van der Linden is Vice-President for Knowledge Management and Sustainable Development at the Manila-based Asian Development Bank.

[1] www.adb.org/Documents/Reports/Annual_Report/2004/default.asp

Microfinance impact, institutions and issues

Malcolm Harper

MICROFINANCE IS FASHIONABLE and, like many development fashions, it is often celebrated more in writing than in reality. A great deal has already been written about how it has affected its clients, the institutions that deliver it, and the challenges that face it, so I shall try in this short article only to cover some of the main issues.

What I mean by "microfinance", for the purposes of this article, is **small-scale credit, savings, insurance and remittances services, provided mainly to poor people, who have had little or no previous access to formal financial services**. The services tend to be more expensive than similar services that are enjoyed by people such as the readers of this paper, because the delivery and other transaction costs are higher. They are, however, cheaper and more reliable than the alternatives for poor people, such as private money-lenders and savings collectors. Most microfinance customers are women, and most but not all of them have to work though some sort of group mechanism in order to access the services.

How much impact?

It is impossible to state exactly how many people, or households, are now using microfinancial services, but as many as 150 million households appear to have been reached.[1] The market penetration differs very much from country to country. In Bangladesh, where modern or what is sometimes called "new paradigm" microfinance is said to have originated, and in Sri Lanka, the Philippines, Vietnam and some parts of Latin America, between half and three quarters of the relevant population have probably been reached. In India, which is home to far more poor people than any other country in the world, microfinance has covered less than a fifth of the "market", and in many other countries, including China and much of Africa, the coverage is much less.[2]

The impact on these people has been generally positive, but not life-changing. They have acquired more assets, they are less vulnerable to shocks such as sickness or natural disasters, the interest rates charged by money-lenders (whom they still use, often more than before) have been reduced because of competition, and millions of women have been "empowered" to deal with family, social and community issues.

Microcredit has empowered millions …but it is, after all, the same as microdebt

Yet they are still poor. Poor people need education, skills, infrastructure and links to markets as well as capital, and the sums of money they can borrow are in any case usually too small to make a major difference to their lives. There are also many places where the poorest people are excluded from microfinance groups, and when they do become members they may benefit the least or not at all.

Some microfinance clients suffer; inability to repay has even driven some to suicide.[3] Microcredit is, after all, the same as microdebt, and access to microfinancial services means no more than having a bank account. And it is generally a very inflexible account, which offers a limited range of services and makes heavy demands on its customers, such as attending weekly meetings and guaranteeing neighbours' debts. A bank account can be very useful, but in itself it is not a guarantee of a sustainable livelihood.

Which institution for which need?

Microfinancial services were first offered by NGOs and specialised microfinance institutions (MFIs), and most microfinance clients still access their services from these sources. More recently, some major national and multi-national banks have started to become involved, either through their own branches, by wholesaling funds to specialised MFIs, or by using NGOs or MFIs as service intermediaries. The intermediaries identify and appraise the clients, including forming groups and so on when necessary, and recover the loans, but the loans and client savings are on the books of the banks.

Banks have many advantages, such as their existing branch networks, systems and staff who are trained in managing financial transactions, and, above all, their regulated status as deposit-taking institutions which means (or should mean) that savings are secure, and are insured in case the bank collapses. This avoids the major weakness of MFIs and NGOs, which are often financially weak and, quite rightly, not allowed to take small savings. MFIs need to be strong enough not to put poor people's savings at intolerable risk, and few of them are, or few are likely to be able to access the equity finance they would need to become so.

Banks are not charities, however, and they must cover their costs and make profits in order to secure the equity finance they must have if they are to be financially strong. There is thus a danger that they will neglect the poorest people, living in remote or insecure places, who are most in need.

The diversity of delivery methodologies also affects the nature of the delivery institution. Some methods, such as the highly structured groups used by the Grameen Bank in Bangladesh and its many "replicators", require a dedicated institution; others, such as the self-help groups that are most common in India, or individual loans, can be used by any bank branch.

It is likely in the future that the market will be served by a diversity of institutions. Banks will deal with the mass market in urban and thickly populated rural areas, while NGOs or specialised MFIs, which may be subsidised, will service the poorest people in these areas and in other harder-to-reach places. There will also be more linkages between different institutions, with banks, NGOs and savings and credit cooperatives collaborating to serve the whole diversity of needs.

Unresolved issues

There remain many unresolved questions around the evolution of microfinance, including:

- Which types of institution, and which delivery methodologies, will dominate the market, and what will be the relationships between the various institutions?
- Will the bulk of the funds needed for lending come from client savings, or from other financial institutions?
- Will group-based methods wither away, as clients "graduate" and become individual customers, or will the groups evolve into new forms of cooperative or other client-owned financial institutions?
- Will the institutions that provide microfinancial services also offer non-financial services, such as training or market access, or will these other services be offered by different institutions, in collaboration with MFIs?
- Will MFIs grow up with their customers, and become full-service banks, or will existing banks reach down to the new market of the un-banked, and bring them up to join the existing individual customers?

PHOTO - MALCOLM HARPER

Tribal self-help group members near Warangal, in Andhra Pradesh, India

- Will donor assistance always be necessary (since *"the poor always ye have with you"*),[4] or will microfinance in time become a profitable industry in its own right?
- Will microfinance come to play a major role in helping the poor in rich countries, or will it remain primarily a "developing country" phenomenon?

Few if any of the above are clear alternatives, of course; the future is likely to involve a combination of all of them. We must surely hope, however, that microfinance will eventually "succeed", so that all its clients will become financially strong enough to be individual customers of the financial institutions of their choice.

Dr Malcolm Harper has published some 20 books and numerous articles on various aspects of self-employment, enterprise development and microfinance and was founding Editor-in-Chief of the journal Small Enterprise Development. *He was Professor of Enterprise Development at Cranfield University School of Management (UK), and now works mainly in India. He is a director, chairman and/or trustee of a number of microfinance and other institutions.*

[1] C Lapenu and M Zeller, in "Distribution, Growth and Performance of Microfinance Institutions in Africa, Asia and Latin America", *Discussion Paper 114*, IFPRI, Washington DC, 2001, give a figure of 54 million, and an estimate of annual growth of 25%–30%. This figure does not include the numbers reached by commercial banks, which has reached 24 million in India alone by 2005 (National Bank for Agriculture and Rural Development, www.nabard.org/oper/oper.htm). [2] C Lapenu & M Zeller, *ibid.* [3] D Hulme, "Is microdebt good for poor people? A note on the dark side of microfinance", *Small Enterprise Development*, vol. 11 no. 1, 2000 [4] John 12:8, *The Holy Bible (King James Version)*

Microfinance – part of an integrated solution

Lisa Jackinsky

MICROFINANCE HAS PROVEN to be an effective tool in the fight against poverty. Access to financial services that are otherwise unavailable or prohibitive enables many of the enterprising poor to expand their businesses, increase household income, pay for family necessities, and employ others in the community. And as clients graduate to larger loans, their thriving businesses create a spiral of escalating impact.

The microfinance industry is now united and energised around the goal of rapidly and massively scaling up microfinance services to reach vast numbers of the world's poorest.

Recognising its transformative power for the lives of the poor, World Vision has focused heavily on microfinance, our total loan portfolio growing by an average of 42% in each of the past four years. World Vision-affiliated microfinance institutions (MFIs) operating in 46 countries around the world have a combined loan portfolio of US$115 million, with 98% of loans repaid.

Impact evaluations have verified that people are better off after receiving these loans. A study of a US Government grant that funded World Vision's MFIs in Tanzania, Uganda and Peru, conducted by George Washington University, showed increased spending on education, improved health status and diet, increased savings and business earnings, and an improved sense of empowerment among clients.[1]

PHOTO - ELLEN ERICSON KUPP / WORLD VISION

Rose Mueni of Kangemi, a poor area near Nairobi, Kenya, received a KADET loan and set up her business Modern Typing Services. On a good day, she types some 20 documents (invoices, letters, resumes, etc.). She also teaches students to type. She dreams of expanding her business and opening Kangemi's first cyber cafe.

The need for integration

This is very good news. But microfinance alone is not enough. For maximum impact, it must be part of an integrated solution to poverty.

A holistic and integrated approach to development recognises that people's physical, emotional, social, intellectual, spiritual, and economic needs are inter-connected. Working on a community basis to provide such necessities as clean water, education, food security, health care, peace-building and spiritual nurture multiplies the impact to all members of the community. Microfinance is an essential part of this integrated model since it addresses the economics of poverty and enables communities to sustain their development over the long term.

What about the devastating impact of HIV/AIDS? What about weather fluctuations that destroy the livelihoods of rural families? What about people in remote locations, or those at the lowest income levels who can't afford the risk of taking a loan? There is evidence that people facing these major challenges have benefited from microfinance as part of an integrated approach.

Microfinance and HIV/AIDS. The HIV/AIDS pandemic has a widespread and devastating impact on the economics of a community. Bread-winners become debilitated, lose capacity to provide for their families, and must be cared for by others. Children are orphaned with little or no source of income. Local economies shrivel as businesses close, jobs are lost, and available goods and services diminish.

Providing microfinance integrated with an HIV/AIDS response can reduce such economic vulnerabilities. In Uganda, World Vision's MFI affiliate MED-Net works in partnership with World Vision Uganda to integrate

HIV/AIDS training with microfinance operations. Care and Education Training Teams (CETTs), made up of microfinance clients selected by their peers, receive intensive training in HIV/AIDS prevention and care. The CETTs members facilitate linkages with AIDS service providers and share information with those in their groups and with the wider community.

World Vision's MFI affiliate in Malawi, Finance Trust for the Self-Employed (FITSE), also provides HIV/AIDS education to its clients using a methodology developed by Freedom from Hunger. According to an evaluation conducted by Jill Donahue, clients felt they had increased knowledge of HIV/AIDS, demonstrated a change in attitude toward people living with HIV/AIDS (PLWHA), and felt they were better able to care for PLWHA and orphans. In addition, "business income enabled clients to respond to crises, to pay for school fees for the children under their care and to cover food, medicine and hospital expenses when a family member is bed-ridden." [2]

People's physical, emotional, social, intellectual, spiritual and economic needs are inter-connected

Even microfinance alone in high-prevalence HIV/AIDS areas seems to have a significant impact. The Kenya Agency for Development of Enterprises and Technology (KADET), World Vision's MFI affiliate in Kenya, found that 45% of clients interviewed care for orphans. Microfinance clients often become the community's social security safety net, caring for those infected and affected by HIV/AIDS.

Microfinance and disaster recovery. Poor people live on the economic margins, strained in their capacity to meet livelihood needs. Disaster, be it natural or man-made, can bring tragic results. The immediate and necessary humanitarian response is to provide the essentials of clean water, shelter, food aid and health care. But when livelihoods are lost, such as in the devastating tsunami in Asia, it is crucial to build a continuum of economic development activities that will support and not undermine the local economy. These may include cash or food for work, cash or in-kind grants to restart businesses, reconstruction of economic infrastructure, vocational training and microfinance. This continuum can enable people to move from dependency to dignity.

Even in times of disaster there are usually opportunities for economic activity, however small; the key is to diversify income sources. In Ethiopia, repeated drought and chronic food shortages have left many people destitute and vulnerable. World Vision's Ethiopian MFI affiliate, Wisdom, began lending in areas that were severely affected by the drought yet were supported by World Vision's integrated delivery of services. An impact evaluation conducted through Johns Hopkins University [3] revealed some encouraging findings. Microfinance clients had more sources of income available to them than non-clients, allowing them to better cope with problems or disasters. Moreover, female client–headed households seemed to benefit more from access to loans compared to male clients. Those within their homes had better diets and their children showed a decreased prevalence of malnutrition. They were also significantly less likely to receive food aid than male clients, suggesting that "microfinance programmes *may* decrease the need for extended food aid which is both costly and unsustainable".

Microfinance and the poorest. Many of the world's poorest live in rural areas. Because of the high operating costs, MFIs can find it difficult to lend to these highly dispersed and extremely vulnerable populations while at the same time covering the costs of doing business. For their part, very low-income families cannot usually afford the risk of taking a loan.

To reach the most vulnerable households, in the course of its wider transformational development work World Vision organises community savings groups, made up of people interested in starting a business. Each member saves an agreed amount (which may be tiny) and contributes this regularly to a group fund. Members borrow from the fund to start up or expand their tiny businesses. With loans as small as $10 (much too small for an MFI to manage sustainably), these savings groups serve as incubators for business start-ups.

As businesses grow, members find that their capital needs begin to exceed the lending capacity of the group. That is where the MFI comes in – when client demand and loan revenue potential are large enough to allow the MFI to operate sustainably. Group members graduate from the savings group to become MFI clients. Integrating microfinance with organised savings groups enables a combined effort to reach people at deeper levels of poverty and creates an economic ladder for their families and communities to climb toward success.

Studies abound of the impact of microfinance on the lives of the poor. Yet in the context of the devastating reality of HIV/AIDS, frequent disasters, and entrenched poverty, microfinance alone is not enough. An integrated response is required. Linking microfinance with other interventions multiplies impact and produces sustainable results for clients, their children and communities. ■

Ms Lisa Jackinsky is Manager of Technical Development for World Vision International's Micro-Enterprise Development Group.

[1] *Final evaluation report: World Vision Enterprise for Health Project*, internal report from evaluation conducted for World Vision by George Washington University Center for International Health on a USAID matching grant project, May 2001 [2] *Forward-looking review: World Vision's approaches to integrating micro-enterprise development and HIV/AIDS response*, internal report from evaluation conducted for World Vision by consultant Jill Donahue, August 2005 [3] See the summary findings of this impact assessment by Shannon Doocy, Johns Hopkins School of Public Health, Dan Norell, World Vision, and Shimeles Teferra, Wisdom Microfinance Institution, "Progress Note no. 4", January 2004, for the Small Enterprise Education and Promotion (SEEP) Network. The quotation is from a powerpoint presentation by Shannon Doocy on the assessment.

International Year of Microcredit 2005 – celebrating success

Christina Barrineau

PHOTO - ADAM ROGERS / UNITED NATIONS CAPITAL DEVELOPMENT FUND

RESPONSE TO THE UNITED Nations International Year of Microcredit 2005 has exceeded all expectations and demonstrated the immense world-wide demand for increased access to financial services.

Microfinance is a powerful and invaluable tool for low-income people, providing credit, savings, insurance, remittances, pension plans and other financial services. Given access to microfinance, people can build assets, increase income, stabilise consumption levels and protect themselves from potential losses. Through the marked success of the Year, microfinance has been recognised as an effective way to help meet the Millennium Development Goals (MDGs) and achieve sustainable development worldwide.

While the MDGs do not include a specific financial sector access target, microfinance must be recognised as an integral part of development if domestic private sector growth and wealth creation for those in poverty are to be attained. Microfinance's power to catalyse positive change and development has made it a fundamental part of major international initiatives to achieve the MDGs.

The Year's initiatives and key outcomes

Created by UN Member States to assess the challenges that poor people confront in accessing financial services, the International Year is a critical opportunity to highlight the enormous momentum behind and potential of microfinance. Under the guidance of global financial sector leaders as advisers and sponsors, the Year has successfully rallied the world to build inclusive financial sectors through several initiatives.

National Committees widely supported. The Year provided a platform to engage countries in aligning their financial sectors to achieve the MDGs by 2015. A remarkable **101 countries** pledged support by October 2005, forming National Committees or Focal Points comprising high-level representatives from 57 governments, 41 local UN offices, 59 multi-national agencies, 265 microfinance networks, 93 central banks and bank associations, and key members of the private sector and civil society.

The Year has rallied the world to build more inclusive financial sectors

High-level participation in The Blue Book. Initiated by the Year, and led by the United Nations Capital Development Fund [1] and the Office of Financing for Development of the United Nations Department of Economic and Social Affairs,[2] *The Blue Book on Building Inclusive Financial Sectors* [3] created an innovative international dialogue among a unique array of financial sector experts to address the question of **why so many bankable people are unbanked**. The ground-breaking result is a companion guide to national dialogues that centres on creating and strengthening national strategies for financial inclusion.

The Data Project initiated. Although there is a broad consensus that microfinance is widely and increasingly used, there is little hard data about who provides it, in what forms it is provided, who receives it and at what cost. In the second half of 2004, the Year brought a small group of expert statisticians and researchers together with governments and the private sector to address current data gaps and anticipate future needs.

As a result of this pioneering process, the World Bank and the UK's Department for International Development (DFID), along with the International Monetary Fund and the Central Bank of West African States

(BCEAO), have moved forward to develop critical new indicators on the quality of financial access, as a vital step in dramatically extending the outreach of financial services to poor people around the world.

Global Micro-entrepreneurship Awards. In addition to addressing the serious task of increasing access to financial services, the Year celebrated the passion, dedication, and tremendous hard work of poor and low-income entrepreneurs worldwide. To pay tribute, more than 30 countries participated in the Global Micro-entrepreneurship Awards, bringing together thousands of microfinance clients, students, private and public sector professionals, senior government officials, and UN staff.

In November 2005, GMA contestants rang the opening bells of more than 30 stock exchanges around the world, sending a strong message that inclusive financial sectors play a pivotal role in poverty eradication.

Looking forward

The International Year of Microcredit marks a pivotal milestone in the evolution of microfinance. The foundation for critical developments in the field have been firmly established: poor clients, heads of state, the private sector, central banks, students, professors, NGOs and poor clients have joined together to propel microfinance to the forefront of development and the achievement of the MDGs.

The road to building inclusive financial sectors around the world is long and arduous, but, as the Year has clearly demonstrated, we are poised to revolutionise access to finance for poor people everywhere.

Access, in the words of John Bati Kalinga, a micro-entrepreneur in Kenya, means: *"I want to eat by the sweat of my own brow. If I'm out begging on the street, it won't help my children at all. I want my children to learn from me. I want them to say: 'My father did this.' That is why I do all of this…I'm building a foundation for the future."* ■

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[1] www.uncdf.org/ [2] www.un.org/esa/ffd/
[3] www.uncdf.org/bluebook/overview.php

PHOTO - JOHN SCHENK / WORLD VISION

A young girl in Kosovo, with one of her family's prized milk cows. After the war, her father received one cow as a grant, then when the family was back on its feet he took a micro-loan of 200 euros to buy a second cow. He now has six cows, and intends to seek a new loan to modernise his barn and begin servicing a commercial dairy.

Case Study: **VisionFund Cambodia –**

SINCE 1990, PROVIDING FUNDS FOR CREDIT has always been an integral component of World Vision Cambodia's ministry. As at September 1998, World Vision had invested a total of US$691,010 for credit capital, managed in a decentralised way through its Area Development Programs (ADPs). Yet performance using this approach was mixed: credit programmes were managed by staff who didn't possess the necessary expertise and focus in credit delivery and although the programmes helped a lot of people, they were unsustainable. Learning from this experience, a new, separate microfinance programme was launched in 2001. World Vision Cambodia started to streamline its credit management, organised a market-based microfinance study, overhauled systems and procedures and pilot-tested methodology and products.

A decade of growth

Expansion to 12 ADP areas immediately followed in 2002. Performance has remained strong, with vigorous client and portfolio growth during 2003 and 2004. In compliance with local laws[1] and the World Vision Partnership's standards for MED,[2] VisionFund Cambodia (VFC) was registered as a separate commercial company owned by World Vision in 2003, and in 2004, VFC secured a microfinance institute (MFI) licence from the National Bank of Cambodia.

As at September 2005, VFC has more than 25,000 clients (80% of them women) with a total portfolio of over US$3 million in seven provinces. In spite of the rapid expansion, portfolio quality remained healthy: arrears, portfolio at risk and loan loss rates have remained within Partnership standards throughout the past five years of operation. Six VFC clients have been honoured by the United Nations for “Best Micro-entrepreneurs” during the UN Year of Microcredit. VFC was also recognised by the Consultative Group to Assist the Poorest (CGAP) Microfinance Information Exchange market[3] for its accuracy in financial disclosure and reliability. VFC has now gained the momentum for institutional permanence and has excellent infrastructure, trained personnel and dynamic systems in place to support increasing demand for microfinance services. In just five years, it has become one of the largest sustainable pro-poor microfinance institutions in Cambodia and in the World Vision Partnership.

Impact on poverty

Cambodia is one of the poorest countries in the world, with 36% of the population living on less than US$1 a day and 70% of the population with no or limited access to affordable and convenient financial services. Provision of microfinance services has allowed some of the poorest Cambodian micro-entrepreneurs to pursue and sustain income-generating activities to support their families – a task otherwise extremely difficult, due to money-lenders' exorbitant interest rates or complete absence of financial capital. It has promoted clients' ability to hope and dream for a better future, and unleashed their entrepreneurial spirit.

What makes VFC unique among other credit providers in Cambodia is that it operates in and around areas where World Vision works in broader community development. Clean water, agricultural training for secure food production, primary education, health care and vocational skills training are some of the macro foundations on which micro-businesses begin to flourish. Microfinance services in such contexts have created synergies for poverty alleviation.

80% of VFC clients have moved up the poverty ladder, and there is a new sense of community

An impact evaluation conducted in December 2004 concluded that 80% of VFC clients in World Vision ADPs have moved up the poverty ladder, as evidenced by:

- growth in capital and business
- growth in number and diversity of businesses
- increase in number of children attending school
- growth in job intake (jobs created)
- increase in productive assets
- increased skills for business; and
- increased self-esteem/confidence and improved health.

VFC has fuelled the local economy, delivering financial services to between 15% and 50% of the ADP populations, depending on the maturity of operations, level of demand and availability of loan capital. Through the joint efforts of World Vision Cambodia and VFC, development messages on topics such as HIV/AIDS, child rights and gender equality are promoted in community bank meetings, helping to empower the community's most vulnerable and disadvantaged. The impact study has revealed that there is a perceived reduction in domestic violence as a result of education campaigns and of improvements in community and family economic situations. Another significant impact of VFC's community banking is that it helps foster people's trust, mutual support

quality portfolio despite rapid expansion

and sense of community among members. The community bank structures in many instances have fostered mutual help beyond just guaranteeing each other's loans. One ADP manager remarked that it's far easier to mobilise community members for other development projects in areas where VFC has strong community banks.

Factors in rapid expansion with quality

- **Governance and leadership vision.** Both World Vision Cambodia's and VFC's leadership are determined that microfinance be an organisational core competency, realising that it is an indispensable component of transformational development. The business plan provides a clear sense of the MFI's nature, mission, goals and strategies, and guides each aspect of operations.

- **Hiring and training the right staff for the job.** VFC has invested in hiring and training people who have a sense of calling to help the poor through microfinance and possess the needed competencies.

- **The right operating environment.** There is tremendous demand for financial services in Cambodia; the government has provided relatively favourable legislation for microfinance institutions to thrive; and World Vision Cambodia as a parent organisation has been supportive with policies and leadership.

- **Synergy of services with World Vision.** Since VFC operates in areas where World Vision works, it benefits significantly from existing development investments in an area. Greater efficiency in operations is also achieved through sharing of resources, information and contacts (such as office spaces, avenues for staff spiritual nurture, or baseline data) to achieve a common goal.

- **Availability of funding support.** Although VFC has found itself short of loanable funds every year due to massive demand, the availability of funding from World Vision ADPs, Support Offices and VisionFund International has allowed the institution to accumulate substantial assets. The bigger the asset base, the more poor people it can assist: more than 80% of assets are invested as loan portfolio, while others are invested in systems that make lending work effectively.

Challenges and hopes

Scaling up VFC into a premier, nation-wide MFI dedicated to serving Cambodia's poor will require significant funding and capacity-building investments in coming years. Governance needs to be further enhanced; processes, systems and structure need to continue evolving to meet changing customer needs, growing organisational complexity and difficult socio-economic conditions in Cambodia. Sustained relationships with ADPs should lead to VFC providing financial services to even more of the vulnerable poor within these communities.

PHOTO - KARL GROBL / WORLD VISION

For noodle-maker Bo Phon, of Kandal province, Cambodia, access to VisionFund loans has not only expanded her business but enabled her to maintain the quality of her noodles, a matter of great pride for her. "This is the cleanest place in the village," she boasts.

VFC's plan is to provide financial services to 72,000 clients by the year 2009. The whole organisation, from the board down to credit officer trainees, is passionate about helping liberate the poor from poverty. It is this that has been fuelling VFC's remarkable growth. ■

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[1] The national government of Cambodia passed a law (*Prakas B 7-02-49*) mandating licensing of larger institutions engaged in credit and savings services. Licensing is compulsory for all microfinance institutions having a portfolio of 1,000 million *riel* (US$250,000) or 10,000 borrowers. [2] World Vision International, *MED Program Quality Standards*, which mandates MED programmes to attain separate, specialised and sustainable institutions outside of World Vision programmes or departments. [3] CGAP (www.cgap.org) is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor.

Case Study: **Brazilian small farmers**

IN 1999, WORLD VISION BRAZIL started a very ambitious project to enable small land-holder producers in Rio Grande do Norte State, one of the poorest regions in Brazil, to export melons to European markets. To our knowledge, this had never been tried before, and we did not have any experience in terms of procedures for accessing foreign markets. We were driven by a dream: to see poor producers access important and lucrative markets and to see poverty reduced.

With the support of a trade representative who made the first contacts with European import traders (regular importers, not Fair Trade importers), we created an operational plan, including terms of production and logistics to address the demands, time frames and requirements of the market. We selected as our Brazilian partner the melon producers from the town of Baraunas, who were already selling their product to the big export companies of the region. Even though the small producers of Baraunas had the needed capacity and quality to serve the international market, what they didn't have was the capacity to commercialise directly with distant markets. And although they had been selling their melons to the big companies for several years, a lot of small producers were wanting to stop growing melons due to the low prices the big companies paid.

Since World Vision was not an export company, we contracted an export company to manage the legal procedures and technicians (agronomists, foreign trade experts) to carry out the operational steps. At this point, World Vision Brazil didn't have detailed understanding of the principles and procedures of the Fair Trade movement. We promoted the melons as a "fair trade" product, even though we didn't have a Fair Trade label. Fortunately, we met all the Fair Trade criteria and procedures! However, we did not have the protection of the Fair Trade certification and labelling processes.[1] The impact on the beneficiaries, the small melon producers, was extremely positive. We exported 45,000 boxes of melons of the same quality as the European market standard. The small producers raised their family income 54%. But we had a problem: the export company charged us 26% of total sales, reducing the small producers' potential profit.[2]

PHOTO - WORLD VISION BRAZIL

Fair Trade "Vision" melons being prepared for export

The price of success

After the key partners (World Vision Area Development Programs, other NGOs and small-holder producers) assessed this pilot process's successes and failures, we decided to move ahead, including more melon-producing families and increasing the amount to be exported. The outcomes and the wide visibility achieved on the first export transaction made us very confident that we had found the best way to reduce the growers' poverty. To avoid the high costs charged by the export company, we opted for a small export company that in the past had marketed handicrafts and cashew nuts from poor communities to Europe, and whose main shareholder was a partner NGO. In an integrated approach, the small producers borrowed the financial resources to cover the costs of production and post-harvest processing from World Vision's rural microfinance programme.

In its second year the programme yielded even more outstanding results. We exported 75,000 boxes of melons to eight European import traders, and also sold 15,000 boxes of melons to a Brazilian national chain of supermarkets. The producers' income rose to the point that they could pay off old debts. Additionally, other small producers of melons in the same region also increased their profit because the big companies had to increase the price they paid per box to compete with our prices. The final investment return analysis pointed to a 60:1 rate. Using the small export company reduced export fees from the earlier 26% to only 8%, increasing even more the producers' profit. Up to this point, the relationship between the European importers and World Vision Brazil was very friendly. The international market price for melons was high enough to cover all costs and profit both producers and importers. Favourable repercussions of this innovative experience in the wider World Vision partnership and with other organisations made us rather famous. World Vision Brazil won the Award from the Inter-American Development Bank for best experience in Business Development Services. A national TV network and newspapers reported on the feat of poor producers who had accessed the international markets in a competitive way.

But we had not yet seen the market show its claws or experienced the degree to which it is biased against small producers.

In the third year we were more ambitious: the operation grew and exported 140,000 boxes of melons and sold 30,000 boxes of melons in the domestic market. But this was September 2001. After the terrorist attack in New York, exporters who would otherwise have sold primarily to the US market moved their melons to Europe, flooding the European market and causing a fall in prices.

We tried to reach an agreement with the European import traders to share some of our losses, appealing to their "social awareness". But all selling is done through a consignment process, in which the importer charges all its costs and a fee of 8% and pays the balance no matter how small it is. We knew about these rules, yet anticipated that our win/win alliance with the

export melons to Europe

importers after three years might prevail. But business is business, and the fall in prices meant that we experienced losses. The losses were split between the producers and local partners and offset by World Vision back-up funds.

After our third year of export operations, we realised that we had the knowledge and abilities to access markets competitively. But trade had brought implications that went beyond the scope of a single entity like World Vision, and despite efforts to build alliances, we worked alone. This was a huge constraint that needed to be dealt with if the programme were to improve.

Lessons learned

The experience taught us some hard lessons:

- "Trade liberalisation" is still a mirage; for some, the market can be anything but free. Power in the market moves from the rich to the poor; it is a one-way street.

- Market traders in developed countries are not equipped or prepared to deal with small producers.[3]

- Small producers are very vulnerable to swings in global trade. There is no special protection to improve or support their market access, while big traders can count on insurance, hedging mechanisms, easy access to cheap credit, and so on, to strengthen their competitive advantages. Without support and special conditions, small producers cannot cope with prolonged high fluctuation of commodity prices.

- Trade barriers affect small producers more than big, modern companies. All export regulations, trade rules, and freight procedures were made for big exporters.

- Trading costs are much higher for small producers, due to their smaller scale, logistics, precarious infrastructure, and so on.

- As well as alliances between producers, NGOs and government at local and national levels, to acquire local and global competitiveness there must be strategic (ethical) alliances with the private sector.

- It takes time for small producers to learn the complexity of global trade; this learning time frame must be respected. First they must be able to commercially produce the required quality and quantity, then to access local markets, then national markets, and finally international markets.

Re-starting from the bottom up

After this rich learning experience, World Vision Brazil, our partner agencies and the small producers decided to continue with the initiative, re-designing it on a stronger basis to address these issues. The new Market Access programme aims:

1. To strengthen the productive capacity of small producers and build their capacity to participate in accessing the market by building on their competitive advantages

2. To improve the mechanisms of commercialisation, settling up reliable negotiations with the buyers (we created a buffer fund to protect small producers from the big swings in commodity prices, and a Fair Trade company to make the commercialisation more professional)

3. To promote better conditions for small producers accessing the markets, through advocacy actions

This new phase has already supported more small farmers and handicraft producers than the previous initiative did. They are commercialising handicrafts, cashew nuts, mangoes, organic products, honey, etc. in local, national and international markets. To reduce the market risks, we are increasing the amount of non-perishable products commercialised; taking advantage of Fair Trade rules and mechanisms; and doing business with companies committed to social responsibility. Clearly, expanding market access can have a positive impact on poverty reduction. Global trade can break exclusion in market flows, creating alternatives where a domestic market is dominated by local elites. And it is a huge opportunity to expose people to new ideas and build their capacity to deal with all aspects of economic activity. Yet this initiative highlighted that if some structural constraints to market access do not change, successes like this will continue to be exceptions to the rule and will be limited. We can prepare the poor to deal with trade, but trade must be prepared to deal with the poor.

– Eduardo Nunes and João Helder Diniz

[1] See: J Diniz & G Santos, "Comércio Solidário no Brasil: Esta idéia tem futuro? (Fair Trade in Brazil: Does it have a future?)", *Comércio Ético e Solidário (Fair Trade)* magazine, 2003 [2] A complete programme evaluation appears in *Avaliação de impacto do Programa de Comércio Solidário (Fair Trade Program impact evaluation)*, World Vision Brazil, 2002 [3] See: E Nunes, *Market Access: The challenge is ahead*, UNCTAD, 2004

More credit, less red tape key for MEs in Latin America

Pamela Cox

THE COUNTRIES OF LATIN America and the Caribbean are full of promise. The region is in the midst of an economic boom and has the potential to consolidate the gains of recent decades. But the region still faces a significant development challenge: persistent poverty and entrenched inequality.

Since 1990, life expectancy in the region has increased from 68 to 71 years and completion of primary education from 88 to 96%. Yet about 128 million people (24.5% of the region's population) live on less than US$2 a day, and inequality is greater in this part of the world than in any other region except sub-Saharan Africa. The richest one-tenth of Latin Americans earn 48% of total income, while the poorest tenth earn only 1.6%.

Micro-enterprises (those with fewer than five employees) have an important contribution to make in changing this picture, as they employ between 30 and 50% of the region's labour force. Yet this formidable source of employment faces significant challenges if it is to develop, grow and prosper.

Informal, excluded

Most micro-businesses operate as part of the informal economy. This means not only that most of them don't pay taxes, but also that they don't have access to credit or enjoy the advantages that formal firms do. Their employees, in turn, don't have benefits, such as health insurance or pensions, which excludes them and their families from key assets and opportunities to prosper and have a better life.

Financial exclusion is one of the greatest obstacles facing micro-enterprises. From a *quesadilla* kiosk in Mexico City to a car repair shop in São Paulo, most small businesses are "unbanked" – meaning they don't hold any kind of deposit or transaction account in a formal sector financial institution. Small businesses are usually unable to obtain a bank loan because they can't provide the required collateral, so they have to go through informal lenders or non-bank financial institutions that often charge extremely high interest rates.

Now many governments and donors are working together to improve access to finance. In Brazil, for instance, the World Bank has been supporting Banco do Nordeste's CrediAmigo (Friendly Credit) microfinance programme since 1997. Already among the top microfinance institutions in Latin America, CrediAmigo offers loans to established micro-entrepreneurs. The loans are collateral-free but are extended to groups of three to five borrowers who cross-guarantee each other's loans. Although interest rates are higher than those on larger loans, they are substantially lower than those charged by informal money lenders. And in Mexico, we are working with the National Savings and Financial Services Bank to extend and deepen the outreach of financial institutions to under-served populations.

Financial exclusion is one of the greatest obstacles facing micro-businesses

Probably one of the biggest successes has been the evolution of some non-governmental organisations into self-sufficient, regulated, highly profitable and pro-poor microfinance banks. This is the case of Mexico's Financiera Compartamos – the largest micro-finance institution in Latin America with some 425,000 clients[1] – which raises funds in financial markets while maintaining an unswerving commitment to serving poor women.

Red tape problems

Reducing red tape will also be key in the long run. The high cost of compliance with regulations to start and run a business force many micro- and small firms to remain outside formal institutions (such as lenders). Tax systems also make it difficult for them to sell their products to larger formal firms, given the impossibility of claiming tax credits.

As the recent World Bank Group's *Doing Business in 2006* study[2] shows, while it takes two days to start a business in Australia, it takes 58 days in Mexico and 118 in Venezuela. Likewise, it takes 23 procedures to obtain a business licence in Argentina, compared to seven in New Zealand. Although the region is increasing the pace of reform to help small and medium businesses, Chile is the only Latin American country in the top 30 list of the study's ease-of-doing business index.

In order to fight poverty and inequality, the Latin American and Caribbean region has to create jobs. Doing more to facilitate access to credit and to reduce red tape for big and small entrepreneurs is key to creating more jobs, more growth and more prosperity. ■

Ms Pamela Cox is the World Bank Vice President for Latin America and the Caribbean.

[1] www.cgap.org [2] www.doingbusiness.org/documents/2006_overview.pdf

HIV/AIDS
– strengthening economic safety nets

Jill Donahue

DOCUMENTS, STUDIES, AND other literature that describe the impact of the HIV/AIDS pandemic agree that it is unravelling years of hard-won gains in economic and social development. The pandemic is an evolving disaster – the scale of its social and economic impacts are large, and getting larger. The fundamental challenge is to develop coordinated, multi-sectoral interventions that make a difference over the long haul at a scale that approaches the magnitude of the HIV/AIDS pandemic.

AIDS' economic toll starts with eroding the resources of the person living with AIDS, spreads to depleting the resources of the extended family and threatens to overwhelm the capacity of communities to act as a final safety net. Many analysts fear that the unprecedented strain will cause societal breakdown, and that the wider world is not doing much to help particularly the young people affected.

While these concerns are well-founded, they reflect only part of the reality. In spite of seemingly overwhelming challenges, ordinary families and communities are responding creatively and devising ways to address their own needs, problems, and challenges. If we consider AIDS-affected children and families as helpless victims, we risk creating programmes that treat them as passive recipients of our goodwill. Instead, we must recognise, celebrate, and actively support their hundreds of small yet collectively powerful initiatives.

The greatest economic impacts of HIV/AIDS come from caring for people living with HIV and AIDS, losing productive adults to AIDS, paying for funeral costs and absorbing orphans.[1] Families and communities shoulder much of this burden, and it is on them that the pandemic takes the heaviest toll.[2]

The starting point for creating effective responses to the impacts of the pandemic on children is recognising that **families** and **communities** are the principal safety nets for children. Thus, strengthening the ongoing capacities of affected families and communities to protect and care for vulnerable children is critical.

Families and communities, the main safety nets for children, need strengthening

The capacity of households to provide for children depends, in turn, on their ability to maintain or stabilise livelihoods; to provide an economic **safety net for the household**. When the household safety net fails them, families look to their relatives, neighbours or other "well-wishers" in the community for relief. Individuals concerned for their friends, neighbours, and families often organise to provide moral support and material relief to households affected by HIV/AIDS. This is the foundation of a **community safety net**.

Household and community safety nets are inherently inter-related. The extent to which each can provide an economic buffer to the impact of HIV/AIDS depends on how successfully they interact to support one another.[3]

Strengthening household safety nets

In their paper examining the dynamics of household economic portfolios, Chen *et al.*[4] explain household economic coping behaviour in terms of **reducing risk** and **managing loss**.

Risk reduction strategies include:
- choosing low-risk income-generating activities that earn modest, but steady, returns;
- diversifying household crops and/or income-earning activities;
- building up savings and in-kind assets (e.g. livestock, jewellery, household goods); and
- preserving extended family and community ties.

Loss management techniques fall into three stages:
- Stage 1: liquidation of protective assets (reversible)
- Stage 2: sale of productive assets, undermining future household capacity to generate income and produce food (difficult to reverse)
- Stage 3: few, if any, coping mechanisms remain available (household is destitute).

Avoiding stages 2 and 3 depends on the resiliency of stage 1 strategies. Stage 1 depends on the successful outcomes of risk reduction activities. Therefore, strengthening risk reduction activities of affected households and helping them avoid stages 2 and 3 will reduce their vulnerability to poverty and, by extension, the impacts of AIDS. A variety of micro-enterprise services have potential to reduce the risks. They include:

Microfinance services. Loans offered by microfinance programmes are deliberately small to attract the poorest households, who typically already engage in short-term, rapid-turnover trading activities. These are the very activities most likely to benefit from infusions of small amounts of working capital afforded them through a loan.[5] On a general level, impact evaluations of microfinance services show that access to credit enables businesses to survive crises and households to create steady flows of income and accumulate assets.[6]

Microfinance services have many comparative advantages for mitigating the economic impacts of HIV/AIDS. They can:

- help clients to maintain or increase income and reduce vulnerability to loss;
- provide clients with an opportunity to build savings that are secure, easy to liquidate quickly and retain value;
- enable clients to avoid irreversible coping strategies that destroy future income earning and productive capacity;
- provide an important source of lump sums of cash, which helps clients avoid eating into their business capital; and
- enables the restoration of business activities, thus contributing to "bouncing back" once a crisis is over.

But microfinance is not a panacea for mitigating the economic impact of AIDS. The financial service does not create the economic opportunity; the client creates it. Similarly, the survival of an MFI depends on clients paying back loans in full and on time. Thus, microfinance is not for households whose members have no productive capacity.

Microfinance does work in communities seriously affected by AIDS, but it does not work when an organisation tries to select client groups based on whether members are infected or affected by HIV/AIDS. Microfinance is an economic tool that must be matched to clients' economic capacity. Furthermore, when projects attempt to engineer artificially the composition of solidarity groups, it undermines the delicate mix of peer pressure and group accountability on which the success of lending programmes must be built.

Savings mobilisation. Savings initiatives can help households for which credit is inappropriate. These include households that do not want or are not able to absorb debt, and those in rural and remote areas whose income may be seasonal or unpredictable.

Building savings reduces economic risk and enhances ability to cope with loss because in a crisis households are able to liquidate these reserves rather than productive assets on which their future income-earning ability may rely.

An alternative to formal savings initiatives is to promote informal rotating savings and credit associations (RoSCAs). RoSCAs are a traditional means by which a group of ordinary people (rich or poor) can mobilise and pool savings. These traditional savings mechanisms exist in one form or another all over the world.[7] In some cases, informal groups lend their accumulated savings to each other, charge interest, then share the interest earned in the form of a dividend. These groups are referred to as ASCAs (Accumulating Savings and Credit Associations).

Market or commercial linkages. Facilitating better linkages to markets that are growing, or to sources of raw materials that are more economical, is another way to increase the amount of cash micro-enterprises bring in. Many existing market linkage programmes focus on developing links between disadvantaged agricultural producer groups and markets to which they have not traditionally had access.

Strengthening community safety nets

HIV/AIDS can cause such severe economic stress upon a household that engaging or continuing income-generation activities is no longer an option. At this point, the community and extended family's role becomes critical.

Often, a sense of urgency to assist households in crisis motivates people to form coalitions, committees or associations. These spontaneous coalitions may take turns visiting the most vulnerable households, sometimes providing food and soap, or school supplies and school fees for children. Or they may help run errands, take care of household chores, or watch the children. Having access to this type of relief assistance can make the difference between a household disintegrating and being able to "bounce back".

Community groups typically engage in activities to create a source of funds for the material needs of households in crisis. Traditional activities are normally intermittent, one-time efforts that are organised so as not to interfere with individual livelihoods. But since the kind of crisis experienced by households affected by AIDS can often overwhelm such modest fund-raising efforts, many groups need externally-funded community-run micro-enterprises (referred to as income-generating projects or activities – IGP/IGAs) to finance their activities.

However, external funding of this IGP approach is not recommended as a standard and long-term solution to the problem of fund-raising. Communal businesses are notoriously risky endeavours and frequently require more management skills than a community can offer. Similarly, the time and effort necessary to achieve the desired profits can detract members from carrying out the very tasks that the profits are supposed to finance.[8]

In order to create a source of funds that are sustainable over the long term, communities can embark on an on-going **community resource mobilisation campaign**, which should include:

Fundraising activities. Holding a variety of one-off fund-raising events will probably take fewer financial and time resources than would an IGP. The most successful fund-raising is based on skills and resources that already exist within the community. Methods used can range from simple donations from the community, to gardens, to sophisticated events like raffles, or creating foundations.

Community asset mapping. Assistance to community groups should help develop strategies to tap into local and external resources. Community asset mapping is a tool that uncovers hidden or undervalued resources. The exercise includes an inventory of community skills and talents, physical resources controlled by community members and resources controlled by external parties.

Community participation. Building strong community cohesion, participation, ownership, and management of all activities is a very important aspect of programmes for orphaned and vulnerable children. Successful community resource mobilisation cannot occur in communities where ownership and participation does not exist.

Combining community and household-level responses

It is important to keep in mind that the impact of relief assistance provided via community safety nets is not sustainable in and of itself. A community safety net sustains a household in crisis only as long as material relief continues or until the household is out of danger. In the long run, the household must resume reliance on its internal resources, freeing up resources for others who come to find themselves in dire need.

Ensuring both household and community safety needs is daunting, but not impossible

Finding new ways of addressing the economic strengthening needs at **both** household and community levels is a challenge that development agencies must face. The challenge is daunting, because project design approaches and technical assistance needs for activities aimed at the household level are quite different from those addressing the community level. Attempting to design and manage an initiative to strengthen community safety nets **and** deliver micro-enterprise services to strengthen household safety nets is probably beyond the capacities of most organisations.

Yet strengthening safety nets at both levels does not have to be an either/or proposition. Initiating strategic alliances that are operationally separate but overlap geographically would allow each to do what it does best, yet still benefit from the other's activities.

Besides the operational challenges of combining projects from different technical sectors, devising effective economic strengthening strategies is further complicated because the financial and social needs of households and communities change as HIV/AIDS-related crises evolve, and because HIV/AIDS does not affect all households in the same way. Therefore, it will not be possible or preferable to propose a "one size fits all" solution.

The burden is on us as development professionals to find ever more innovative ways to show our solidarity with the households and communities we support. There are ways, albeit not easy ones, to collaborate with one another and to forge multi-sectoral alliances. ■

PHOTO - JILL DONAHUE

Home-based care-givers in a World Vision integrated HIV and MED programme in KwaZulu Natal, South Africa, discussing the assets that people in their community accumulate, and which of these are most helpful during times of crisis.

Ms Jill Donahue is a micro-enterprise development specialist currently based in South Africa. Her expertise includes analysing household economics and the role of micro-enterprise services to improve the ability of families and communities to cope with the impact of the HIV/AIDS pandemic. Portions of this article are adapted from her chapter "Strengthening Households and Communities: The key to reducing the economic impacts of HIV/AIDS on children" in G Foster, C Levine & J Williamson (eds), A Generation at Risk: The global impact of HIV/AIDS on orphans and vulnerable children (New York: Cambridge University Press, 2005).

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Has the development community over-invested in microfinance?

Stephen C Smith

PHOTO - PATRICIO CUEVAS-PARRA / WORLD VISION

A micro-enterprise course led this Chilean woman to small business success selling empañadas. But can microfinance alone help people to break out of poverty?

MILLIONS OF PEOPLE RELY on micro-enterprises for a large part of family income yet have little access to finance. I have long advocated microfinance as one strategy for development and poverty alleviation that can be effective, and continue to do so. Microfinance is a powerful tool, but in some circles microfinance has become practically synonymous with grassroots poverty alleviation emphasising women. Yet our menu of effective strategies is much broader, and the limitations of microfinance as a poverty and development strategy must also be appreciated.

I start with the perspective that what matters is improving the well-being of people, and that a given improvement in income, health, education, and empowerment for the most disadvantaged in society has a much larger impact on social welfare than such improvements for the more advantaged would have.

Microfinance will continue to play a significant role. Even without regular, formal sector jobs, if the poor are well nourished and have other keys to capability,[1] they frequently use their creativity to earn a basic living in micro-enterprises. Many hard working women have been caught in working capital **poverty traps**, struggling with an inventory too small to be productive – too few sales per hour at the market or per door knocked. This means they will have too little net income to maintain a larger inventory in the future. In response, the number of microfinance institutions (MFIs) in the world lending in support of micro-enterprise activity has grown to over 2500, many supported by developed-country donors. Over 67 million borrowers have taken part.[2] For-profit banks are joining the market – an encouraging sign. Even so, the reach has been limited. MFIs commonly lend to the richest of the poor. A 2002 study estimated that only 11% of the world's 240 million poorest families have so far gained access to microfinance.[3]

Factors often overlooked

But a large flow of funds from both public and private donors have recently poured into microfinance. Given limited resources, could donors, funding agencies and NGOs have overemphasised microfinance and underemphasised viable solutions to other poverty traps? The question cannot be answered in a general or categorical way, but there are some important considerations that NGOs should take into account. Despite great attention and resources to microfinance its relative impact remains unclear. We need to better understand what does and does not work, through rigorous programme evaluation, and experimental testing of ideas behind microfinance designs. Even when indicators of success are agreed upon and impact is assessed carefully, genuine cost-effectiveness comparisons **between alternative approaches** to poverty reduction are rarely achieved. Each NGO must decide based on local needs and its own comparative advantage.

In the meantime, there are at least 10 sometimes-overlooked limitations to MFIs' claim to address poverty that funding agencies and NGOs should consider as they balance their activities to assist the poorest.

1. Cost of subsidising MFIs. It is important to understand that – as Jonathan Morduch has documented – significant donor grants have been put into MFIs; not just the sometimes substantial start-up funding but in many cases ongoing financial subsidies such as staff time and expenses. Thus, the argument that MFIs should get priority funding because they are or become self-sustaining needs close scrutiny. Subsidy costs are real, so hard decisions about funding priorities cannot be side-stepped. I worry that one reason for the predominance of microfinance-based strategies may be that programme selection is distorted when donors respond to microfinance's "hand up rather than hand-out" image. Hand-outs are not a bad thing when they genuinely assist people in extreme poverty; and given microfinance's image among small donors it is ironic that it generally involves hand-outs as well as "hand-ups". Investments in education, health and nutrition, environmental protection, market access, agricultural extension for women, and genuine empowerment can also provide "hand-ups", but all programmes cost something. Donors should be educated as to the issues and trade-offs.

2. Parallel interventions. In *Ending Global Poverty* I review 16 poverty traps,[4] of which working capital traps are one. Others include child labour traps, undernutrition and poor health traps, farm erosion traps, uninsurable risk traps, low skill traps, and subsistence traps. The poor often need programmes that address other traps. When these traps interlock, it may make sense to combine microfinance with other programmes. Business education is the most common service packaged with microfinance, but health care and other capabilities are increasingly included.[5] BRAC's "Microcredit plus" programme in Bangladesh integrates village health, business education and legal training with microfinance. Even "minimalist" MFIs usually include non-financial activities. These strategies deserve rigorous evaluation; and funding agencies and NGOs need to identify how much of the benefits come from microcredit and how much from the parallel interventions.

We need to better understand which approaches are the most cost-effective in reducing poverty

3. Bigger-picture solutions. As my colleague Shahe Emran and co-authors argue, while failures in credit markets are pervasive and important, the reason microfinance can reach so many **even with such high interest rates** is often due to gender inequality in labour markets.[6] Women who are constrained from working outside the home may benefit from microcredit particularly because it lets them work at home, but a bigger benefit to women and their children might come from social changes that enable women to work outside the home. If NGOs such as the Self-Employed Women's Association (SEWA) in India can successfully campaign for changes that make the labour market more accessible to women, then that has implications for the relative weight we should place on micro-enterprise support activities. Microfinance is oriented toward individual activities, or at most a few individuals in a cooperative under-taking, but community-wide develop-ment initiatives (from education or health to community empowerment) can help solve other poverty traps and magnify the benefits of individual credit.

4. The group factor. As a micro-finance innovation, joint liability among groups of borrowers offers clear benefits,[7] especially for lending to poor borrowers without collateral. But when participation in microfinance groups leads to improvements in the lives of poor women, the key reasons may be the value of group solidarity, and even the raised self-esteem simply from success in repaying loans, rather than the microcredit itself. Some practitioners observe that the biggest impact is on raised self-esteem simply from success in repaying loans. Many women with individual liability loans still opt to participate in borrower groups (such is the experience of the Association for Social Advancement (ASA) in Bangladesh). Social capital is clearly important. Groups offer the chance to share ideas, address feelings of powerlessness, and find friends and comrades who stand with you in difficult times. To the degree that social solidarity (or improved self-esteem) drives success, perhaps funding agencies and NGOs should address these goals differently. Certainly, it costs less to facilitate solidarity groups than to create and operate small banks.

5. Access for the poorest. Most of the poorest still do not join microfinance programmes or, if they do join, there is growing concern that they cannot use the loans productively. We cannot assume that simply because the poor participate in a microfinance borrowing group or other MFI programme, they must be better off by "revealed preference", because the poor rely on NGOs' advice on how to escape poverty. Many borrowers could be turning over loans without realising they are not benefiting much. Working capital is never sufficient for business success: if the poorest lack capabilities such as recognising and adding numbers, and minimal health and nutrition, they cannot be expected to borrow, spend, and sell productively. The poorest have often been unable to start any enterprise, however meagre. To be successful, even micro-enterprises must reach a minimum size that can be beyond the reach of the poor, and microcredit can add to costly but unproductive debt. The

Grameen beggars' programme offers hope, but successful programmes for the poorest commonly introduce microcredit only near the end of interventions for overcoming other poverty traps.[8]

6. Regular vs "micro" employment. Even MFI borrowers often seem to view their micro-enterprises as a stop-gap solution. Former micro-entrepreneurs sometimes abandon these activities when presented with the opportunity for a steady and reliable job at a small or medium-sized enterprise (SME), even if it is rather low-paying.[9] Indeed, a steady job can be the most important asset for escaping poverty traps. Most people are willing to pay for insurance, and a predictable wage offers insurance against the vagaries of micro-enterprise proceeds. Even many laid-off professionals in rich countries go into self-employment only and until they can find a suitable replacement job.

7. Few micro-enterprises become SMEs. In principle, the poor might find employment in a neighbour's micro-enterprise that has expanded as a result of access to credit. In practice, there is little evidence of micro-enterprises growing into SMEs. SMEs are usually started by entrepreneurs from a different demographic: less poor, more educated, more able to accept risks. This came as a surprise to BRAC, which found that its SME programme was rarely utilised by its micro borrowers.

8. Possible short-term harm. Sometimes micro-entreprenurs who gain access to microfinance do sufficiently well to out-compete those who do not; and those with MFI access are less likely to be among the poorest. Given that few micro-enterprises grow to the point where they hire outside employees, and that there is no evidence that microfinance facilitates sustained general economic growth, in the short run some MFI activities could even **hurt** the poorest if safety nets are not available or counter-measures are not taken. Funding agencies and NGOs should be attuned to this possibility in local activities.

9. MFI "gluts". MFIs may have been established in settings (such as Bangladesh) where they are most likely to be successful; and in those settings the most viable borrowers may already be served. As a result, a larger share of increments to funding might be better placed in other programmatic areas, even when the money spent thus far on MFIs has been a good investment. Beyond a certain point, if MFI competition becomes large, MFIs may be tempted to make poor loans, as observers have noted in some cases in Bolivia. Or clients may find themselves borrowing from one MFI to repay another, while trapped in a hidden cycle of losing precious income to unproductive interest payments. Credit-scoring bureaus can help, but it is difficult to ensure that they function effectively and extend broadly to the microfinance market.

10. What improves financial systems? Some practitioners argue that poverty reduction is not realistic for MFIs; rather, their purpose is to stimulate a better financial system. This is a worthy goal,[10] but microfinance development is not necessarily the best way to achieve it. Improved systems for regulation and oversight, upgrading the financial system safety net, training of government financial officials, better tax collection to lower fiscal deficits, focusing financial services on the SME sector, and facilitating participation by foreign banks all can make plausible claims as more cost-effective strategies for improving the functioning of the financial system *per se*. Micro-enterprises, and the MFIs that lend to them, may turn out to be "transitional institutions", as are often encountered in the process of economic development.[11] For example, "township and village enterprises" (TVEs) appear to have been a transitional institution in China: they played an important role in Chinese development, particularly given the institutional constraints in the 1980s and 1990s when these firms grew most rapidly. Small MFIs and the micro-enterprises they serve are playing important roles in many developing countries, and support for them must continue. But pending better research we should be careful not to overly rely on MFIs as a solution for poverty alleviation and economic growth. With anticipated increases in poverty programme funding, such a shift would require no decrease in planned support for microfinance, but funding agencies and NGOs must continually reconsider how to allocate new resources on the margin. ■

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[1] The keys to capability, defined in S C Smith, *Ending Global Poverty: A guide to what works*, New York: Palgrave Macmillan, 2005, are health and nutrition, basic education, credit and basic insurance, access to functioning markets, access to the benefits of new technologies, a non-degraded and stable environment, social inclusion and human rights, and community empowerment and development. Thus, credit and insurance will not be the limiting factor (binding constraint) in all cases. [2] B Armendriz de Aghion & J Morduch, *The Economics of Microfinance*, Cambridge, MA: MIT Press, 2005 [3] S Daley-Harris, *et al*., "State of the Microcredit Summit Campaign Report", 2002, www.microcreditsummit.org/pubs/reports/socr/2002/socr02_en.pdf [4] S C Smith, *Ending Global Poverty* (see note 1), ch. 1 [5] See S C Smith "Village Banking and Maternal and Child Health: Evidence from Ecuador and Honduras", *World Development*, 30 (4): 707–723, April 2002; and C Dunford, "Building Better Lives: Sustainable integration of microfinance and education in health, family planning and HIV/AIDS prevention for the poorest entrepreneurs", Microcredit Summit Campaign, 2001 [6] S Emran, M Morshed & J Stiglitz, "Microfinance and Missing Markets", draft, George Washington University, Oct. 2005. I would like to thank Shahe Emran for helpful discussions. [7] See Armendriz de Aghion & Morduch, chs. 4 and 5; and M Ghatak & T Guinnane, "The Economics of Lending with Joint Liability: Theory and practice", *Journal of Development Economics*, Oct 1999, 60(1), 195–228 [8] D Adams & J D von Pischke (1992), "Microenterprise credit programs: déjà vu", *World Development* 20 (10): 1463–70. But see Armendriz de Aghion & Morduch, The Economics of Microfinance, ch. 6 [9] For example, some employees of SMEs that I interviewed in Lima reported that they were former micro-entrepreneurs. This is anecdotal evidence, and it needs more systematic study. [10] M P Todaro and S C Smith, *Economic Development*, Ninth Edition, Reading, MA: Addison Wesley and Essex, England: Pearson, 2005, ch. 16 [11] Y Qian, "How Reform Worked in China", in D Rodrik (ed.), *In Search of Prosperity: Analytic narratives on economic growth*, Princeton University Press, 2003, pp. 297–333

VisionFund Cambodia client wins Global Micro-entrepreneur Award

PHOTO - SOVANARA KHEM / WORLD VISION

24-year old Theang Phally, winner of a Global Micro-entrepreneurship Award, operates her small grocery store to support her family of eight, including her daughter and siblings.

To mark the International Year of Microcredit 2005, the United Nations sought examples of micro-entrepreneurship in developing countries. Low-income individuals were recognised with Global Micro-entrepreneurship Awards in eight countries. In Cambodia, one award winner was Theang Phally, a VisionFund Cambodia client...

The Cambodia Micro-entrepreneurship Awards were held in November 2004. Of 43 applicants, Theang Phally was awarded "Best demonstration of overcoming personal adversity". A VisionFund Cambodia client from Kandal Province, Phally supports a household of eight people with her small grocery business.

Phally's bright face and easy smile belie the days and hours of hard work over many years. Though she is only 24 years old, her story of perseverance began long ago.

When Phally was 14, her parents divorced. Left vulnerable, without the cultural or financial covering of a father, Phally decided to help her family. She dropped out of the fourth grade, resolving that she could fit one extra income-generating activity between hours of field work.

Rising early every day, Phally rode her bicycle to the Mekong River port town of Neak Leung, an hour-long, five-kilometre trip over bumpy or muddy roads. "I would wake up at about 3:30 or 4:00 and get to the market by 5:00," she recounts.

Phally bought rice and fruit at the large market, loaded them on her bike, and took them back to her village to sell. Her selling complete, she would then work in her family's two hectares of soybean and corn fields. Her small but innovative grocery-selling business supplemented the family's income, keeping food on the table for her six siblings and enabling her three youngest brothers to attend school.

VisionFund loans give Phally the security and cash to work towards her goals

Married at 17, Phally continued her bicycle routine and field work. She had a child, but after four years found herself a single mother, back in her mother's house. "My story is a sad one," is all she says of her marriage.

Then in the year 2000, Phally began to improve her business with a small loan of 50,000 *riels* (US$37.50) from World Vision Cambodia's Micro-Enterprise Development programme, which later evolved into the microfinance institution VisionFund Cambodia. Her first loan enabled her to open a shop and offer her village a greater variety of foods.

By faithfully repaying her VFC loans, she was able to take out further loans of $50, $125, and $50. Phally developed good financial management skills, built through contact with her VFC loan officer and credit supervisor. Eventually she had enough income to improve the transportation of her groceries – from bicycle to hired boat to motorcycle – cutting time and cost and improving her capacity.

Phally's VFC loans enable her to profit about 100,000 *riels*, or $25 each month. "If I can keep saving, I want to buy another motorcycle for my brother, to get him into the business."

Phally's long-term dreams include buying a plot of land and expanding her family's business. This would ensure a livelihood for all her siblings, including her 14-year-old sister who has never had the opportunity to go to school. VisionFund loans give Phally the security and cash to work toward these goals.

In terms of dreams for her three-year-old daughter, Phally wants her to attend school through to the upper grades: "I want her to have a different life than mine."

With her enterprising and indomitable character, the boost of a $500 first prize award, and continuing support from VFC, the prospects of a different kind of future look very good for Theang Phally and her whole family. ■

Reported by Heather Forbes, World Vision

Dignity and liberation

Paul Peters

HOW DO YOU VIEW THE POOR? Are they a liability to be removed? A problem to be fixed? Or are they intrinsically valuable? And a vast untapped resource who, given the right tools, could make an incredible contribution to the world's economy?

One of the grave misconceptions held about poor people is that they are less able to work productively, and therefore less valuable. From the Biblical perspective, however, this idea is an outrage. The Bible is full of references to all people being equal in the eyes of the Lord. But God also recognises that we live in a sinful world where resources are not shared equally. He gives us over 2,000 references in the Bible, instructing us to look after people who are in need – "the fatherless and the widow" – perhaps none more emphatically than Proverbs 14:31: *"He who oppresses the poor shows contempt for their Maker, but whoever is kind to the needy honours God."* [1]

Getting back to my opening question, how you view the poor affects your choice of solutions to poverty. If you are of the opinion that the poor are a liability, then you could take the extreme measure evidenced by some governments or police forces and simply try to remove the problem. Or you could throw a lot of money at the issue in the vain hope that it will just go away.

On the other hand, you could view the millions of poor around the world in a positive light. As people with dignity. People to invest in.

Like any good investment, the poor have the capacity to reap a great return. U2's lead singer, Bono, was quoted as saying in a recent interview: *"You know that mantra, 'Give a man a fish, he'll eat for a day. Teach a man to fish and he'll eat for a lifetime'? Maybe the mantra should be: 'Give a man a fish, he'll eat for a day. Give a woman microcredit, and she, her husband, her children and her extended family will eat for a lifetime."* [2]

He added: *"It's **cash and dignity, side by side**."* Here, Bono has captured in one short statement the essence of microfinance. It replaces fear with hope. Fear from no financial security is replaced with hope in the form of micro-savings and micro-insurance.

Treating the poor like everyone else

All people need dignity and hope. This is where microfinance providers come in for the poor. Organisations such as Grameen, Unitus and Opportunity International provide poor people with tools and skills that enable them to pull themselves out of poverty – out of a mere existence into an actual life. This method of poverty alleviation is a far more dignified process than supplying ongoing aid through grants. It treats the poor just like everybody else. If you're like me, you find it really hard to ask for help. I would much rather someone give me the tools I need to solve the problem myself, than have them step in and try to solve the problem for me.

The non-economic benefits of microfinance complement its economic benefits

What microfinance does is provide the poor with access to the financial services that most people in developed countries take for granted. The ability to get a loan, the opportunity to save money, insurance products, business training – these are all services that are so readily available we barely give them a moment's thought, but they're the fundamentals to our economies. Microfinance attempts to make them fundamental to developing economies as well.

At Opportunity Australia, our motivation is **Jesus Christ's call to serve the poor**. We recognise that for Christians, serving the poor is not an option, it's a requirement. *"I (the Lord) command you, saying, you shall open your hand wide unto your brother, to your poor, and to* *your needy"* (Deuteronomy 15:11). We serve the poor not only to provide the basics (health care, clean water, food, and so on), but through microfinance to help them achieve their potential. In Jesus' words: *"Give to the one who asks you, and do not turn away from one who wants to borrow from you."* (Matthew 5:42)

Liberating individuals, families, communities

In some countries women do not receive the same opportunities men do. In fact, they are actively oppressed. In Malawi, one of the countries where Opportunity works, women have traditionally had their money taken from them, to be controlled by their husbands or other male relatives. Opportunity is combating this by introducing savings accounts that can be accessed only with the account holder's fingerprints. Rather than let something like illiteracy get in the way of Malawian women's desire to save money, Opportunity has introduced technology to remove the problem altogether. Now many women of Malawi can save their own money securely. Financial security is a first step towards liberation for them.

As well as being about individuals' potential, microcredit is about **family**. Some 87% of all loans are given to women because they handle credit better; they invest their profits back into their families and businesses – despite being oppressed (women make up 60% of the world's population, earn 10% of its income and own just 1% of the world's wealth). And it's about **community**. The majority of micro-loans are disbursed on a group basis – Opportunity implements this method through our "Trust Bank" programme, with between 15 and 30 clients co-guaranteeing each other's loans, helping build accountability and a sense of communal benefit.

Micro-enterprise development is not a hand-out. Most of our clients don't **want** a hand-out; they want empowerment for their ideas and abilities, and the opportunity to participate in their communities. Yet things that many of us take for granted – the ability to apply for a loan, access to banking facilities and business advice – are what millions of people in under-developed countries around the world are crying out for. Both Old and New Testaments make frequent mention of economic activity or work as being a key aspect of human life. If successfully implemented, not only does micro-enterprise development give people the opportunity to put their business ideas into motion, it builds a sense of dignity and communal responsibility.

Microfinance works. I've seen individuals transformed, families saved and communities turned into areas of hope rather than despair. The non-economic benefits of microfinance complement the economic benefits. Liberation and dignity for the world's poor lie at the heart of microfinance and the organisations that offer it. ■

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[1] Bible references can be read in full at: www.ibs.org/niv/. [2] *New York Times Magazine*, September 2005

PHOTO - JON WARREN

The hands of 32-year-old Guatemalan micro-entrepreneur Gladis Sicajan, with takings from her small store and embroidery business

WORLD VISION

is a Christian relief and development partnership that serves more than 85 million people in nearly 100 countries. World Vision seeks to follow Christ's example by working with the poor and oppressed in the pursuit of justice and human transformation.
Children are often most vulnerable to the effects of poverty. World Vision works with each partner community to ensure that children are able to enjoy improved nutrition, health and education. Where children live in especially difficult circumstances, surviving on the streets, suffering in exploitative labour, or exposed to the abuse and trauma of conflict, World Vision works to restore hope and to bring justice.

World Vision recognises that poverty is not inevitable. Our Mission Statement calls us to challenge those unjust structures that constrain the poor in a world of false priorities, gross inequalities and distorted values. World Vision desires that all people be able to reach their God-given potential, and thus works for a world that no longer tolerates poverty. ■

BACK COVER : Husband-and-wife small business loan recipients U Thet Sure and Dan Hla Kay Thi discussing their small bazaar general store in Myanmar (Burma) with a World Vision microfinance officer. When her husband's salary wasn't enough to support them and their two daughters and son, the wife received the first loan of 20,000 *kyats* from World Vision and used it to expand her home grocery business to this general store selling slippers, fancy sandals, school supplies, stationery and toiletries. They say their dream is to own a much bigger general store. Photo: JON WARREN / WORLD VISION

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